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Regulations Amending Schedule 2 to the Greenhouse Gas Pollution Pricing Act and the Fuel Charge Regulations: SOR/2025-107

Canada Gazette, Part II, Volume 159, Extra Number 2

Registration

SOR/2025-107 March 15, 2025

GREENHOUSE GAS POLLUTION PRICING ACT

P.C. 2025-446 March 15, 2025

Her Excellency the Governor General in Council, on the recommendation of the Minister of Finance, makes the annexed *Regulations Amending Schedule 2 to the Greenhouse Gas Pollution Pricing Act and the Fuel Charge Regulations* under sections 166 and 168 of the *Greenhouse Gas Pollution Pricing Act* ^a.

Regulations Amending Schedule 2 to the Greenhouse Gas Pollution Pricing Act and the Fuel Charge Regulations

Schedule 2 to the Greenhouse Gas Pollution Pricing Act

1 Table 5 of Schedule 2 to the *Greenhouse Gas Pollution Pricing Act* ^a is amended by replacing Columns 6 to 11 with the following:

Column 6

Rates of charge applicable after March 31, 2025

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Fuel Charge Regulations

2 Section 3.1 of the *Fuel Charge Regulations* ¹ is amended by adding “and” at the end of paragraph (e.1) and by repealing paragraphs (g) to (l).

3 Section 25 of the Regulations is amended by adding the following after subsection (6):

Non-application after March 2025

(7) Subsections (3), (4) and (6) do not apply after March 2025.

Non-application after September 2025

(8) Subsections (1), (2) and (5) do not apply after September 2025.

4 The Regulations are amended by adding the following after section 32:

PART 11

Registration and Returns after March 2025

No requirement to register — distributor

33 For the purposes of subsection 55(4) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as a distributor in respect of a type of fuel, section 55 of the Act does not apply to the person in respect of that type of fuel after March 2025.

No requirement to register — importer

34 For the purposes of subsection 56(4) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as an importer in respect of a type of fuel, section 56 of the Act does not apply to the person in respect of that type of fuel after March 2025.

No requirement to register — emitter

35 For the purposes of subsection 57(2) of the Act, if a person is, on March 31, 2025, not registered for the purposes of Part 1 of the Act as an emitter, section 57 of the Act does not apply to the person after March 2025.

No requirement to register — user

36 For the purposes of subsection 58(2) of the Act, if a person is, on March 31, 2025, not registered for the purposes of Part 1 of the Act as a user in respect of a type of fuel, section 58 of the Act does not apply to the person in respect of that type of fuel after March 2025.

No requirement to register — user of combustible waste

37 For the purposes of subsection 59(3) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as a user in respect of combustible waste, section 59 of the Act does not apply to the person in respect of combustible waste after March 2025.

No requirement to register — air carrier

38 For the purposes of subsection 60(7) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as an air carrier or specified air carrier in respect of a type of fuel, section 60 of the Act does not apply to the person in respect of that type of fuel after March 2025.

No requirement to register — marine carrier

39 For the purposes of subsection 61(7) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as a marine carrier or specified marine carrier in respect of a type of fuel, section 61 of the Act does not apply to the person in respect of that type of fuel after March 2025.

No requirement to register — rail carrier

40 For the purposes of subsection 62(5) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as a rail carrier or specified rail carrier in respect of a type of fuel, section 62 of the Act does not apply to the person in respect of that type of fuel after March 2025.

No requirement to register — road carrier

41 For the purposes of subsection 63(5) of the Act, if a person is, on March 31, 2025, neither registered nor required to be registered for the purposes of Part 1 of the Act as a road carrier in respect of a type of fuel, section 63 of the Act does not apply to the person in respect of that type of fuel after March 2025.

Registrations cancelled — November 1, 2025

42 For the purposes of the application of the fuel charge system, despite any provision of Part 1 of the Act, every registration under Division 4 of that Part is cancelled on November 1, 2025.

No requirement to file

43 For the purposes of subsection 69(4) of the Act, a reporting period of a person is a prescribed reporting period and a return for the reporting period is not required to be filed if

- (a) the reporting period begins after March 2025; and
- (b) it is the case that
 - (i) no charge becomes payable by the person in the reporting period, or
 - (ii) the amount of each charge that becomes payable by the person in the reporting period is equal to zero.

5 These Regulations come into force or are deemed to have come into force on April 1, 2025, but if they are published in the *Canada Gazette* before that day, they come into force on the day on which they are

published.

REGULATORY IMPACT ANALYSIS STATEMENT

(This statement is not part of the Regulations.)

Issues

The *Greenhouse Gas Pollution Pricing Act* (GGPPA) provides the legal framework and enabling authorities for the federal carbon pollution pricing system (the federal backstop system) for the purpose of establishing minimum national standards of GHG price stringency to reduce GHG emissions. The federal backstop system has two components: a regulatory charge on fossil fuels (the fuel charge) and an Output-Based Pricing System (OBPS) for large industry.

A price on carbon pollution is an important part of Canada's climate plan. It is a system that is flexible and that promotes market-driven solutions. The federal government is refocusing pollution pricing on industrial carbon pricing by effectively eliminating the fuel charge and removing the requirement for a consumer carbon price. The federal OBPS was designed to put a price on carbon pollution, creating an incentive for industrial facilities from sectors at significant risk of carbon leakage² and competitiveness impacts due to carbon pollution pricing to reduce their emissions per unit of output. Carbon pricing is part of a suite of measures to address climate change. In the absence of the fuel charge, other measures will continue to incentivize emissions reductions. With the Amending Regulations, the Government is taking an initial step towards refocusing the federal pollution pricing system. The federal government intends to introduce legislative amendments to update the GGPPA.

Background

Part 1 of the GGPPA is under the purview of the Minister of Finance and is administered by the Canada Revenue Agency (CRA) and, at the border, the Canada Border Services Agency. It provides the legal framework and enabling authorities for the fuel charge system. The fuel charge currently applies in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan, Alberta, Nunavut and Yukon (listed provinces). The fuel charge is generally paid by fuel producers or distributors and generally applies to fossil fuels produced, delivered or used in a listed province, brought into a listed province from another place in Canada, or imported into Canada at a location in a listed province.

The fuel charge applies at the rates set out in Schedule 2 to the GGPPA, which vary by fuel type. The rates represent a carbon price of \$80 per tonne in 2024-25. Part 1 of the GGPPA also provides that certain modifications and additions to the fuel charge system may be made by way of regulations. The existing *Fuel Charge Regulations* were made to provide such additional rules for the proper functioning of the fuel charge system.

Sections 55 to 62 of the GGPPA provide the authority to prescribe persons or classes of persons to whom, or conditions under which, requirements to register for certain categories of registrants under Part 1 of the GGPPA do not apply. Section 69 of the GGPPA provides the authority to prescribe circumstances or conditions under which requirements to file returns under Part 1 of the GGPPA do not apply. Section 166 of the GGPPA enables the making of regulations to amend Schedule 2 to the GGPPA in respect of the fuel charge rates applicable, as well as to prescribe anything that is to be prescribed by regulation. Section 168 of the GGPPA enables the making of regulations prescribing rules in respect of how the fuel charge system applies and in respect of other aspects relating to the application of that system. These provisions of Part 1 of the GGPPA

provide the Governor in Council with the authority to implement rules that set the fuel charge rates to zero, remove certain administrative requirements and cancel certain registrations as of a certain date.

In the past, regulations amending the GGPPA and the *Fuel Charge Regulations*, such as SOR/2020-261 and SOR/2023-129, have been published in the *Canada Gazette* to amend the fuel charge rates, and provincial applicability of the fuel charge.

Independent research by the Canadian Climate Institute ³ finds that industrial carbon pricing systems will be the main driver of emissions reductions attributable to carbon pricing by 2030. With the removal of the fuel charge, the federal government intends to refocus federal carbon pollution pricing requirements on ensuring carbon pricing systems are in place across Canada on a broad range of greenhouse gas emissions from industry and to engage with provinces, territories, Indigenous Peoples and stakeholders on changes to the minimum national stringency standards for carbon pollution pricing, known as the federal “benchmark” criteria. This engagement process would build on the interim review committed to in the current benchmark. In doing so, the federal government intends to strengthen Canada’s approach to carbon pricing for industry to ensure its continued effectiveness and continue to make progress on climate targets.

Changes are expected to focus the benchmark on ensuring industrial pricing systems continue to achieve the most emissions reductions possible and encourage the transition to low-carbon technologies, while protecting industry against competitiveness and carbon leakage impacts. The goal of the benchmark criteria would continue to be that systems are similarly stringent, fair and effective, and the engagement would consider opportunities to strengthen industrial carbon markets so that they deliver the incentives needed for major decarbonization projects across industry.

Since the fuel charge was introduced in 2019, the Government has introduced complementary climate mitigation policies, some of which complement the fuel charge. In 2022, the Government of Canada released the *2030 Emissions Reduction Plan: Canada's Next Steps for Clean Air and a Strong Economy*, which is a comprehensive plan for Canada to reach 40% below 2005 national emissions levels by 2030.

Objective

The objective of the Amending Regulations is to effectively remove the fuel charge as the federal government intends to refocus federal carbon pollution pricing requirements on ensuring carbon pricing systems are in place across Canada on a broad range of greenhouse gas emissions from industry. The Amending Regulations will cease the application of the fuel charge, starting on April 1, 2025, by setting the applicable charge rates in Schedule 2 of the GGPPA to zero, beginning on April 1, 2025. The Amending Regulations also remove specific administrative obligations, such as requirements to file and to register under Part 1 of the GGPPA.

Description

The Amending Regulations provide that the applicable fuel charge rates for all types of fuel and combustible waste are set to zero after March 31, 2025. Therefore, beginning on April 1, 2025, the fuel charge effectively ceases to apply.

The Amending Regulations also make a consequential amendment, for greater certainty, to eliminate all dates after March 31, 2025, on which there would otherwise be an annual requirement to compute inventories held and pay a fuel charge on these inventories.

The Amending Regulations also cease the application of certain administrative requirements that are no longer necessary. Administrative relief is provided as described below.

- After March 31, 2025, requirements for registered emitters subject to a provincial output-based performance standards system to provide certain information in respect of changes to their facilities to the Minister of Environment and Climate Change cease to apply. After September 30, 2025, all residual requirements in respect of those registered emitters cease to apply.
- After March 31, 2025, no persons are required to newly register in respect of any category or any type of fuel. All existing registrations are cancelled on November 1, 2025.
- For reporting periods beginning after March 31, 2025, there is no requirement to file a return if no positive amount of fuel charge is payable.

Regulatory development

Consultation

To meet the Government of Canada's objective of removing the fuel charge for April 1, 2025, consultations were not conducted on the Amending Regulations. For the same reason, the Amending Regulations were exempted from prepublication.

Modern treaty obligations and Indigenous engagement and consultation

For the measures contained in the Amending Regulations, no specific direct impacts have been identified in respect of the Government's obligations in relation to modern treaties.

The federal government intends to consult Indigenous Peoples on changes to the minimum national stringency standards for carbon pollution pricing as the government refocuses carbon pollution pricing on industrial pricing.

Instrument choice

The GGPPA provides the Governor in Council with the authority to make regulations relevant to the application of the fuel charge under Part 1 of the GGPPA, including new fuel charge rates and rules establishing circumstances in which certain requirements do not apply. Regulatory changes are therefore the appropriate mechanism under the GGPPA to implement this new policy measure in respect of the fuel charge system.

Regulatory analysis

Costs and benefits

Costs and benefits analysis

The federal price on carbon pollution is revenue neutral for the federal government; the direct proceeds from the federal backstop system remain in the province or territory where they are collected. For those provinces where the fuel charge applies — Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan and Alberta — the majority of direct proceeds from the federal fuel charge are returned to households (who ultimately bear the impact of the carbon price) through the Canada Carbon Rebate (CCR). Under this approach, the majority of households receive more money than they pay, with lower-income households benefiting the most. In Yukon and Nunavut, all direct proceeds from the federal fuel charge are returned to the territorial governments. Please refer to the Gender-Based Analysis Plus analysis section below for more details on how fuel charge proceeds are being returned to individuals.

The Amending Regulations would effectively eliminate the fuel charge by setting the applicable charge rates in Schedule 2 of the GGPPA to zero beginning on April 1, 2025, and also remove specific administrative obligations such as requirements to file and to register under Part 1 of the GGPPA.

A quantitative analysis was conducted for the fuel charge years 2025-2030. This timeframe was chosen because 2030 represents the final year for which carbon price increases were set under the federal benchmark.

The quantitative analysis employs ECCC's computable general equilibrium model of the Canadian economy (EC-PRO) to analyze the incremental impacts of the Amending Regulations.

Baseline scenario

The baseline scenario used in this analysis is a projection based on a modified 2023 Reference case (Ref23). Ref23 includes federal, provincial, and territorial policies and measures that were in place as of August 2023. These include policies such as the carbon price increasing to \$170/tonne of carbon dioxide equivalent (CO₂e) by 2030 (both federal fuel charge and OBPS and provincial/territorial equivalents), *Clean Fuel Regulations* (CFR), and investment tax credits. However, Ref23 does not include some policies that have since been included in Ref24, most importantly for this analysis the Electric Vehicle Availability Standard (EVAS) regulation.

As such, the additional measures version of the Ref23 baseline was used for this analysis, which also includes the light - and heavy-duty ZEV mandates, Green Buildings Strategy, Hydrogen Strategy, Oil and Gas Emissions Cap, the consultation version of the *Clean Electricity Regulations*, enhanced oil and gas methane regulations, and others. The light-duty ZEV mandates are very important to understand the impact of eliminating the fuel charge (see below).

Including these additional policies in this scenario creates additional interactions, leading to smaller emissions impacts from the elimination of the fuel charge. That is, there are now a suite of different emissions reduction policies, and removing the fuel charge now would have a smaller impact on emissions compared to when it was introduced, as there are now other policies covering the same emissions sources that will take on a larger role if the fuel charge is eliminated.

Regulatory scenario

The regulatory scenario builds on the baseline scenario, with the additional assumption that the Amending Regulations are implemented. The Amending Regulations are modelled as eliminating the fuel charge, as of 2025, and all similar carbon pricing in provincial and territorial carbon pricing systems as well as the elimination of all proceeds that were being returned to households through the CCR or provincial systems. The carbon price trajectory is maintained in industrial carbon pricing systems and Quebec is assumed to maintain carbon pricing through its linked cap-and-trade system with California under the Western Climate Initiative (WCI). In the regulatory scenario the economy and all other modelled policies react to the elimination of the fuel charge.

There are important interactions that happen in EC-Pro in the regulatory scenario and explain modelling results:

- 1) The elimination of the fuel charge decreases the price of fuels (liquid, solid and gaseous) in all jurisdictions except Quebec. Because proceeds from the fuel charge were being returned to households, the financial implications (proceeds received by households to offset the fuel charge) on household consumption are muted in these modelling results. (See the Gender-Based Analysis Plus section for complementary analysis of impacts on households.)
- 2) The elimination of the fuel charge increases demand for gasoline and diesel, which increases CFR compliance obligations while the elimination also lowers the incentive to blend hydrogen and biofuels into fossil fuels, which decreases the supply of CFR credits. CFR credit prices increase to balance the market with increased costs being passed on to consumers of gasoline and diesel in all jurisdictions (including Quebec). In addition, higher CFR credit prices induce some additional emissions reductions across sectors that create CFR credits.

3) EVAS regulations are modelled in EC-Pro as limiting national emissions associated with household transportation according to vehicle stock turnover. Nationally, households in the model adopt ZEVs at the same rate in both the baseline and regulatory scenarios as EVAS is present in both cases. However, in the regulatory scenario, the incentive comes from EVAS rather than households choosing to purchase ZEVs because they will save on fuel costs by avoiding the fuel charge. This significantly limits the national emissions impact of eliminating the fuel charge as light-duty vehicle emissions are limited by EVAS in both scenarios.

4) The Canada Green Buildings strategy policy interacts with natural gas consumption. Given the stringency of this policy, foregone reductions in GHG emissions associated with the elimination of the fuel charge are mostly related to the slower adoption of technologies which reduce emissions from natural gas used for home heating.

Costs

The Department of Finance Canada, using ECCC's emissions data, estimates that the elimination of the fuel charge will lead to a loss of 12.57 Mt cumulative GHG emissions reductions from 2025 to 2030. This estimation of the environmental effect of the fuel charge differs from previous estimates such as the one published by the PBO in October of 2024. While the previous analysis finds that the fuel charge is responsible for a 15 Mt reduction by 2030, the current analysis finds that the fuel charge is responsible for only 3.3 Mt in 2030. It is important to note that the impact on progress towards Canada's 2030 target differs, due to changes in WCI credits bought by Québec under their cap-and-trade system.

This analysis is not however comparable. The analysis done for the PBO assessed a carbon pricing scenario with an alternate scenario where there had never been carbon pricing, and carbon pricing in Quebec was also removed. In contrast, the current analysis compares the pricing scenario

with a counterfactual case where the fuel charge is in place until 2024 and is removed in 2025, but the Quebec cap-and-trade system stays intact. Furthermore, additional policies such as the CFR, ZEV mandates, and Green Buildings Strategy are included in the current analysis; these additional policies, which interact with the fuel charge, end up reducing the impact of removing the fuel charge.

To monetize the costs of foregone emissions reductions, ECCC’s social cost of carbon ⁴ was used. ECCC’s social cost of carbon is a measure of the incremental damages expected from a small increase in carbon emissions. Each year, the social cost of carbon increases as a result of larger incremental damages to physical and economic systems due to future emissions, and increased impacts to wealth due to the higher willingness to pay to avoid economic damages. In 2023, the social cost of carbon was estimated to be \$261 per tonne and is expected to reach \$294 in 2030 (in \$2021). Using the social cost of carbon figures for 2025 to 2030, the monetized cost of foregone emissions reductions over the period of the elimination of the fuel charge pursuant to the Amending Regulations is estimated to be about \$3.83 billion (in 2024 dollars, discounted at 2% to 2025-26).

Table 1 shows the estimated incremental forgone emissions reductions and estimated monetized costs associated with the Amending Regulations.

Table 1: Estimated Incremental Forgone Emissions Reductions and Monetized Costs (\$2024)

Impacted stakeholder	Description of cost	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
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Canadian society	Estimated Foregone emissions reductions (in megatonnes of CO ₂ e)	1.28	1.39	1.26	1.87	3.46	3.32	12.57
	Estimated social cost of carbon of foregone emissions reductions (millions 2024 dollars, 2% discount rate)	394	427	384	571	1,049	1,005	3,829

Benefits

Carbon pricing under the federal fuel charge has generally been revenue-neutral for the federal government, over time, for Canadians, as proceeds have been returned to jurisdictions through the CCR for households and other payments. As a result, the direct benefit to households from eliminating the fuel charge is expected to be limited.

However, as had been consistent with the government’s carbon pricing policy objective, the fuel charge increased fossil fuel costs to incentivize lower emissions consumption choices. In the absence of environmental considerations, this created economic distortions, leading to efficiency losses in the economy. Consequently, the elimination of the fuel charge is expected to generate some economic gains that would benefit both households and businesses.

The broader economic gains can be estimated using a computable general equilibrium (CGE) model, which considers dynamic behavioral responses within an economy. EC-PRO is the CGE model leveraged by

ECCC to measure the impact of climate-related policies on the economy and emissions. EC-PRO predicts that when accounting for policy interactions, the elimination of the fuel charge increases GDP by 0.5 per cent in 2030. The total welfare gains, not accounting for the social cost of carbon, for households, as measured by the equivalent variation ⁵⁶, would be equivalent to a 0.3 per cent increase in household consumption in 2030 (\$5.4 billion 2024 dollars). Modelling a greater reliance on regulatory measures for GHG abatement presents a challenge and these results may not fully capture all relevant efficiency losses.

Impacted Stakeholder	Description of the benefit	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Canadian households	Estimated impact on aggregate consumption (\$2024)	2,398	1,553	2,229	3,056	4,483	5,441	19,160
	Percentage Change	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%	0.2%

Limitations of the cost-benefit analysis

While a CBA can be a useful tool for quantifying key elements and outcomes of removing the fuel charge, it cannot capture all costs and benefits and has several important limitations.

- In addition to reducing carbon emissions, the federal fuel charge could lower air pollutants that harm health and ecosystems. Removing the fuel charge could therefore result in environmental and health costs, which are difficult to quantify and not included in this analysis. As a result, the total cost of the Amending Regulations is underestimated — though it is unclear whether the underestimation is significant.

- The analysis was conducted for years covering 2025-2030. This timeframe was chosen because the 2030 represents the final year for which carbon price increases were set under the federal benchmark. With this timeframe, the CBA may place too much emphasis on short-term benefits while underestimating the long-term cost of forgone emissions reductions.
- Monetizing the costs and benefits over time relies on projections of economic, environmental, and technological changes. These are difficult to predict accurately and represent important sources of uncertainty in the estimates.
- While the analysis attempts to account for interactions between the fuel charge and other climate policies, these impacts are not precisely captured due to the challenges of modeling the full suite of policy measures across all levels of government and beyond.
- Given important challenges in accurately measuring the full range of costs and benefits, determining the net impact of the regulatory change based on the metrics presented in the Costs and Benefits Analysis would not provide an accurate assessment of the overall environmental and economic effect. For this reason, a net benefit or cost cannot be determined.

Sensitivity analysis

Given the potential uncertainty due to various assumptions, sensitivity analyses were conducted to assess the impact of changes to the discount rate.

The federal government uses a 2% discount rate to arrive at a present value of all costs and benefits in any cost-benefit analysis (CBA) or analysis in which social cost of greenhouse gas values are applied to multiple future years. For sensitivity analysis, it is recommended a 1.5% and 2.5% discount rate be applied to assess different incremental

damages from GHG emissions. A sensitivity analysis was done to compare the central analysis (2% discount rate) with a higher discount rate (2.5%) and lower discount rate (1.5%), but this does not have a large impact due to the short time frame of the analytical horizon. Using a 1.5% discount rate, the total social costs of carbon of foregone emissions reductions increase by 2% to \$3.89 billion (\$2024) and using a 2.5% discount rate, total costs decrease by 2% to \$3.77 billion (\$2024).

Small business lens

Analysis under the small business lens concluded that the Amending Regulations will not impose any direct administrative or compliance costs on Canadian small businesses. The fuel charge requirements under Part 1 of the GGPPA, the *Fuel Charge Regulations* and the Amending Regulations generally apply to fuel producers and fuel distributors upstream in the distribution chain, which are generally medium or large-sized businesses.

Going forward, there would be no new fuel charge proceeds to return to businesses, including through the CCR for Small Businesses, a refundable tax credit that returns a portion of fuel charge proceeds to small and medium-sized businesses based on the number of employees they have. To the extent that the fuel charge will no longer apply under the Amending Regulations, small businesses that had been unable to pass along the full cost of the fuel charge to customers may be expected to be better off. It is possible that some small businesses – to the extent that they were eligible for the CCR for Small Businesses and, had a relatively high number of employees and used relatively low amounts of fossil fuels – may be worse off when the Amending Regulations come into effect and the CCR for Small Businesses ceases to apply.

One-for-one rule

The one-for-one rule applies since there is an incremental decrease in administrative burden on business. The proposal is considered burden OUT under the rule, and no regulatory titles are repealed or introduced.

The Amending Regulations would result in an annualized administrative total cost savings of \$1,756,317.95, reflecting savings due to the ceasing of filing requirements for about 13,000 registrants.

As per the *Red Tape Reduction Regulations*, the assessment of administrative impacts was conducted for a period of ten years commencing from registration. All values listed in this section are presented in 2012 dollars, discounted to 2012 at a rate of 7%.

Regulatory cooperation and alignment

The Amending Regulations do not require regulatory cooperation or alignment with other jurisdictions.

Effects on the environment

In accordance with the Cabinet Directive on Strategic Environmental and Economic Assessment (SEEA Directive), a comprehensive SEEA has been conducted. Regulatory proposals subject to the Cabinet Directive on Regulation are exempted from the economic analysis elements of the SEEA Directive since a cost-benefit analysis was conducted as part of the Regulatory Impact Analysis Statement, per the Cabinet Directive on Regulation.

Eliminating the application of the fuel charge from Canada's carbon pricing system is a major and complex economy-wide policy change. The Amending Regulations, by ceasing the application of the fuel charge, will likely reduce fossil fuel prices. While this proposal is likely to offer short-term fuel price decreases to consumers, all else being equal, it is also likely to have long-term negative effects, such as higher costs from climate change impacts (because of foregone emissions reductions) and missed opportunities to transition to sustainable and lower-carbon emitting energy sources. Sectors such as transportation and residential heating, which are heavily reliant on fossil fuels, would see increased emissions, worsening the negative effects of climate change. Ceasing the

application of the fuel charge is estimated to lead to foregone 2030 annual GHG emissions reductions of about 3 Mt compared to the status quo, where the fuel charge reflects an increasing carbon price to \$170/tonne in 2030.

The environmental impacts of the Amending Regulations may be mitigated by other future climate policies implemented in place of the fuel charge. The federal government intends to refocus federal carbon pollution pricing requirements on ensuring carbon pricing systems are in place across Canada on a broad range of greenhouse gas emissions from industry. It also intends to engage with provinces and territories on approaches to strengthen industrial carbon pricing and updating related minimum national stringency requirements.

Gender-based analysis plus

In Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Ontario, Manitoba, Saskatchewan and Alberta, the federal government returns the majority of the direct proceeds from the fuel charge directly to individuals and families through the quarterly CCR, with a top-up of 20% for those living in small and rural communities. In Yukon and Nunavut, the federal government returns all direct proceeds from the fuel charge to the territorial governments.

The Amending Regulations and ceasing the CCR will mainly benefit older and/or wealthier Canadians. The net effect of the current system which comprises fuel charge costs and the CCR for households tends to be a net benefit for lower- and middle-income households and a net cost for higher income households. Therefore, the elimination of the fuel charge and the CCR would generally be expected to benefit wealthier Canadians who tend to use more fossil fuels, whereas lower- and middle-income households would generally be negatively impacted. For the 2024-25 fuel charge year for example, the Department of Finance (using Social Policy Simulation Database and Model, and internal calculations) estimates that

roughly 85% of households making under \$40,000 realized a net benefit from the fuel charge and CCR system, compared with only about 55% of households making over \$250,000. (These estimates assume all households file taxes and receive the CCR, and they do not take account of extra sales tax paid). Higher-income households will therefore benefit disproportionately from the elimination of the fuel charge and ceasing of the CCR.

Groups that are more negatively affected by climate change according to the Government of Canada ⁶ (e.g., youth, Indigenous and racialized people, economically disadvantaged people) would be expected to be disproportionately impacted by the elimination of the fuel charge. While seniors are particularly vulnerable to climate change, young people are expected to face a disproportionate negative impact, as the long-term worsening of climate effects would affect them more significantly.

Rationale

As an early deliverable under the *Canadian Net-Zero Emissions Accountability Act*, Canada published its first Emissions Reduction Plan (ERP) in 2022. This plan lays out the next steps to reaching Canada's 2030 emissions reduction target as a concrete milestone that improves transparency and accountability on the way to net zero. The 2030 ERP builds on the foundation set by Canada's previous climate actions with a suite of new mitigation measures, strategies, and investments. The plan also reflects input from thousands of Canadians, businesses, and communities, as well as submissions from Indigenous partners, provinces, territories and the Net-Zero Advisory Body.

A price on carbon pollution is an important part of Canada's climate plan. It is a system that is flexible and that promotes market-driven solutions. The federal government is refocusing carbon pollution pricing on industrial carbon pricing by removing the requirement for a consumer

carbon price, including the federal fuel charge. Industrial carbon pricing is, and will continue to be, one of the most important GHG emission reduction policies to meet Canada's 2030 GHG emissions reduction target.

Canada's climate plan includes complementary climate mitigation policies, some of which complement the fuel charge, such as the Canada Green Buildings Strategy, the CFR and the EVAS. For example, the EVAS requires manufacturers and importers to meet annual ZEV regulated sales targets, which aims to provide consumers with sufficient ZEV options to encourage a shift in behaviour from internal combustion engine (ICE) vehicles to ZEVs. As well, the CFR are an important part of Canada's climate plan to reduce emissions and accelerate the use of clean technologies and fuels. Under the CFR, the gasoline and diesel Canadians use every day will become progressively cleaner over time and affordable alternatives will be increasingly available to consumers.

With the Amending Regulations, the Government is taking an initial step towards refocusing federal carbon pollution pricing requirements on ensuring carbon pricing systems are in place across Canada on a broad range of greenhouse gas emissions from industry. The Amending Regulations effectively remove the obligations to pay a carbon price under the federal fuel charge framework (Part 1 of the GGPPA) from the broader carbon pollution pricing scheme, which also includes the industrial carbon pricing component known as the federal Output-Based Pricing System (Part 2 of the GGPPA). The federal government intends to introduce legislative amendments to update the GGPPA such as repealing fuel charge provisions under Part 1.

The federal government will also explore strengthening industrial carbon pricing, including the federal OBPS. To this effect, the federal government intends to engage with provinces, territories, Indigenous peoples, industry and stakeholders on ways to strengthen industrial carbon pricing

and updating related minimum national stringency requirements. The GGPPA will continue to fulfill its purpose of establishing minimum national standards of GHG price stringency to reduce GHG emissions.

Independent research by the Canadian Climate Institute (CCI) has found that industrial pricing is expected to contribute a significantly larger proportion of emissions reductions compared to the federal fuel charge.

Implementation, compliance and enforcement, and service standards

The Amending Regulations are administered and enforced by the Canada Revenue Agency and, at the border, the Canada Border Services Agency.

Contact

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Footnotes

- a S.C. 2018, c. 12, s. 186
- 1 S.C. 2018, c. 12, s. 187
- 2 Carbon leakage occurs when production and investment shift to jurisdictions with less stringent carbon pollution pricing, weakening emissions reductions at the global level, while reducing economic activity in the jurisdiction with more stringent carbon pollution pricing.

- 3 <https://climateinstitute.ca/news/industrial-carbon-pricing-the-top-driver-of-emissions-reductions-new-analysis-shows/>
 - 4 [Social cost of greenhouse gas emissions - Canada.ca](#)
 - 5 The equivalent variation represents the amount of money that would need to be given to (or taken away from) households with the Amending Regulations in place to make them as well off as they would be in the absence of the Amending Regulations.
 - 6 See Statistics Canada ([The impact of climate change on vulnerable populations - Statistics Canada](#)) and Health Canada ([Who is most impacted by climate change - Canada.ca](#)).
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