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*Submitted electronically via Environmental Registry of Ontario (ERO) portal*

January 15, 2021

Ms. Melissa Ollevier  
Ministry of the Environment, Conservation and Parks  
Financial Instruments Branch  
40 St. Clair Avenue West, Floor 8  
Toronto, Ontario  
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**RE: Domtar comments on the proposed amendments to transition Ontario industrial facilities from the federal Output-Based Pricing System to Ontario's Emission Performance Standards program – ERO Number 019-2813.**

Dear Ms. Ollevier:

Domtar appreciates the opportunity to provide the Ontario Ministry of the Environment, Conservation and Parks (MECP) input on the proposed amendments to transition Ontario industry from the federal Output-Based Pricing System (OBPS) to Ontario's Emission Performance Standards (EPS) program. We look forward to ongoing engagement and dialog with MECP to further discuss detailed aspects of the EPS transition to ensure sustainable policy that supports industrial competitiveness, sustain economic growth and effectively reduces greenhouse gas (GHG) emissions for the short term and longer term.

We are concerned the Espanola Mill will be competitively disadvantaged under the current EPS approach due to its product mix and we are requesting a meeting with MECP to further discuss. The viability of the Espanola Mill is extremely important for the economic health and well being of the northeast region of Ontario.

This letter outlines our specific concerns relating to:

- Regulatory details still to be disclosed;
- The viability of the Domtar Espanola Mill under the EPS.
- The biomass factor;
- Mismatch with historical information; and
- Federal fuel charge exemption.

**Context** – Domtar is a leading provider of a wide variety of wood fiber-based products, including communication, specialty and packaging papers, market pulp and absorbent hygiene products. The foundation of our business is a network of fiber converting assets that produce papergrade, fluff and specialty pulps. While most of our pulp production is consumed internally to manufacture paper and consumer products, we are also a large volume pulp exporter. Domtar is the largest integrated marketer of uncoated freesheet paper in North

America. With approximately 8,800 employees serving customers in more than 50 countries around the world, we are driven by a commitment to turn sustainable wood fiber into useful products that people use and rely on every day.

Domtar has pulp and paper making operations in British Columbia, Ontario, Quebec and the in United States. In Ontario, Domtar operates a pulp mill in Dryden and a specialty pulp and paper mill in Espanola. Together these operations directly employ over 880 people in the North and indirectly employ an estimated 2,200 additional people through harvesting contractors, vendors, suppliers, contracted services and more. In addition, we manage over 10.8 million hectares of forest lands in Ontario and Quebec.

Our paper products are used in many applications including photocopying, commercial printing, books, pamphlets, brochures, catalogs, envelopes, posters and greeting cards. Applications for specialty papers from our Espanola Mill are as far ranging as medical supplies, food packaging and industrial papers.

Our Ontario mills have survived an extraordinarily difficult, multi-decade transformation and downsizing of the province's pulp-and-paper sector. More recently the COVID-19 pandemic shocked world economies in an unprecedented manner. The speed at which a worldwide economic downturn happened is something never seen before. As world economies are trying to recover, the negative impacts and effects on businesses are still being felt and may continue for some time. As MECP considers changes to the EPS program, it is important to incorporate flexibilities to minimize economic distortions.

We are committed to working with MECP so the EPS program supports the forest industry which is so vital to Northern Ontario's economy, while meeting federal requirements and achieves the province's economic and environmental goals.

Domtar applauds the Government of Ontario for its success in working with the federal government to accept Ontario's Emission Performance Standards (EPS) program as an alternative to the federal Output-Based Pricing System (OBPS). While we support the EPS in concept, we believe that certain aspects of the program can be further enhanced so they do not disadvantage facilities that compete in global markets with jurisdictions that do not have increased costs from carbon pricing programs. We do not have the ability to pass increases in manufacturing costs on to our customers. The selling price for our products is set by the global market so from this standpoint we are a "price-taker". The pulp and paper sector is Energy Intense and Trade Exposed (EITE) making us highly susceptible to leakage of carbon, jobs and investment dollars.

**Regulatory Details** – MECP is proposing regulatory amendments to change Ontario Regulation 241/19 (the EPS regulation) and Ontario Regulation 390/18 (the GHG reporting regulation) and changes to incorporated documents. While MECP may feel these changes are administrative in nature, for the regulated community – "the devil is in the details". When we inquired about redline documents to see the regulatory language changes, proposed revisions to the calculation formulas, etc., MECP staff informed us these changes are not yet available

and will not be available before the close of this comment period on January 15, 2021. Since many of the details for this proposal are not currently available for review, we are not in a position to assess impacts and provide detailed comments.

**Concerns regarding the Domtar Espanola Mill's viability under the EPS** – We are concerned our Espanola Mill, which produces specialty pulp and paper products, will be disproportionately disadvantaged under the EPS due to its product mix. Like the federal OBPS, the Ontario EPS should include the flexibility to recognize this through a provision addressing specialty products.

According to a recent analysis conducted by Poyry Management Consulting (Poyry), the Domtar Espanola pulp and paper mill is the largest producer of specialty papers in Canada and is the only Canadian specialty paper mill with an integrated chemical pulp mill.

Specialty papers are largely application driven, produced in limited runs requiring adoption of standard products. The Espanola Mill manufactures pulp, technical specialty papers and other specialty papers with a wide range of grades and producing over 300 different products. These papers are used in varying applications such as medical products to food packaging; including medical gowns, swabs in testing kits and various food packaging and food wrapper papers. The specialty paper market is quite complex and differs significantly from the commodity markets.

Producing specialty products is very energy intense and these mills have a higher GHG intensity than paper mills producing commodity paper products such as communication paper, tissue, etc. Specialty paper grades are produced in low volume and have high performance requirements. These paper grades require a high degree of energy intensive pulp refining, the paper machines operate at slow speeds and lower production rates compared to commodity paper machines. Over the course of a day it is not unusual for the Espanola paper machines to change grades multiple times. Paper machines producing commodity grades can manufacture the same grade for days. Since specialty papers are application driven, development of a product requires a lot of trials (50-100) and a lot of product testing to optimize the performance of the final product sent to the customer. Many of the specialty paper mills in Canada have closed and production moved to countries with lower production costs.

Specialty papers are boutique and the products manufactured can vary greatly from year to year. As a result, using a one-time historical baseline will not be representative of the mill's future performance. The OBPS recognized this and under the specialty products provision, allowed the facility to calculate its own standard factor using more recent information. The EPS approach will significantly impact the ability for the Espanola Mill to remain viable and competitive moving forward.

The viability of Espanola is extremely important to the northeastern region of Ontario. Besides directly providing over 500 good paying jobs and there are at least another 1,250 jobs in the forestry and service industries to support the mill. Domtar has active fiber supply agreements with many First Nations communities.

The Espanola Mill is also vital to the economic success of the area sawmills. The mill utilizes the wood waste streams from sawmills (e.g. chips, sawdust, shavings and other woodwaste) helping to make sawmills a viable entity. Without the pulp mill, the future of the sawmills is uncertain.

We look forward to further discussions with MECP about our concerns pertaining to the Espanola Mill's competitiveness under the EPS and to explore solutions.

**Biomass Factor** – Domtar is pleased to see the inclusion of a biomass factor to support and further incent the use of biomass energy that this sector relies so heavily on. Ontario pulp and paper facilities have significantly reduced their GHG emissions by fuel switching from fossil fuels to biomass fuels and have few opportunities for further significant GHG reductions. Fossil fuels are needed for mill re-starts (e.g., following maintenance shut-downs), during very cold weather, and in processes such as the lime kiln where no technical fuel alternatives exist. The OFIA GHG Coalition, on which Domtar participates, recommended a 5% biomass factor to help ensure long term viability and competitiveness of the sector. We want to continue to dialog with MECP on why adjusting the factor from 2% to 5% will be needed as the EPS program evolves post-2022.

**Mismatch in Historical Information** – In the Spring of 2019, Ontario conducted a data gathering exercise for the EPS. Industrial facilities provided MECP with the historical data requested and MECP used this information to develop facility baseline information and other metrics for the EPS program. Historically Ontario has not requested information on GHG emissions from process wastewater and on-site transportation. Under the EPS, reporting information on GHG emissions from wastewater and on-site transportation will be required. Unfortunately, this creates the situation of having a mismatch in historical information and what is required for future compliance. A methodology is needed to correct the facility baseline information to include wastewater GHG emissions and GHG emissions from on-site transportation.

The methodology document titled – *GHG Emissions Performance Standards and Methodology for the Determination of the Total Annual Emission Limit, July 2019* – contains the EPS calculation methodologies for industrial facilities and is incorporated by reference into the Ontario regulations. Since this document will need to be revised and updated as a result of amendments to the EPS, MECP should conduct meaningful consultation with stakeholders for these revisions.

**Federal fuel charge exemption** – As MECP works to develop a process to obtain the information necessary to maintain this exemption, we encourage MECP to work with the federal agencies to obtain copies of the information we provided to minimize added burden for Ontario facilities. We expended considerable time and effort to gather this information for the federal government and suggest MECP look to streamline its data collection process to minimize “red tape” and regulatory burden.

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Thank you for the opportunity to provide input on the EPS and the proposed amendments to support transitioning. We look forward to having additional discussions on mitigating impact to the Espanola facility, stakeholder consultations on the regulatory language and methodology changes for transitioning to the EPS, and additional engagement opportunities for any further changes to the EPS.

If you have any questions or to arrange for further discussions, please contact me via mobile phone at (715) 459-9257 or via email at [annabeth.reitter@domtar.com](mailto:annabeth.reitter@domtar.com).

Sincerely,



Annabeth Reitter  
Corporate Manager, Environmental Regulations