October 7, 2022

Ms. Melissa Ollevier
Ministry of Environment, Conservation and Parks (MECP)
Financial Instruments Branch
Melissa.Ollevier@ontario.ca

Re: Emissions Performance Standards (EPS) regulatory amendments for the 2023-2030 period

Dear Ms. Ollevier,

On behalf of Ontario members of Canadian Manufacturers & Exporters (CME), I am writing to express our overall support for the proposed amendments to support transition and implementation of Ontario's Emissions Performance Standards (EPS) program for the 2023-2030 period. While we remain concerned by our sector's ability to keep up with the rapid pace of carbon charge increases, we appreciate your willingness to maximize flexibility within federal standards and integrate past CME recommendations (for example, including CCUS within program scope).

In addition, we are reiterating our recommendation that all EPS revenues should be returned to industry for the adoption of clean technology to reduce greenhouse gases (GHG), supporting Ontario's economic prosperity and environmental performance. These proposals build on CME's recently released *Industrial Net Zero Strategy*, which I attach for your awareness. Adopting a policy framework for the recycling of EPS proceeds is urgent considering the recent announcement of US investment incentives for its industry to transition and the planned start of EPS compliance reporting and payments in the second half of 2023.

We look forward to continue engaging with you and your staff on this important policy discussion.

Sincerely,

Vincent Caron

Vincent Caron
Director, Policy & Ontario Government Relations
Canadian Manufacturers & Exporters

Cc: Alex Wood, Assistant Deputy Minister
Serge Imbrogno, Deputy Minister

Canadian Manufacturers & Exporters Submission

Proposed Regulatory Amendments for Emissions Performance Standards Program 2023-2030

Introduction – A Proposed Framework for EPS Proceeds:

This summer, the signature of the *Inflation Reduction Act* by US President Biden highlighted severe concerns with the continued competitiveness of Ontario's manufacturing sector as it seeks to transition to net zero emissions. Indeed, while our closest trading partner commits significant resources to transition incentives without implementing carbon pricing, Ontario has yet to announce its approach for the redistribution of EPS proceeds.

There is some urgency in that regard. The manufacturing sector will need to make unprecedented investments in technologies to remain competitive while carbon pricing rises from $50 per tonne to $170 over the next decade. By CME's estimates, this escalation will have a cumulative cost for Canadian manufacturing ranging between $65 billion and $82 billion based on current levels of output and emissions.

We know the link between technology investment and profitability - every dollar removed from the sector is a dollar that cannot be invested in technological change and emissions reductions. This is why we propose full revenue recycling from carbon taxes back into industry – not taking this money and putting in general revenue or to other sectors of the economy, including individuals and households.

CME encourages MECP to collect compliance payments under the EPS into an emission reduction fund that industry can access to invest in GHG reduction technologies. This approach would permit government to hold onto a company's carbon taxes paid for a reasonable period (up to five years) and allow each company to access those funds to reinvest in carbon reduction technologies throughout the period. Eligible investments should be technology-neutral but directly relate to planned reductions in emissions, reflecting the unique knowledge each company has of its own industrial processes.

The program can be administered through the tax system as a credit for investments in GHG emissions reduction and tax credits claimed can be audited through a periodic reporting requirement. Unused tax credits can later be made available to other businesses or programs. There is a simplicity to this methodology in that every company who is investing in emissions reductions is eligible to receive funding based on their share of total emissions. This satisfies the principles of placing a price on carbon emissions to incentivize change while promoting competitiveness.

As Ontario manufacturers face their first EPS compliance reporting and payment in the second half of 2023, such an incentive program should be developed and announced before summer, so there can be a reasonable ability to plan for and initiate capital improvements project before payments are budgeted and disbursed. Waiting beyond this point may lead Ontario companies and foreign subsidiaries to make investment decisions without taking incentives into account, possibly leading to carbon leakage.

Comments on Proposed Regulatory Amendments:

CME provided extensive comments to support the implementation of the EPS in the last two years. We appreciate the willingness of MECP to engage and to provide much-needed flexibility for industry within the constraints of federal guidelines.

While we believe this Ontario-Made solution is preferable to the federal program it replaces, it does introduce additional regulatory complexity. This is a challenge for manufacturers, especially from medium size businesses who could potentially benefit from participation but lack the capacity to do so. In a company survey published by CME in June 2022, 69% of participants noted they had not set a target to reach net zero by 2050, and 56% stated they did not currently track carbon emissions. The most recently cited reason for this situation was a lack of resources.

As businesses prepare for the first wave of compliance payments in late 2023, there will be increased need for tools to educate businesses on the requirements and the benefits of opting in. We encourage MECP to invest resources to engage with industry and to develop plain language summaries of the proposed rules to achieve informed compliance and participation. CME remains available to assist with the necessary education activities that will need to occur to fully engage the sector.

1. <u>Program Extension and Timelines</u>
We support extension of the program and establishment of a predictable framework over the 2023-2030 period. While we understand that revisions are necessary due to the updated benchmark published by the federal government, we encourage the government of Ontario to maximize predictability in program rules for the covered period and minimize the frequency of changes in future years. The more stable the framework is, the better will be the ability of businesses to plan continued investment in our jurisdiction.

2. <u>Program Scope</u>
CME supports the proposed Schedule 2 amendments allowing facilities in additional sectors to voluntarily opt-in. While the list is extensive and covers much of the industrial activity in Ontario, the program should aim to allow voluntary participation for any company emitting above the specified threshold of 10,000 tCO_2. Analysis conducted at one point in time is always susceptible to overlook individual companies or changing market conditions. We recommend that MECP continue to assess program scope regularly based the data available and industry feedback.

3. <u>Registration and Cessation of Coverage</u>
Criteria for cessation of coverage initiated by MECP should be transparent and the process to implement such cessation should follow reasonable notice to the affected company as well as an opportunity to address any unforeseen decline in economic activity.

With regards to a voluntary exit from the program, we would question whether a three-year period is necessary, if an analysis of economic conditions led a company to the conclusion that its participation is no longer viable. While we agree that companies should be fully informed of the consequences of opting out, maximal flexibility should be preserved to make the decision to exit in a timely manner, to avoid any unnecessary compliance burden once that decision is made.

4. Emissions Performance Standards

The use of energy-based standards was initially supported by CME as a mean to provide greater stability, consistency, and predictability for the electricity market. While the change in the federal guidelines on this matter introduces uncertainty, we are reassured by your opening to work with individual firms to replace energy-based standards.

More broadly, we welcome MECP's willingness to work with existing facilities to adjust performance standards if they are found to no longer be appropriate. Manufacturing facilities can undergo changes to take advantage of new markets and changes in product mix to meet customer requirements and demands. When changes make historical information no longer representative of the current facility, the ability to adjust the baseline and performance standard is needed to avoid unintended consequences and higher facility compliance costs due to outdated information.

Beyond what is outlined in this regulatory package, we hope MECP will be receptive to provide facilities with the ability to petition MECP to revise the baseline/adjust the performance standard if it is no longer representative of the operations at the facility. As markets change and facilities transform and transition to make new products in a low carbon economy, the facility data used historically may no longer be appropriate and a review on a case-by-case basis would be useful.

5. Electricity Generation and Co-generation

Ontario appropriately recognizes the contribution of the electricity sector to emission reduction. While we hope the province will continue to explore alternatives to fossil-fuel generation to complete the greening of the grid, we agree with the exclusion of the stringency factor.

With regards to co-generation, CME supports the proposed changes to the treatment using a combination of Method B and Method C. MECP should continue to engage with the industrial sector on those standards to ensure their application reflects the original policy intent.

6. Mitigating the Impacts of Escalating Stringency

When the EPS was originally implemented, CME welcomed the recognition that some industrial processes generate fixed emissions which businesses have limited or no ability to address. Despite this welcome distinction, the proposed schedule of increases introduces ongoing challenges for our sector to maintain compliance in upcoming years.

We understand that this is driven by MECP's goal of meeting the updated federal benchmark and maintaining provincial equivalency. We recognize the need for the Ontario government to amend the annual emissions reduction requirements to meet the federal benchmark.

That said, we need to reiterate that ever-escalating factors are divorced from economic conditions businesses face, such as a projected economic slowdown in 2023, inflation pressures shrinking the pool of funds available to invest in decarbonization efforts, or whether technological solutions to address fixed emissions are available or economical. We strongly recommend that measures to incent investments in technology and low-emission processes be ramped up in tandem with planned increases in program stringency, as detailed in the opening of this submission.

7. **Other Administrative Changes**

CME previously recommended the recognition of Carbon Capture Utilization and Storage (CCUS) within the EPS. These technologies have an important role to play for the transition to a lower-carbon economy in Ontario. We recommend that the government of Ontario continue to consult with program members and the broader manufacturing community as more becomes known on the way technologies are deployed and make adjustments to program eligibility as needed.

With regards to reporting requirements, Ontario's emissions reduction framework operates within a broader Canadian and North American context. Firms often analyze and report GHG reduction performance from operations located in various provinces and US states. Therefore, the EPS should aim to maximize alignment with the requirements of other jurisdiction to ensure interoperability where feasible.