

# Canada Federal Output-Based Pricing System

## General Information

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### ETS Description

Since 2019, carbon pricing has been in place across all Canadian provinces and territories. Under the 2016 “Pan-Canadian Approach to Pricing Carbon Pollution”, Canadian provinces and territories have the flexibility to design and implement their own pricing system as long as it meets minimum national stringency criteria (known as the “federal benchmark”). Eligible types of carbon pricing system include:

- an explicit price-based system:
  - a carbon levy on fossil fuels; or
  - a combination (“hybrid”) of a carbon levy on fossil fuels and an intensity-based ETS for industrial emitters.
- a cap-and-trade system.

Under the 2021 update to the Pan-Canadian Approach to Pricing Carbon Pollution, the minimum national carbon price was set at CAD 65 (USD 48.20) in 2023, increasing by CAD 15 (USD 10.70) each year to reach CAD 170 (USD 121.60\*) in 2030.

A federal carbon pollution pricing “backstop” system applies where provincial or territorial systems do not meet the federal benchmark or where a jurisdiction requests it. Following the elimination of the federal consumer fuel charge on April 1, 2025, the federal backstop now consists solely of the federal Output-Based Pricing System (OBPS) for large industrial emitters. As of 2025, the federal OBPS applies in Manitoba, Prince Edward Island, Yukon, and Nunavut.

The federal OBPS maintains a carbon price signal for emissions-intensive and trade-exposed (EITE) industrial and electricity sector facilities, while limiting carbon leakage and competitiveness risks. It covers facilities emitting at least 50,000 tCO<sub>2</sub>e annually, with voluntary entry to smaller facilities emitting at least 10,000 tCO<sub>2</sub>e per year in sectors at risk of carbon leakage and adverse competitiveness impacts.

The OBPS sets a performance (output-based) standard (i.e., GHG emissions per unit of output) based on the national production-weighted average emissions intensity for a given activity in covered sectors. Each facility’s annual emissions limit is calculated based on its level of production and the appropriate standard(s). Facilities emitting above this limit must provide compensation, while facilities that perform better than the standard are issued surplus credits (compliance units) that may be sold or banked for future use.

Facilities can provide compensation for GHG emissions that exceed the facility’s annual emissions limit through one or an eligible combination of the following mechanisms:

- (1) making an excess emissions charge payment to the government at CAD 110 (USD 78.70) for the 2026 compliance period;
- (2) remitting surplus credits purchased from other facilities or retained from previous periods; and/or
- (3) remitting eligible offset credits from a recognized provincial system or remitting federal offset credits.

Amendments to the OBPS Regulations were made in March 2025 to ensure the continued effective functioning of the system following the elimination of the fuel charge. These amendments also modified the definition of on-site transportation emissions to ensure those emissions remain covered by industrial carbon pricing.

\* USD conversion based on 2025 IMF exchange rate; actual future exchange rates may differ.

### **ETS Status**

in force

### **Jurisdictions**

Canada

Manitoba

Nunavut

Prince Edward Island

Yukon

### **Year in Review**

The federal government eliminated the federal fuel charge on April 1, 2025, by setting all fuel charge rates to zero. Consequential amendments to the OBPS Regulations, published on March 15, 2025, ensure continued effective functioning of the system following fuel charge elimination. These amendments modified the definition of on-site transportation emissions to ensure those emissions remain covered by industrial carbon pricing and shortened the compliance period for voluntary facilities where designation is cancelled by the Minister in 2025.

In December 2025, the federal government published a discussion paper entitled “Driving Effective Carbon Markets in Canada”. Following engagement on the paper, the government will update the carbon pricing benchmark and will consult on potential updates to the federal OBPS Regulations.

### **Sectoral coverage**

Industry

Power

### **Revenue usage**

General budget, including debt reduction

Low-carbon innovation

## **Emissions & Targets**

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### **Overall GHG Emissions excl. LULUCF (MtCO<sub>2</sub>e)**

693.9 MtCO<sub>2</sub>e (2023)

### **GHG reduction targets**

**By 2030:** 40-45% below 2005 levels (NDC)

**By 2035:** 45-50% below 2005 levels (Canadian Net-Zero Emissions Accountability Act)

**By 2050:** Climate neutrality (Canadian Net-Zero Emissions Accountability Act)

### **Current Allowance Price (per t/CO<sub>2</sub>e)**

CAD 95 (USD 68) for 2025

## **Size & Phases**

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### **Covered emissions (2022)**

3.00%

### **Verified ETS Emissions**

17.40MtCO<sub>2</sub>e

#### **GHGs covered**

CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, SF<sub>6</sub>, HFCs, PFCs

#### **Cap or total emissions limit**

The federal OBPS does not set a binding limit or cap on emissions. The federal OBPS is designed to preserve the marginal price incentive of a carbon price while mitigating carbon leakage and adverse competitiveness risks to reduce emissions.

#### **Sectors and thresholds**

**SECTORS:** Power and industry

**INCLUSION THRESHOLDS:** Coverage is mandatory for facilities in the EITE industrial and electricity sectors that emit equal to or more than 50,000 tCO<sub>2</sub>e per year. Smaller facilities with annual emissions equal to or more than 10,000 tCO<sub>2</sub>e from sectors at risk of carbon leakage and adverse competitiveness impacts can opt in to participate voluntarily.

#### **Point of regulation**

Point source (power, industry)

#### **Type of entities**

Facilities

#### **Number of entities**

In 2025, 41 facilities were covered under the federal OBPS (14 mandatory and 27 voluntary). However, 11 voluntary participants opted out or ceased to be a covered facility by the end of 2025. Those opting out have compensation obligations associated with emissions that occurred until April 1, 2025.

## **Allowance Allocation & Revenue**

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#### **Allowance allocation**

Allowances are not issued in OBPS systems; rather, OBPS systems issue credits to some facilities based on their performance in relation to emissions intensity benchmarks (standards) called output-based standards. These benchmarks are primarily set using the production-weighted average emissions intensity of all facilities making similar products across Canada.

Each covered facility calculates an annual emissions limit based on its level of production and the relevant output-based standards.

Facilities that emit less than their emissions limit receive surplus credits (compliance units) for free, corresponding to the number of tCO<sub>2</sub>e below the limit. Facilities that emit more than their emissions limit must provide compensation only for emissions above their emissions limit. This is similar to free allocation based on benchmarks. Surplus credits can be banked or sold to entities that emit more than their emissions limits (see below for more details).

#### **Total Revenue**

CAD 924 million (USD 713 million) for compliance years 2019 to 2022

CAD 227 million (USD 174 million) in 2022

2022

#### **Use of Revenues**

Provinces that voluntarily adopted the federal OBPS could opt for a direct transfer of all proceeds from the federal OBPS to the jurisdiction of origin for use according to their needs. These revenues can be added to the general budget of the jurisdiction and used for any purpose at the province/territory's discretion.

In provinces where the federal system has been applied and not requested, proceeds from the OBPS are returned to the provinces or territories through the OBPS Proceeds Fund to support low-carbon technology deployment.

The total amount of proceeds collected by the federal government in excess emissions charge payment under the OBPS for the 2022 compliance period was approximately CAD 227 million (USD 174 million).

## Flexibility & Linking

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### Offset credits

The use of domestic offset credits is allowed.

**QUALITATIVE LIMITS:** Two types of offset credit can be used for compliance under the OBPS: recognized units and federal GHG offset credits. Both types of credits must have been issued for projects taking place in Canada that began in 2017 or later.

Recognized units are offset credits issued by a province or territory under a recognized offset program and offset protocol and meet the requirements under section 78 of the OBPS, including:

- having been issued for projects located in Canada that began in 2017 or later;
- being valid (not having been suspended, invalidated, or revoked);
- having been issued for an offset project that is registered in a recognized provincial offset program under a recognized offset protocol that appear on the List of Recognized Offset Programs and Protocols for the Federal OBPS;
- having been verified; being eligible for use as a method of compensation or compliance with respect to a pricing mechanism for GHG emissions in the province in which it was issued.

Federal GHG offset credits are issued under Canada's GHG offset credit system, and federal offset protocols are applicable in all provinces and territories in Canada, except for jurisdictions where the same project activity is covered by an active protocol in a provincial or territorial offset program. As of October 2025, there are four protocols under the federal GHG offset credit system: landfill methane recovery and destruction, reduction of GHG emissions from refrigeration systems, improved forest management on private land, and reducing enteric methane emissions from beef cattle.

To be eligible for use under the OBPS, federal offset credits and recognized units must have been issued no earlier than 2017 and for reductions or removals that took place less than eight years before being surrendered or before the deadline for surrendering.

**QUANTITATIVE LIMITS:** Since 2022, at least 25% of the compensation required for a facility's excess emissions must be met in the form of an excess emissions charge (EEC) payment.

The first remittance of federal GHG offset credits occurred in Calendar year 2025.

For the 2022 compliance period, 95% of compliance was achieved through compensation as EEC payments, and 5% through surplus credits.

### Banking and borrowing

Banking is allowed, but surplus credits may not be surrendered for compliance if they were issued more than five years before being surrendered.

Borrowing is not allowed.

### Links with other Systems

The Canada federal OBPS currently has a one-way linkage via recognized units with Alberta and British Columbia's offset systems.

### Other carbon pricing instruments in the jurisdiction

The following sub-national jurisdictions have a carbon tax or cap-and-trade system:

- The Northwest Territories: carbon tax
- Québec: cap-and-trade

The following sub-national jurisdictions have OPBSs for industry:

- Alberta: Technology Innovation and Emissions Reduction regulation (TIER)
- British Columbia: OBPS
- New Brunswick: OBPS
- Newfoundland and Labrador: carbon pricing system for large industry
- Nova Scotia: OBPS for Industry
- Ontario: Emissions Performance Standards Program

- Saskatchewan: OBPS Program

## Compliance

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### Compliance mechanism

Covered entities that have exceeded their annual emissions limit are required to remit compensation for the GHG emissions above the limit. This compensation can be provided in the form of making an excess emissions charge (EEC) payment at the federally established carbon price, remitting surplus credits that were banked from earlier compliance periods or purchased from other covered facilities, or using federal offset credits or recognized units (eligible offset credits from recognized provincial programs and protocols – see ‘Offset Credits’ section) for each tCO<sub>2</sub>e by which the emissions limit was exceeded.

From 2022, at least 25% of the compensation must be provided in the form of EEC payment.

### Compliance Period

One year. The regular-rate compensation deadline is December 15 of each calendar year after the emissions occurred. The increased-rate compensation deadline is February 15 of the year following the regular-rate compensation deadline.

### Monitoring, Reporting, Verification (MRV)

**FRAMEWORK:** The information to be included in an annual report is set out in the OBPS Regulations. Starting with 2024, the “Quantification Methods for the Output-Based Pricing System Regulations” specifies the methods for quantifying GHGs, the ratio of heat and the quantity of electricity generated.

**MONITORING:** Covered entities must monitor their emissions, production levels, and captured and stored emissions on an annual basis. For covered entities, monitoring of production must happen with respect to each of the regulated industrial activities. Electricity generators must monitor their emissions and electricity production for each unit and in aggregate.

**REPORTING:** Reports must be submitted by June 1 of the calendar year following the end of the compliance period for which the annual report is prepared, along with a verification report. Reports must also include the GHG emissions limit applicable to the covered entity for the compliance period, and the difference (if any) between the emissions limit and the actual emissions.

**VERIFICATION:** Reports must be verified by accredited third parties. Only a third party which is accredited as a verification body to the ISO Standard 14065 by the Standards Council of Canada (SCC), the American National Standards Institute (ANSI) or another accreditation organization that is a member of the International Accreditation Forum is authorized to verify an annual report or a corrected report.

### Penalties and enforcement

If a facility fails to provide compensation by December 15 of each calendar year after the emissions occurred, it must provide compensation by the increased-rate compensation deadline of February 15 of the year following the regular-rate compensation deadline. The increased-rate compensation is four times the regular rate. Failing to provide compensation by the increased-rate compensation deadline is an offence under the Act and is also a violation that can proceed under the “Environmental Violations Administrative Monetary Penalties Act”.

## Market Regulation

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### Market Stability Provisions

#### OBPS Proceeds Fund

**Instrument type:** Set price or price trajectory

**Functioning:** The excess emissions charge (EEC) compliance option acts as a price ceiling for the system (see ‘Compliance Mechanism’ section). The EEC payment is set at CAD 95 (USD 67.95) in 2025 and will increase by CAD 15 (USD 10.73) annually until it reaches CAD 170 (USD 121.60\*) per tCO<sub>2</sub>e in 2030.

\* USD conversion based on 2025 IMF exchange rate; actual future exchange rates may differ.

## Market Design

**MARKET PARTICIPATION:** Compliance entities include mandatory and voluntary participants (for inclusion thresholds, see ‘Sectors and Thresholds’ section). Regulatory provisions allow other market participants and offset proponents to open accounts in the Credit and Tracking System (CATS).

## MARKET TYPES:

**Primary:** Surplus credits are issued by the government to facilities based on their performance compared to the applicable output-based standards. Surplus credits are not auctioned.

**Secondary:** Covered entities may purchase surplus credits from other covered entities that have outperformed their compliance obligation. Other market participants and offset proponents may also participate in this market. Transactions take place in CATS, where users can post messages declaring their intent to buy or sell units, as well as answer to posted messages and transfer credits.

## LEGAL STATUS OF ALLOWANCES:

The legal nature of surplus credits is not specified in the OBPS Regulations.

## Other Information

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### Institutions involved

**Environment and Climate Change Canada (ECCC):** Responsible for the design, coordination, implementation, and monitoring of Canada’s climate action plans and targets, and the implementation of the federal carbon pollution pricing backstop system; specifically, the federal carbon pricing system for industry (the OBPS), in provinces and territories where it applies. ECCC is also administering the OBPS Proceeds Fund, which assists the return of OBPS proceeds to their jurisdiction of origin in some jurisdictions.

### Regulatory Framework

[Greenhouse Gas Pollution Pricing Act](#)

[Output-Based Pricing System Regulations](#)

[Environmental Violations Administrative Monetary Penalties Act](#)

### Evaluation / ETS review

In December 2025, the federal government published a discussion paper on Driving Effective Carbon Markets in Canada. Following engagement on the paper in winter 2026 the government will update the carbon pricing benchmark and will consult on potential updates to the federal OBPS Regulations.

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