

January 15, 2021

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Re: ERO 019-2813: Amendments to transition Ontario industrial facilities from the federal Output-Based Pricing System to Ontario's Emissions Performance Standards program

The Cement Association of Canada (CAC) appreciates the opportunity to submit comments on this posting.

In previous submissions we have emphasized our industry's commitment to being a climate change leader, voluntarily reducing GHGs by 20% since 1990. We remain committed to working collaboratively with governments to establish regulatory policy and market conditions that facilitate the identification, financing and implementation of low-carbon solutions while also maintaining and enhancing our competitiveness.

We were pleased to see the federal government recognize the equivalency of Ontario's Emission Performance Standard (EPS) in the fall of 2020. We are committed to working with the Government of Ontario to ensure a smooth transition to this "made in Ontario solution" and, subject to federal government agreement, would support a start date of January 1, 2021. Open and ongoing communication will be important to a successful transition.

It is critical that the scope of the EPS align with the federal OBPS in such a manner as to secure our sector's continued exemption from the federal fuel charge, and we are pleased to see Ontario focused on achieving this outcome.

In addition to this overarching objective, we offer the following comments:

- **Treatment of Clinker and Cement for Export:** Absent from the previous cap-and-trade design but addressed in the current federal Output Based Pricing System (OBPS), is the issue of fair, competitive treatment of clinker for export. Clinker is the main constituent of cement (cement is effectively clinker "diluted" with gypsum and limestone). It is also, by definition, more carbon intensive per tonne than the final cement product it produces. Ontario cement facilities export significant volumes of clinker to the United States, as well as Quebec (where the gypsum and limestone components are added locally). The Federal OBPS recognizes clinker for export as a unique product, assigning it its own carbon intensity benchmark as a way to protect exporters from paying an economically punishing and environmentally unjustified penalty on clinker vs. cement consumed domestically.

The Draft EPS also publishes a separate benchmark for clinker but is silent on if and when this benchmark can be applied for compliance purposes. It is also silent on exports in general. In addition to better understanding the Ministry's interpretation of how the regulation is to be applied to exports, we also need to understand how the EPS will treat clinker moved

from one facility to another within the province (for example to a separate grinding facility or to another company). Answers to these questions may precipitate more detailed comments from our sector on the regulatory text, including definitions. **We request to meet with officials as soon as possible to establish clarity on these issues.**

- **Offset System:** We note that the province has indicated that it is still working on an offset system as an additional EPS compliance pathway. Offsets can be a highly effective tool in keeping compliance costs low while maintaining the integrity of emissions reductions goals. Offsets, including offsets from other provincial/federal systems, will become increasingly important to facilities once they have exhausted economically viable technology improvements. We view offsets as a critical measure for securing the long-term competitiveness of EITE sectors such as cement and encourage the province to work closely with provincial counterparts and the federal government to align and allow fungibility of offsets credits across regions.
- **Revenue Recycling:** The cement industry also believes it is important that any payments collected under the EPS are recycled back to industry to support investment in innovative low carbon technologies.

For example, the cement sector has attracted considerable private sector investment in low carbon fuels in provinces where such funds exist. There are also significant opportunities to advance cross sectoral technologies, such as carbon capture and utilization and storage (CCUS) and hydrogen. Innovations such as a carbonated concrete (concrete that is cured with CO₂ instead of, or in addition to water), and the use of novel biogenic fuel sources (e.g. algae grown with flu gas) are evolving and showing tremendous promise for a future of low carbon concrete. Properly designed, technology funding programs can increase investment in these technologies and accelerate their commercialization – yielding both significant GHG reductions as well as job and economic growth.

Our international companies will invest in these technologies in the jurisdictions which are best suited to investment risk reduction through co-funding of innovative projects. Money that is paid into the system for compliance should be available to us to invest in these innovations. Our members report that the Alberta TIER program is a particularly strong model for revenue recycling and that Ontario should consider adapting Alberta's program to the EPS.

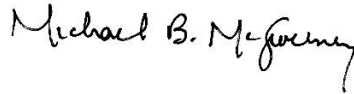
- **Fixed Process Emissions:** We support and thank the government for recognizing that fixed process emissions are unavoidable and irreducible and should not have a reduction obligation. Fixed-process emissions should maintain a 100% baseline, while non-fixed process emissions should have a decline rate based on technological achievability and carbon leakage risks.
- **Carbon Leakage:** Carbon leakage and competitiveness impacts from disparities in carbon pricing in import and export markets is a key consideration for the EPS. We recommend that the province commit to an updated EITE assessment leading into the next compliance EPS period in 2022.

- **Carbon Capture Utilization and Storage (CCUS):** CCUS may have an important role to play for the transition to a lower-carbon economy in Ontario. To incentivize the development of CCUS technologies in Ontario, it is important to develop a regulatory regime to manage CCUS and allow their reductions to be recognized against the LFE compliance obligation under the EPS program.

Finally, we would also like to get clarity on how OBPS compliance obligations / credit holdings (in the newly developed CATS system) are expected to be transferred to the EPS program.

We thank you for allowing us to submit our comment and we look forward to working with you on the successful transition of the OBPS to the EPS.

Sincerely,



Michael McSweeney
President & CEO