



FERTILIZER CANADA

FERTILISANTS CANADA

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Via email: ec.climat.engagement.climate.ec@canada.ca

RE: Output-Based Pricing System Programming

On behalf of Fertilizer Canada and our members, we welcome the opportunity to provide input to help inform Output – Based Pricing System (OBPS) Programming. That being said, we are concerned about the extremely short timeline for this consultation, which is insufficient to produce a submission that fully answers the questions posed. While we have prepared these preliminary comments to meet the submission deadline, we hope to continue this dialogue with Environment and Climate Change Canada (ECCC) over the coming months to provide comprehensive input on OBPS programming, which has a significant impact on our industry.

To better understand the current challenges or opportunities associated with low-carbon technologies, our member companies have proactively launched the development of a Technology Roadmap for the Canadian fertilizer industry. We are currently in the final stages of completing this Technology Roadmap which we believe will help inform our response to this consultation. The roadmap will 1) explain current manufacturing processes, 2) evaluate new or emerging technologies against its emission reduction potential, commercial scalability, economic viability, and regional considerations, and 3) provide technology and policy recommendations based on this evaluation.

We ask that the Government of Canada commit to a review of our Technology Roadmap to help inform OBPS Programming and to serve as the foundation for any additional technology reviews for our industry.

Fertilizer Canada represents manufacturers, wholesale, and retail distributors of nitrogen, phosphate, potash, and sulphur fertilizers. Responsible for 50 per cent of global food production, fertilizer is crucial in meeting the food, fuel, and fibre needs of the growing world population, and Canadian fertilizer accounts for 12 per cent of the global fertilizer supply. Our industry contributes approximately \$24 billion annually to Canada's economic activity, supporting the employment of over 76,000 individuals throughout the supply chain. However, as an energy-intensive, trade-exposed (EITE) industry, our members are highly vulnerable to carbon leakage and investment moving abroad due to inefficient regulatory burden.



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Preliminary Recommendations

As previously stated, Fertilizer Canada would like additional time to provide a thorough assessment of the challenges facing our industry and potential government action to address these challenges. However, as a starting point, Fertilizer Canada recommends that the Government of Canada take the following actions:

1. **Protect the competitiveness of EITE industries, like ours, when setting carbon price and stringency by taking into consideration the timelines required for developing and implementing emissions-reducing technologies.** Targets for emission reductions must reflect realistic timelines for developing and implementing low carbon technologies at the commercial scale, particularly to decarbonize industries. For the fertilizer industry, our technology roadmap will help identify the most promising technologies as well as the steps that must be taken to implement these technologies at our facilities.

Past programs, such as the Low Carbon Economy Fund, only provided short windows for application, award, and construction of emissions reduction projects. If the federal government intends to fund major capital projects that have the largest opportunities for emissions reduction, any funding mechanism will need to allow for sufficient time for businesses to develop concepts and basic engineering for those projects. Fertilizer Canada strongly recommends that access to held funds be allowed indefinitely or over an extensive timeline which aligns with traditional investment cycles and allows companies to develop meaningful strategies for improved environmental performance.

2. **Provide more opportunities for our industry to access funding for the implementation of existing and emerging emissions-reducing technologies.** In addition to the uncertainty caused by frequent regulatory changes, investing in commercial scale upgrades requires large capital investments and economic certainty. Yet, there is a clear interest in pursuing some of these innovations – for example, past funding opportunities in Alberta for carbon capture, utilization, and storage (CCUS) projects have been well over-subscribed, indicating a need for government support to drive the adoption of CCUS as well as other high-cost, emissions-reducing technologies. Fertilizer Canada recommends that the OBPS programming include company or sector specific funds which would return 100 per cent of the OBPS funds collected back to regulated industries to support the adoption of emission-reducing technologies.

It is critical to highlight that the best opportunity for reducing emissions by 2030 is with existing and quickly emerging technologies. Revenue recycling programs must ensure that best-in-class sectors are not unfairly penalized or overlooked for funding and abatement opportunities because of early action investments or because of aging asset vintages. Instead, a portion of funds should be allocated to proven technologies that are not necessarily new or innovative, but provide known, incremental emission reductions within mature EITE industries. Fertilizer Canada asks that ECCC review our Technology Roadmap to identify and first consider these



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technologies as the most significant opportunities of emission reductions. For example, cogeneration could be incentivized by the Net Zero Accelerator fund to help make capital projects financially viable.

Fertilizer Canada encourages the Government of Canada to seek solutions for a revenue recycling program which are as simple and transparent as possible and will keep administrative burden and costs minimized, ensuring that the fund supports as many beneficial activities as possible. Any need for dedicated resources for the administration of the system should be kept streamlined and coordinated with any complementary sub-national or national requirements. Criteria should be clear and straightforward, allowing for efficient and expeditious fund transactions.

We have included our previous *Use of Proceeds from the Federal Output-Based Pricing System* response and a copy of general industry positions on revenue recycling for more information.

- 3. Provide regulatory certainty by seeking longer-term agreements (e.g. 5-10 years) on carbon policies with provincial governments and consider international markets.** Long-term provincial agreements would encourage investment in innovative technologies for reducing emissions by clearly establishing the regulatory environment for the near future, allowing companies to make informed decisions and feel comfortable making large capital investments. Any funding programs, or mechanism to reduce funds, must also be agnostic in terms of location. Funding programs should ensure jurisdictions that have a significant opportunity to reduce emissions receive a fair representation of the collected funds.

We ask that the Government of Canada engage in open discussions with other jurisdictions, both provincial and international, to develop as broad an OBPS credit market as possible. By increasing the available market space, ECCC can further incentivize project proponents by providing a larger offset credit market. This will ultimately encourage adoption of new technologies in Canada that contribute to federal emission reductions. We would also encourage the government to follow international models and allow for funds from the OBPS, under certain circumstances, to be used by businesses for tax relief. This would ensure that businesses have a wide range of options, creating flexibility in how they lower their emissions.

Fertilizer Canada and our member companies stand ready to work with the Government of Canada to develop mechanisms that will encourage adoption of low-carbon technologies while protecting the competitiveness of our industry in a global market. As previously stated, these are preliminary comments, and we hope that ECCC will take advantage of the opportunity to review our Technology Roadmap to further inform OBPS policies and programs.



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Sincerely,

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