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

July 11, 2021

Ms. Melissa Ollevier  
Ministry of the Environment, Conservation and Parks  
Financial Instruments Branch  
40 St. Clair Avenue West, Floor 8  
Toronto, Ontario  
M4V 1M2

**RE: Domtar comments on the proposed amendments to support transition and implementation of Ontario's Emission Performance Standards program – ERO Number 019-3719.**

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 support transition and implementation of Ontario's Emission Performance Standards (EPS) program. We look forward to continued ongoing engagement and dialog with MECP to discuss detailed aspects of the EPS transition to ensure a sustainable policy that supports industrial competitiveness, sustain economic growth and effectively reduces greenhouse gas (GHG) emissions for the short term and longer term.

Domtar Corporation (Domtar) is a designer, manufacturer, marketer and leading provider of a wide variety of fiber-based products including communication papers, specialty and packaging papers and airlaid nonwovens. We are driven by a commitment to turn sustainable wood fiber into useful products that people rely on every day. The foundation of our business is a network of fiber converting assets that produce paper-grade, 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. In addition, we manage over 10.8 million hectares of forest lands in Ontario and Quebec.

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. We also support indigenous interests and communities with our forest management activities and fiber supply agreements.

Domtar applauds the Government of Ontario for its work with the federal government to accept Ontario's 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 are committed to working with MECP so the EPS program supports the forest products industry continued operation which is so vital to Northern Ontario's economy, while meeting federal requirements and achieves the province's economic and environmental goals.

With our two Ontario operations transitioning from the OBPS to the Ontario EPS program in January 2022, we are interested in the proposed amendments. These comments supplement the comments we provided in January 2021 for proposed amendments posted in December 2020 on transitioning Ontario industrial facilities from the federal OBPS program to Ontario's EPS program (see Appendix).

### **Concerns Regarding the Domtar Espanola Mill's viability under the EPS**

As outlined in our January comments, we remain concerned the Espanola Mill will be competitively disadvantaged under the EPS approach due to its product mix. In addition to the opportunity to respond to this posting, we are requesting a meeting with MECP to further discuss the risks for the Espanola Mill and our suggestions for mitigating these concerns.

The viability of the Espanola Mill is extremely important for the economic health and well being of northern Ontario and in particular the northeast region. The mill is currently completing a revitalization of its pulping assets for longer term mill viability. Federal and provincial governments are supportive of this work.

The Espanola pulp and paper mill is the largest producer of specialty papers in Canada and the only Canadian specialty paper mill with an integrated chemical pulp mill. Specialty papers are largely application driven with tight performance tolerances and produced in limited production runs. Specialty paper grades are produced in low volumes. Producing specialty papers is very energy intense and the mills have a higher GHG intensity than mills producing commodity products.

The Espanola Mill produces over 300 different products and these papers are used for varying applications from medical supplies to food packaging. The product mix is very diverse and constantly changing to meet customer demands. The Espanola Mill is also very innovative and is developing biomaterial alternatives to fossil-based products which can contribute to Ontario achieving GHG reduction targets. However, the GHG intensity of the Espanola Mill may increase while the GHG intensity of other sectors may decrease due to demand for preferred bio-based products.

To prevent the Espanola Mill from becoming disproportionately disadvantaged and its economic viability threatened, we are requesting that the Ontario EPS program includes flexibility to allow the facility to periodically review and update its baseline to reflect current performance instead of using a one-time historic baseline that may no longer be representative of the products being produced. We have also requested the Federal government recognize the unique nature of Espanola's specialty product mix and allow the OBPS Specialty Products

Provision flexibility for periodic baseline reviews and updates. While Ontario is transitioning to the EPS, the OBPS backstop regime could come back into force in future years.

### **Lack of regulatory detail**

We are concerned with the lack of technical and regulatory details regarding the proposed changes in the materials provided for stakeholders. This prevents us from fully understanding the proposed changes and impedes our ability to assess impacts and provide detailed comments. Without a redline version of the regulations that would allow us to see all modifications being proposed, we have to rely on a PowerPoint presentation and more general statements in the posting. When redline documents are available, Domtar would appreciate receiving a copy so we can see the regulatory language changes, proposed methodology revisions, etc. The potential impacts of the EPS program are extremely far reaching. It would facilitate our analysis of the risks if the detailed regulations with the changes noted were provided as part of this consultation process. We encourage MECP to undertake additional consultation with stakeholders once the redline documents are available.

### **Specific concerns with the proposed amendments**

Notwithstanding this lack of detail, we have specific concerns with respect to following in the proposed amendments:

- Mismatch with historical information
- The transfer of OBPS credits; and
- Verification.

#### **1. Mismatch with 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, landfills, on-site transportation, etc. The amendments proposed to align the EPS facility definition to with the OBPS facility definition. This will trigger reporting information on GHG emissions from wastewater treatment, on-site transportation, landfills, etc. for compliance purposes. This creates the situation of having a mismatch in historical information and what is required for future compliance. If MECP adopts this proposed change, a methodology is needed to correct the facility baseline information to include the added GHG emissions from wastewater treatment, on-site transportation, landfills, etc.

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 if these proposed amendments to the EPS are approved, MECP should conduct meaningful

consultation with stakeholders to address these changes and the implications arising from them.

## **2. Transfer of OBPS Surplus Credits**

We are concerned the federal government is proposing to suspend the OBPS surplus credits for Ontario facilities once the facilities are no longer subject to the OBPS program. We are also concerned the Government of Ontario has not expressed interest in transitioning the surplus credits to the EPS program along with the facility.

It is our understanding the federal and provincial governments may see the leaving surplus credits behind as necessary to protect the carbon price incentive. We disagree. More importantly this approach may have many unintended consequences including stifling investments to reduce GHG emissions.

The surplus credits are financial instruments and their monetary value is considered when companies make investments in GHG reduction initiatives. The ability to meet compliance obligations and to generate surplus credits, as a financial benefit, are assessed as part of the company investment process. Covered facilities are unable to select the GHG reduction program they are subject to. The design of the EPS program needs to include provisions ensuring credits generated under a federal or provincial program can be transitioned with the facility if the regulatory body changes.

A lack of long-term certainty with the ability to utilize surplus credits for compliance purposes and/or to monetize revenue from the surplus credits, can slow the adoption of clean technologies. These negative investment impacts, especially for trade exposed industries, need to be carefully considered. The ability to generate and use surplus credits are intended to provide some degree of cost mitigation to energy intense trade exposed sectors.

We have also highlighted our concerns pertaining to the suspension of surplus credits in comments we provided to the federal government on the proposed changes to the federal OBPS.

## **3. Verification**

Domtar supports MECP clarifying and refining the verification rules. We encourage MECP to make the verification and site visit requirements simple and reasonable. We have concerns with adopting the federal proposal that limits the number of verifications a firm can perform in a set period. The number of verifiers that qualify, especially for larger firms, are limited. There are definite advantages to working with a verifier that knows the tools and the facility. The verifiers are accredited professionals, which should guarantee professionalism and impartiality.



Thank you for the opportunity to provide input on the EPS and the proposed amendments to support transitioning and implementation. We look forward to additional stakeholder

consultations on proposed regulatory language changes and methodology changes for transitioning to the EPS, and additional engagement opportunities for implementing the EPS.

We also look forward to further discussions with MECP about our concerns with the Espanola Mill being disproportionately disadvantaged under the EPS and its economic viability threatened. This mill has a unique product mix and is the only specialty mill with an integrated chemical pulp mill in Canada. Many specialty mills in Canada have closed or moved to other countries with lower production costs. Without adding flexibility to the EPS for the Espanola Mill to periodically review and update its baseline, the mill could be at much higher risk due to its unique hybrid model, product mix and product technology shift resulting from increased demand and volume output for bio-based alternatives. We are interested in further exploring our recommendation or other solutions to mitigate our concerns.

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

# Appendix

Domtar comments submitted January 2021



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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  
M4V 1M2

**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 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.

January 15, 2021

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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