

March 29, 2019

Ms. Vicky La
Financial Instruments Branch – Policy Unit
Ministry of Environment, Conservation and Parks
77 Wellesley Street West
Toronto, Ontario M7A 2T5

RE: ERO #013-4551: Making Polluters accountable: Industrial Emission Performance Standards

Via E-mail: Vicky.la@ontario.ca

Dear Ms. La,

On behalf of the 2,500 members of Canadian Manufacturers & Exporters (CME), the tens of thousands of manufactures in Ontario, and their nearly 800,000 employees, we are pleased to provide comments on Ontario's proposed Industrial Emission Performance Standards (EPS).

Manufacturing drives Ontario's economic activity, wealth generation and overall prosperity. The sector directly accounts for over 12 per cent of the provinces' GDP, with nearly \$300 billion in annual shipments, \$200 billion in exports and 770,000 jobs.

The manufacturing sector has historically supported government led efforts to balance environmental performance with economic growth, including most recently the objectives to reduce GHG emissions. In 1990, Ontario manufacturers emitted just over 112 mega-tonnes of CO2 equivalent, or approximately 18 per cent of Ontario's total. In 2014, emissions from the manufacturing sector amounted to 96 mega-tonnes of CO2, accounting for just over 13 per cent of total GHGs. No other sector in the province has made this type of progress. At the same time, this 14 per cent reduction in emissions occurred even though Canada manufacturing sales revenue increased 150 per cent and production levels rose 33 per cent over the same period.

The evidence of the past 25 years clearly shows that improvements in environmental performance and economic growth are in fact co-dependent. As investment in new machinery, equipment and processes increases, companies are more productive, and emissions and energy intensity decrease. At the same time, these investments make manufacturers more competitive, enabling companies to invest further in their workforce, and in new products and technologies, as they expand their business.

CME strongly believes that the EPS should not compromise economic growth, industrial investment, or the global competitiveness of both small medium manufacturers and large multi-national manufacturers. Thus, our guiding principles for the emissions performance standards are as follows:

1. Clarity and predictability
2. Transparency

3. Challenging but feasible emission targets
4. Technical Feasibility
5. Evidence based and cost-effective outcomes
6. Equity between worldwide jurisdictions
7. Balancing economic and environmental performance

Overall, Ontario's proposed EPS system is positive, and we appreciate the Government of Ontario's commitment to developing a climate change framework which reflects Ontario's unique needs while balancing environmental performance and the economy and that has a strict focus on competitiveness. However, many sectors within the manufacturing sector are high energy intensive and trade exposed (EITE) and as a result, Ontario manufacturers are exceptionally sensitive to policy proposals that address climate change. Proposals which fail to adequately consider the principles mentioned above and the cumulative costs of regulations could have serious impacts on the competitiveness of Ontario's manufacturing sector.

Our recommendations can be found attached to this letter. We believe these recommendations will help Ontario strike the right balance between reducing emissions and supporting a competitive manufacturing sector.

Thank you for the opportunity to comment. We would be pleased to discuss our submission with the Ministry of Environment, Conservation and Parks in the coming weeks.

Sincerely,



Alex Greco
Director, Manufacturing Policy

Cc: Honourable Rod Phillips, Minister of Environment, Conservation and Parks
Serge Imbrogno, Deputy Minister of Energy, Conservation and Parks

Summary of Recommendations:

Overall Approach:

1. Allowing for sector specific output-based performance standards and performance-based facility standards within the made in Ontario emission performance standards for manufacturing operations emitting at least 25,000 tonnes of CO₂e per year, while also allowing multi-site manufacturers to combine emissions as one entity if the manufacturer determines it to be economically feasible.
2. The opt-in threshold should be 10,000 tonnes.
3. Provide flexibility to choose the most appropriate EPS based on the unique circumstances at each facility.

Energy Intensive Trade Exposed (EITE) Protection:

1. The EPS includes an assessment of the impact of investment leakage that is already taking place and that will be exasperated by regulations that do not fairly account for the global competitiveness context. This would ensure additional competitiveness protection for the manufacturing sector.
2. Sectors such as cement, steel, automotive, pulp and paper, mining and the oil and sector should be given additional EITE protection as possible to maintain competitiveness.
3. Define different stringency factors for fixed processes and non-fixed process emissions. We believe this consideration builds in flexibility for emissions intensive and trade exposed industries while allowing companies time to transition where possible.

Revenue Redistribution:

1. Model the emissions reductions fund off CME's previous Smart Green Program and the New York Green Bank Fund. Such a fund would allow manufacturers to comply with their respective sector's performance standard.

Offset credits:

1. The government should quickly move on the enabling of offsets to ensure the full use and transferability of credits between the Ontario and federal systems.
2. The offset credits generated under these projects should remain eligible for the duration of the validation period achieved under the Ontario program.

Electricity Standard and Threshold:

1. The industrial CHP electricity EPS start at a neutral gaseous target of 420 t CO₂e/GWh in 2019, followed by a linear decline to 370 t CO₂e/GWh in 2030. This would support the Ministry's approach of reaching necessary targets for 2030. For the manufacturing sector, this would send a clear signal while providing the necessary lead times required to invest in lower-emission sources of electricity generation for industry.
2. A separate electricity OBS for onsite industrial CHP and ensure that the threshold may be set on a MWh basis rather t/y.

Benchmarking:

1. Industry and government should co-develop an environmental benchmarking and sustainability study to show how Ontario manufacturing compares to international standards and target areas for possible improvement.

Compliance:

1. Ensure a mechanism for trade-exposed industries to adopt multi-year compliance periods to reduce the regulatory burden at the government and industry level.
2. A connection must be established between a sector's EPS and a sectors ability to meet it while taking into consideration fixed process emissions and the technical feasibility of such a program.
3. Bring clarity to the full suite of proposed alternative compliance mechanisms available to allow industry to achieve compliance in the most efficient way possible.
4. The EPS should be set at a facility level based to take full account of competitiveness concerns and ensure that manufacturers can comply appropriate within the EPS framework.

Duplication:

1. The EPS needs to focus on what will provide the greatest emissions reductions as efficiently as possible and we believe that EPS must be right to ensure the balance between environmental performance and investment.

Harmonization:

1. The dates listed in O.Reg. 390/18 should be maintained for the proposed EPS.

Cogeneration:

1. The proposed program must provide the same EITE facility treatment for direct and indirect emissions irrespective of what type of cogeneration facility exists.
2. Include imported thermal energy supply into a facility's EPS benchmark will address this issue, similar to the treatment under the previous provincial program.

Federal Clean Fuel Standard:

1. We urge the Ministry to assess the full impact of these additional costs on our sector as it implements its Made-in-Ontario Environment Plan.
2. Encourage the government to actively engage in the federal CFS process to help Ontario manufacturers avoid costly and duplicative policies which will force manufacturers to pay twice for the same tonne of CO₂e emitted.

Detailed Recommendations:

Overall Approach:

In Ontario, there are significant risks of trade exposure for all sub-sectors within manufacturing covered by an output-based performance standard. All Ontario sub-sectors currently face competitiveness risk concerns under federal policy. Therefore, depending on the industry, an emissions performance-based standards system with flexibility to establish baseline emission levels and reduction targets for regulated emitters and multisite manufacturers with considerations for trade exposure and competitiveness is necessary. Emission reductions in the non-regulated sector through emission standards and energy efficiency projects also needs to be considered.

For Ontario's manufacturing sector, certainty must be created for future climate policies and maintaining a balance between environmental performance and reducing emissions is critical for future investment into Ontario's economy. We are pleased to see in the proposal that there is flexibility to establish baseline emission levels and reduction targets for regulated emitters and multi-site manufacturers. We also welcome considerations for trade-exposed industries which is crucial to allow our sector to maintain its competitiveness.

To that end, we recommend:

Recommendations:

- 1. Allowing for sector specific output-based performance standards and performance-based facility standards within the made in Ontario emission performance standards for manufacturing operations emitting at least 25,000 tonnes of CO₂e per year, while also allowing multi-site manufacturers to combine emissions as one entity if the manufacturer determines it to be economically feasible.**
- 2. The opt-in threshold for the EPS be at 10,000 tonnes.**
- 3. Provide flexibility to choose the most appropriate EPS based on the unique circumstances at each facility.**

Energy Intensive Trade Exposed (EITE) Protection:

We appreciate the government's recognition and confirmation of manufacturers EITE status of Ontario manufacturers competing with other jurisdictions which face no carbon costs and enjoy other competitive advantages.

Most of our members must also compete globally within their companies for scarce investment dollars. It is those investments that will allow our plants to improve their emissions intensity and help Ontario continue to transition to the low carbon economy. However, Ontario is not seeing its historic share of manufacturing investments compared to the rest of North America. Given this, we are pleased that the government is considering this in its EITE analysis. It is critical that all influencing factors be considered in order to assess the true impact of the emissions performance standards on the trade-exposed sectors.

With this premise in mind, we recommend:

Recommendations:

1. **The EPS include an assessment of the impact of investment leakage that is already taking place and that will be exasperated by regulations that do not fairly account for the global competitiveness context. This would ensure additional competitiveness protection for the manufacturing sector.**
2. **Sectors such as cement, steel, automotive, pulp and paper, mining and the oil and sector should be given additional EITE protection as possible to protect and maintain competitiveness.**
3. **Define different stringency factors for fixed processes and non-fixed process emissions. We believe this consideration builds in flexibility for emissions intensive and trade-exposed industries while allowing companies time to transition where possible.**

Revenue Redistribution:

Revenue with respect to the EPS needs to be recycled back into the company to enable the increased investments in emissions-reducing machinery, equipment and technologies. There must be a degree of cost mitigation to trade exposed sectors and all costs that are not occurred by jurisdictions across Ontario will reduce competitiveness. The reality is that higher costs for energy, infrastructure, transportation, and regulatory compliance will erode profitability and therefore the ability for companies to invest in new technologies that are required to make further progress in reducing emissions.

Companies can only invest in the adoption of new clean technologies if they are profitable and have cash to invest. Business conditions for increasing competitiveness and profitability of companies are essential, including consideration of the effective corporate tax rate, energy costs, and the general costs of regulatory compliance. Over the last several years, we have been deeply concerned with other approaches being publicly discussed by several stakeholders and other governments, who suggest recycling revenues from pollution to individual consumers in the form of annual dividend payments. This approach would make Ontarians better-off than if there was no price on pollution at all. However, this only works if those dividends are financed through a massive wealth transfer from businesses to households. Penalizing businesses for polluting but rewarding households for the same activity makes no sense.

As the Ontario manufacturing sector works with the government to grow the economy while reducing GHG emissions, the government should support domestic industries by implementing a government-wide procurement policy that gives significant recognition to the total carbon footprint of the products it purchases. To do so and to encourage private sector investments in clean technologies and green infrastructure, CME believes a fund should be modelled off on CME's Smart Green Program and the New York Green Bank Fund. Such a fund would allow manufacturers to comply with their sector's performance standard and achieve the following benefits:

- Improvement of the day-to-day operations for manufacturers;
- Making process improvements, such as installing production equipment;
- Reducing their GHG emissions;
- Improving their energy efficiency practices;
- Developing a leading domestic industry for environmental technologies for export; and,

- Supporting investments in new technology and process and productivity improvements.

In our view, manufacturers should be eligible for funding in direct proportion to how much they pay into the pricing scheme. If they are unable to meet their sector-specific target through on-site actions, offsets, best performance credits or other approved mechanisms (such as those adopted from the Paris Agreement) could make up the difference by paying into such a trust.

We recommend:

Recommendation:

- 1. Model the emissions reductions fund off CME's previous Smart Green Program and the New York Green Bank Fund. Such a fund would allow manufacturers to comply with their respective sector's performance standard.**

Offset credits:

CME believes manufacturers need offset credits for many years, particularly for facilities operating in Ontario that are not developing their own offset program.

Due to the fast-pace implementation schedule adopted for the Federal Output-Based Pricing System (OBPS), relying on existing jurisdictional offsets for compliance appears weak at the outset. However, members have communicated to us that offsets are hard to generate, and few are currently available on the recognized carbon markets. The quantity of offsets readily available is small when compared to existing and projected stakeholder obligations across Canada. As a result, being already 'in-demand' in Cap-and-Trade jurisdictions such as Québec, and in other provinces such as Alberta, relying on these same offset sources for compliance at the Federal level has the risk of impacting existing provincial carbon markets. Moreover, the price on pollution differential between the Ontario and the Western Climate Initiative (WCI) must be addressed in priority and/or an equivalency be agreed to between jurisdictions as it could create unwanted imbalances.

Given this, the use of offset credits for compliance should not be limited to offsets generated in Ontario or North America. If there are verifiable offset protocols in place, the EPS should not impose artificial borders on the eligibility of offset credits for compliance. This principle (Ontario recognition of global protocols and global offsets) should be recognized immediately, in order to encourage investments in offsets throughout the world.

As part of the offset framework, rules for the start date for an eligible offset project must be consistent. Only the new projects developed pursuant to the Ontario approach should abide by the Ontario start date, but historical offset projects should retain the start date consistent with the program under which they were developed.

We recommend:

Recommendations:

- 1. The government should quickly move on the enabling of offsets to ensure the full use and transferability of credits between the Ontario and federal systems.**

2. **The offset credits generated under these projects should remain eligible for the duration of the validation period achieved under the Ontario program.**

Electricity Standard and Threshold:

Beyond the environmental and economic benefits of cogeneration of steam and electricity, some manufacturing plants require the reliable steam and electricity to maintain safety-critical equipment, and continuous processes. In addition, within Ontario, industrial combined heat and power (CHP) played and continues to play a role in dampening the supply and demand fluctuations of the system to help reduce peak prices for all electricity customers and defer provincial investments in additional variable load electricity infrastructure. It was for this reason that the government, for the past decade, had provided financial incentives for the industrial adoption of CHP.

Thus, we recommend:

Recommendations:

1. **The industrial CHP electricity EPS start at a neutral gaseous target of 420 t CO₂e/GWh in 2019, followed by a linear decline to 370 t CO₂e/GWh in 2030. This would support the Ministry’s approach of reaching necessary targets for 2030. For the manufacturing sector, this would send a clear signal while providing the necessary lead times required to invest in lower-emission sources of electricity generation for industry.**
2. **A separate electricity OBS for onsite industrial CHP and ensure that the threshold may be set on a MWh basis rather t/y.**

Benchmarking:

Effective climate policy sets meaningful, achievable and economically sustainable targets that drive real GHG reductions. Benchmarking Ontario manufactures against the world’s best is the most effective means of creating a level playing field between jurisdictions and achieving real GHG reductions while also avoiding carbon leakage and maintaining a strong, competitive manufacturing sector in Ontario. Unrealistic targets force manufacturers to “buy” compliance, diverting capital which could otherwise be invested in technology and innovation that drives real GHG reductions.

We recommend:

Recommendation:

1. **Industry and government should co-develop an environmental benchmarking and sustainability study to show how Ontario manufacturing compares to international standards and target areas for possible improvement.**

Compliance:

CME supports an alternative compliance framework that is robust, credible and harmonized with similar programs in other jurisdictions. In the interests of certainty for business. Given this and because of the operating and the carbon intensity variations observed every year, caused by market demand, planned and unplanned turnarounds, etc., there should be a possibility for trade-exposed industries to adopt multi-year compliance periods of two or three years in duration.

To that end, we recommend:

Recommendations:

1. **Ensure a mechanism for trade-exposed industries to adopt multi-year compliance periods to reduce the regulatory burden at the government and industry level.**
2. **A connection must be established between a sector's EPS and a sectors ability to meet it while taking into consideration fixed process emissions and the technical feasibility of such a program.**
3. **Bring clarity to the full suite of proposed alternative compliance mechanisms available to allow industry to achieve compliance in the most efficient way possible.**
4. **The EPS should be set at a facility level based to take full account of competitiveness concerns and ensure that manufacturers can comply appropriately within the EPS framework.**

Duplication:

In the past, CME had been concerned with the volume of regulatory initiatives that currently exist or are under development that would duplicate regulations on the same emissions at both the provincial and federal levels and affect international benchmarking. These conflicts can create additional reporting and compliance burdens on business without achieving significant additional reduction in GHG emissions. We are very pleased that the federal government has ensured industry that there will not be duplication between the EPS and the OBPS.

Additionally, regulatory and EPS policies should not compromise economic growth, industrial investment, or the competitiveness of Ontario industry. An EPS should also be pursued in line with our other economic, social, and environmental policy goals. It would almost be impossible to design such a system to address leakage or competitiveness issues in an efficient blanket approach, without taking all these factors into consideration.

We recommend:

Recommendation:

1. **The EPS needs to focus on what will provide the greatest emissions reductions as efficiently as possible and we believe that EPS must be right to ensure the balance between environmental performance and investment.**

Harmonization:

CME is generally supportive of the harmonization of quantification and verification requirements between the federal OBPS and Ontario EPS, as well as with reporting under Ontario Regulation 390/18 (O.Reg. 390/18) and the federal Greenhouse Gas Reporting Program ("GHGRP"). This reduces the reporting burden on manufacturers that currently may be required to calculate their emissions following multiple different methodologies. As such, CME supports the harmonization of the Ontario and Federal general stationary combustion emissions calculation methodologies.

CME also notes that the requirements for verification in O.Reg. 390/18 appears more robust than what has been put forward in the federal "Regulatory Proposal for the Output-Based Pricing System

Regulations under the Greenhouse Gas Pollution Pricing Act” and suggests that Ontario should closely compare verification requirements in both regulations. As an example, the requirements in Ontario include the ability for verifiers to provide a “qualified positive” verification statement, which is not included in the federal OBPS. Furthermore, CME believes that the current verification requirements of O.Reg. 390/18 support the EPS program, as opposed to regulatory duplication requiring separate verification under both the Ontario GHG reporting program and the Ontario EPS program. Regarding timing of the annual submission of GHG reports and verification reports, CME suggests that the dates listed in O.Reg. 390/18 should be maintained for the proposed EPS. The federal OBPS requires both reporting and verification to be completed by June 1 of each year, however this is burdensome due to the increasing volumes of environmental reports. Additionally, an earlier verification date could lead to resource issues with respect to availability of qualified verifiers.

We recommend:

Recommendation:

1. The dates listed in O.Reg. 390/18 should be maintained for the proposed EPS.

Cogeneration:

The competitiveness protection for industry cogeneration units using Natural Gas Turbine Generators (GTG) should recognize that the co-products, steam and electricity, have very different energy efficiencies which should be reflected in their respective emission performance standard.

As such, we recommend:

Recommendation:

1. The proposed program must provide the same EITE facility treatment for direct and indirect emissions irrespective of what type of cogeneration facility exists.
2. Include imported thermal energy supply into a facility’s EPS benchmark will address this issue, similar to the treatment under the previous provincial program.

Federal Clean Fuel Standard:

The federal government’s Clean Fuel Standard (CFS) will apply in Ontario regardless of any made-in-Ontario environment plan or Renewable Fuel Standard. As the first CFS to include carbon intensity reductions for gaseous and solid fuels used by industry along with transportation fuels (liquid), the CFS, as currently being directed, will have costly implications for the manufacturing sector.

We recommend:

Recommendation:

1. We urge the Ministry to assess the full impact of these additional costs on our sector as it implements its Made-in-Ontario Environment Plan.
2. Encourage the government to actively engage in the federal CFS process to help Ontario manufacturers avoid costly and duplicative policies which will force manufacturers to pay twice for the same tonne of CO_{2e} emitted.

WHO WE ARE:

From the first industrial boom in Canada, Canadian Manufacturers & Exporters (CME) has been advocating for and representing member interests. Nearly 150 years strong, we have earned an extensive and effective track record of working for and with 2,500 leading manufacturers from coast to coast to help their businesses grow. The association directly represents more than 2,500 leading companies nationwide. More than 85 per cent of CME's members are small and medium-sized enterprises. As Canada's leading business network, CME, through various initiatives including the establishment of the Canadian Manufacturing Coalition, touches more than 100,000 companies from coast to coast, engaged in manufacturing, global business and service-related industries. CME's membership network accounts for an estimated 82 per cent of total manufacturing production and 90 per cent of Canada's exports.

CME Website: www.cme-mec.ca

Manufacturing Matters: www.manufacturingmatters.ca

Canadian Manufacturing Coalition (CMC): www.manufacturingourfuture.ca