CANADIAN MANUFACTURERS & EXPORTERS

MANUFACTURIERS & EXPORTATEURS DU CANADA

December 22, 2022

Jennifer Keyes
Director
Ministry of Natural Resources and Forestry (MRNF)
Resources Planning and Development Policy Branch

Re: Proposed amendments to the Oil, Gas and Salt Resources Act, to remove the prohibition on carbon sequestration

Dear Ms. Keyes,

After years of advocacy to enable the use of carbon sequestration as a tool to help reduce GHG's in the atmosphere, Canadian Manufacturers & Exporters (CME) was pleased to see the amendments in Bill 46, the *Less Red Tape, Stronger Ontario Act,* removing the legal prohibition currently found in the *Oil, Gas and Salt Resources Act*. On behalf of our members, I am writing to express our appreciation for this measure and to offer recommendations for the effective implementation of a regulatory framework to fully enable geologic carbon storage, as well as other technologies known collectively as Carbon Capture, Utilization and Storage (CCUS).

While it important that much of our efforts be invested in decarbonizing industrial processes, the stark reality is that the cement, chemicals, iron and steel, and pulp and paper subsectors, which together account for over half of Canada's manufacturing sector emissions, are among the most difficult industries to decarbonise. This is due in part to the requirement for high temperature heat and inherent process emissions that cannot be avoided with a switch to renewable energy sources. As a result, until major technological breakthroughs are achieved, these emission-intensive manufacturing industries will need to rely on CCUS and other carbon management technologies to reach net-zero emissions.

At the same time, companies across Ontario have begun studying, piloting and incurring costs to experiment with market applications for captured carbon. This includes sequestering CO_2 into concrete or combining it with other substances such as calcium to create compounds that can be used for a wide range of commercial application, for example integrating them into products like packing tape or roof shingles.

Ontario's effort to enable carbon sequestration are welcome but comes late from several perspectives. We are falling behind other jurisdictions on implementation, especially Alberta and Saskatchewan, which have already advanced the Shell Quest and Boundary Dam projects, respectively, and are considering other major projects under the Pathways Alliance. Further, the more generous tax incentives in the US under the *Inflation Reduction Act* (IRA) threaten to attract much needed investment as well as engineering and geological expertise south of the border.

To give Ontario a chance to seize the moment and provide the needed regulatory certainty for the successful implementation of CCUS, the following measures are needed:

1. **Expedite consultation and regulatory amendments to enable carbon capture and storage in Ontario as an urgent first step.**

The International Energy Agency recently estimated that there are currently 35 commercial carbon capture and storage projects in operation around the world, including the above-mentioned projects in Alberta and Saskatchewan. Ontario should learn from those projects, and the regulations that govern them to propose a regulatory framework that would apply on both and private and crown lands before 2024.

We also encourage the government to enable demonstration projects on both private and crown land immediately, as new carbon capture projects take significant time to engineer and de-risk. Embracing these projects early will best position Ontario to commercialize CCUS technology and achieve the greatest emissions reductions to meet our climate commitments. Demonstration should be conducted in tandem with regulatory development; it should not delay action. The goal should be to adopt foundational regulations first to de-risk investment, with the ability to evolve the framework as needed in the future.

2. **Mobilize appropriate government and industry resources to establish a regulatory framework.**

The development of a regulatory framework for CCUS goes far beyond the scope of the *Oil, Gas and Salt Resources Act* and MRNF responsibility. For example, it must consider related legislation like the *Mining Act* and *Environmental Protection Act*, the design of tax incentives, and ensure the most up to date CCUS technology is eligible under carbon taxation regimes like the Emissions Performance Standards (EPS).

This is a large policy undertaking which should command appropriate resources. Ontario should add capacity to support MRNF by forming a taskforce with representation from other relevant departments (especially Economic Development, Environment, Mines, Red Tape Reduction and Energy). This taskforce should be created at the earliest convenience and inform its work with input from an ongoing industry-government steering committee.

The primary focus should be to put in place the framework for carbon capture and storage. The project scope should also include policy development on appropriate fiscal incentives and rules to promote carbon utilization. Delaying work on utilization may result in lost economic opportunities for Ontario companies down the road, especially considering the fiscal incentives currently offered in the US.

3. **Establish provincial tax incentives covering CCUS equipment and operational expenditures, on par with credits provided under section 45Q of the United States Internal Revenue Code.**

On August 16, 2022, US President Biden signed the IRA into law. As part of this historic legislation, the existing tax credit for permanent geological sequestration of CO_2 was increased to $85 per tonne and to $60 per tonne for utilization of CO_2 (which includes enhanced oil recovery). A recent BCG analysis estimated that those incentives would triple the scale of emissions that can be addressed through CCUS and make Direct Air Capture projects (DAC) more attractive for investment in the US.

In contrast, the tax credit rates announced by the Government of Canada in Budget 2022—60 per cent for investment to capture CO_2 in direct air capture (DAC) projects, 50 per cent for investment to capture CO_2 in all other CCUS projects, and 37.5 per cent for investment in equipment related to transportation, storage and use—cover much less of the total projected costs than those offered with the enhanced 45Q credit.

This design, which does not cover operational expenditures and requires a strict upfront accounting of costs, provides less certainty for investors. If unaddressed, this imbalance could result in a flight of financial and human capital to projects south of the border. As Ontario considers the regulatory framework for CCUS, it should work with the Government of Canada to develop and refine appropriate financial incentives to attract investment to the province.

4. **Work with the federal government to coordinate policy development and ensure the regulations are fully aligned and harmonized.**

As mentioned above, Canadian provinces and the federal government have begun to articulate the elements of a successful CCUS policy framework - introducing funding incentives, developing regulations, and approving projects for operations. As those efforts ramp up, now is the time to share information and lay the foundation for regulatory harmonization. To do so later, when the framework is fully established risks creating impediments that will be harder to overcome. The recently announced Canada-Ontario Regional Energy and Resource Table could be a venue in which governments and industry engage and identify opportunities to harmonize CCUS policy.

There is no time to waste. With only seven years to go to achieve 2030 emission reduction targets by 2030, and with the carbon pricing rising from $50 to $170 per tonne, the race is on to establish a regulatory and technological framework that preserves the competitiveness of our industries. The alternative is decarbonization by de-industrialization, which would devastate our economy.

To avoid this scenario, we request a meeting with you and our members early in 2023 to discuss practical ways to implement the above recommendations. We look forward to continuing to engage with you on this important work.

Sincerely,

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Cc: Graydon Smith, Minister of Natural Resources and Forestry