

15 January 2021

Submitted to: Ontario Ministry of Environment, Conservation and Parks (MECP)
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Toronto, Ontario M7A 2T5
ero.ontario.ca/notice/019-2813

IETA COMMENTS ON PROPOSED AMENDMENTS TO ONTARIO EPS ERO # 019-2813

The [International Emissions Trading Association \(IETA\)](http://www.ieta.org) appreciates this opportunity to share input on the Government of Ontario's proposed [Amendments to transition Ontario industrial facilities from the federal Output-Based Pricing System to Ontario's Emissions Performance Standards program \(the Amendments\)](#). The Amendments build on, and propose changes to, the 2019 Ontario Emissions Performance Standards (EPS) program. We are encouraged to see the Government of Ontario committing to reduce greenhouse gas (GHG) emissions in a flexible, cost-effective manner while making further efforts to align most segments of its industrial EPS program with Canada's Federal Output-Based Pricing System (OBPS), however we hope to see several critical improvements to program design prior to final implementation of the provincial system in 2021.

IETA is the premier international business voice on climate markets and finance. Our multi-sector, non-profit organization represents over 140 international companies, including many with investments and operations providing employment and value creation across Ontario. Our expertise is regularly called-upon to inform environmental policies that deliver demonstrable GHG emission reductions, address industrial competitiveness, spur and protect jobs, enable fair and realistic program implementation, and balance economic efficiencies with societal benefits. For two decades, our business community has remained committed to supporting flexible, least-cost market approaches to achieve climate goals that drive economic prosperity and avoid compromising competitiveness. **For Ontario, we believe these powerful market tools – underpinned by environmental integrity – should form the backbone of the province's climate action to 2030 and beyond.**

SECTION 1: HIGH-LEVEL PRIORITY INPUT

The following captures IETA's high-level priority input on the Amendments.

1A. SUPPORT FLEXIBLE AND COST-EFFECTIVE COMPLIANCE APPROACH

IETA is pleased to see the principles of flexibility and cost-effectiveness guiding Ontario's proposed approach. We strongly support the use of facility-generated tradable units and voluntary opt-in under the EPS, but urge Ontario to also allow for the use of offset credits under the system. Allowing for a full suite of flexible compliance instruments will broaden program participation – across both Ontario regulated entities (buyer side) and non-regulated entities (project developer, supply side) – while lowering compliance and overall program costs.

1B. ENABLE POLICY HARMONIZATION AND ALIGNMENT

Ontario should rely heavily on the lessons, systems, standards and infrastructure from existing carbon pricing and market programs. Building on, and ensuring complementarity with, established market trading programs will enhance efficiencies, minimize provincial program development and implementation costs, enable near or longer-term cross-border harmonization opportunities, and ensure broad program buy-in.

Ontario should actively pursue system harmonization and alignment with key jurisdictions across core GHG program design elements. Harmonizing GHG program rules, tools, standards, carbon accounting and quantification methodologies across priority domestic and international trade partners are foundational steps towards building cross-border cooperation that enhance efficiencies. These actions also allow business to more easily and cost-effectively plan, comply, and invest.

The benefits of regional linkages and cooperative approaches are clear: the bigger and broader the market, the wider the range of abatement opportunities and improved efficiencies. This drives down program and compliance costs while driving-up clean projects, jobs and market opportunities. To achieve this, a top Ontario priority should be to enable flexible and coordinated pricing systems built on market-based trading – elements that we see reflected in parts of the current Proposal. Ontario’s final framework and guidance should enable – not hinder – linkage (full or partial) with other domestic and global systems.

1C. ALLOW FOR OFFSETS – COMPLIANCE FLEXIBILITY & A PAN-CANADIAN APPROACH

Offsets are an essential, results-based cost-containment and clean finance component for any functional and flexible “Polluters’ Pay” program. Offsets represent a vital low-cost compliance option for regulated polluters, thereby minimizing competitiveness risks, leakage risks and/or the need to pass on higher costs to consumers. Robust investment and growth in voluntary carbon reduction credit generation are also proven sources of job creation and co-benefits across various sectors (e.g., agriculture, forestry and waste) and communities, including the North, indigenous communities and rural areas.

We have several important recommendations related to MECP enabling offsets under the provincial EPS program:

First, IETA strongly **encourages Ontario to not only allow for covered entities to use eligible offset credits for compliance under the EPS, but also leverage the federal offset system and infrastructure, currently under development by Environment and Climate Change Canada (ECCC).** There is significant work underway to develop a federal offsets system under the OBPS, including the development/adaptation of priority offset protocols across non-covered sectors. Based on the initial list of potential priority project types for protocol development, published by ECCC in July 2020, many of the identified types could see significant climate and co-benefits channeled into future Ontario-based communities and project opportunities (i.e., advanced refrigeration systems, aerobic composting of organic waste, afforestation/reforestation, anaerobic digestion, improved forest management, landfill methane management, livestock manure management; and soil organic carbon).

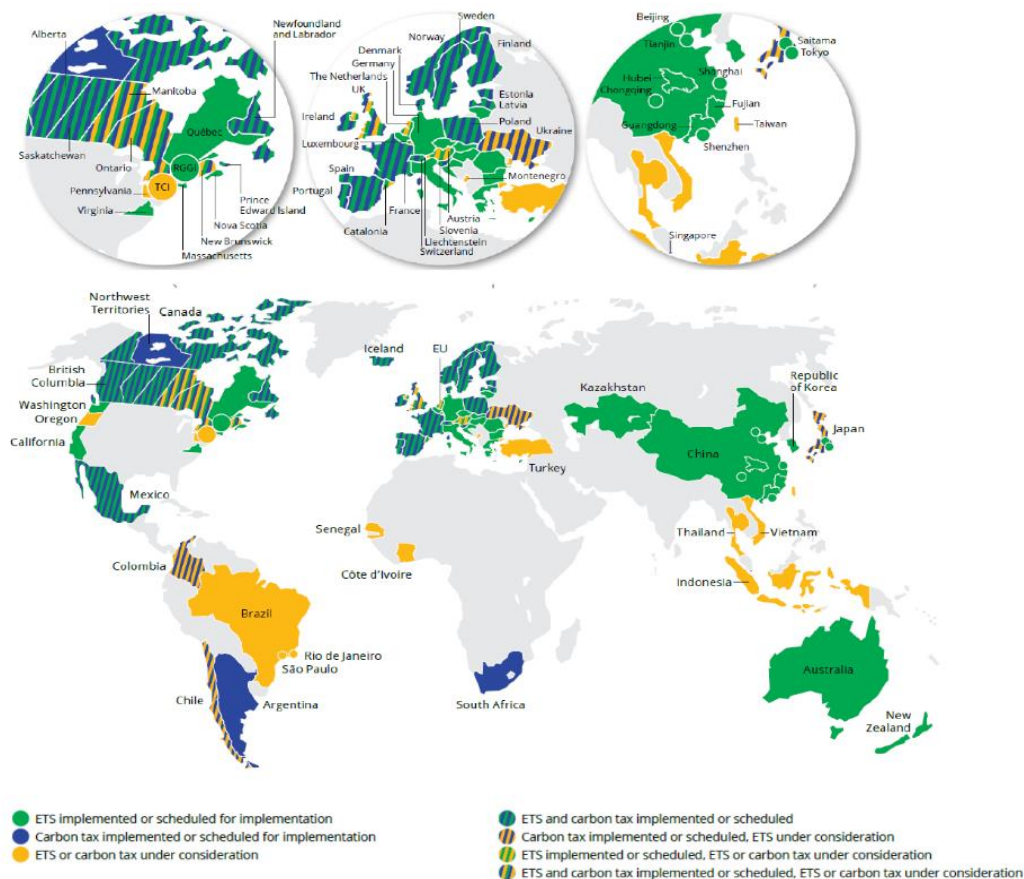
Second, in addition to “piggy-backing” off the Federal OBPS offsets system, we strongly recommend that MECP allow for the use of compliance offsets already issued by other Canadian governments across existing carbon programs. These monetized units, representing real and verifiable GHG reductions and removals, would provide “out of the gate” supply and further help reduce compliance and program costs of the EPS. The easiest way to enable this form of one-way credit fungibility is to rely on the rules and parameters for compliance (offset and surplus) credit generation in already-existing systems, including compatibility with Canada’s federal OBPS offsets program.

Third, should MECP move forward with allowing for offsets as EPS compliance instruments, we discourage the implementation of arbitrary unit usage constraints; this includes the avoidance of imposing geographic, quantitative, and qualitative limitations on compliance usage. We also discourage the imposition of expiry and holding limitations on compliance unit usage.

1D. COMPLEMENT DOMESTIC AND INTERNATIONAL CARBON RULES AND SYSTEMS

It is critical for Ontario to look beyond its borders to ensure that final EPS rules and systems are compatible with, or readily-adaptable to, Canadian domestic and global carbon policy and trade landscapes. To preserve Ontario’s economic competitiveness and ensure healthy trade relations within and outside of Canada (e.g., EU, USA), MECP must closely track developments that may affect future climate program “stringency” acceptance of Ontario’s approach to carbon rules, pricing and trade.

Based on the [World Bank’s 2020 Carbon Pricing State and Trends Report](#), over 60 compliance carbon pricing systems now exist or are now in place globally, including many across Ontario’s largest trade partners. The map below captures the status/type of systems with further details and updates found on e.g., the [Carbon Pricing Dashboard](#).



SECTION 2: DETAILED INPUT

The following provides more detailed technical input on specific sections of the Amendments.

2A. PROPOSED START DATE

We are glad to see Ontario aiming to ensure adequate time for consultation and a smooth transition for industry from the federal OBPS to the provincial EPS program. In addition to supporting a flexible proposed approach based on decisions from the federal government, we **support a January 2021 start date provided industry has enough visibility (i.e., end Q1 2021 at the latest) to adequately plan and forecast 2021 financial obligations.**

2B. START DATE OF COMPLIANCE OBLIGATIONS

IETA supports amended compliance start date provisions, if they contribute to a smooth transition from the federal OBPS and the Ontario EPS. We also support the proposed start date of 1 January 2021 for facilities already registered in the EPS or OBPS to allow for a smooth transition – this approach should enable more alignment, drives efficiencies for government administrators and companies, and facilitates near or longer-term harmonization and linkage across systems.

IETA supports the current proposed approach for facilities that register in 2021 or later and look forward to further details provided by MECP. **However, we recommend that MECP provide more details earlier than late winter 2021, and preferably by the end of Q1 2021.** Regulated facilities need to have clarity on their compliance obligations before budgets are formed and finalized.

It is critical that a federal OBPS to EPS transition does not unnecessarily disrupt provincial business operations or introduce added administrative burdens and requirements. Regulated provincial facilities should not be penalized with double or overlapping compliance costs as a result of changing regulations mid-year that are beyond their control.

IETA supports the proposed move to allow industrial entities to opt-in to the provincial EPS program. We believe the proposed opt-in criteria and threshold (i.e., 10ktCO₂e per annum) are appropriate and defensible. We urge final rules to allow for immediate opt-in across all eligible provincial facilities.

A note that opt-in facilities must be held to the same standard as larger covered facilities. This program, which should employ the highest standards with clear guidelines for environmental integrity and participation, should largely align – or at least ensure compatibility – with the Federal OBPS opt-in program than late and timeline. We recommend final regulatory language to allow facilities to opt-in that do not have a prescribed EPS, provided they can meet EITE criteria or operational vulnerability criteria.

2C. ALIGNING SCOPE OF EPS WITH OBPS

IETA strongly supports the proposed amendments to align the scope of the EPS with the federal OBPS, including the amendment of Item 39 of Schedule 2 of the EPS Regulation to allow facilities in additional sectors to voluntarily opt-in to the program. Similarly, seeking broad alignment with the federal OBPS for covered emissions and industrial activities regulated under the provincial EPS will ensure its long-term recognition and stability.

2D. EXEMPTION RULES

IETA supports Ontario's proposed amendments to "provide for collection of additional information from all new and existing registered facilities to support the continuation of a facility's exemption from the federal fuel charge (e.g., federal fuel exemption registration notice, boundary maps, location coordinates) as needed".

CONCLUSION

IETA appreciates this opportunity to record our comments on the proposed amendments to Ontario's EPS. Our community looks forward to future engagement with MECP officials as EPS-OBPS transition policy decisions are finalized and further 2021 amendments are proposed. If you have questions or follow-up about IETA's submission, contact Ellen Lourie at lourie@ieta.org.