



FERTILIZER CANADA

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Finance Canada
International Trade Policy Division
140 O'Connor St
Ottawa, Ontario
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Via email: BCA.AFC@fin.gc.ca

Re: Exploring Border Carbon Adjustments for Canada

On behalf of our member companies, thank you for this opportunity to provide comments on Finance Canada's "Exploring Border Carbon Adjustments for Canada" discussion paper, published in August 2021. Fertilizer Canada welcomes Finance Canada's leadership in the development of carbon and climate policies and in addressing carbon leakage, and we value the department's early engagement on this topic.

Fertilizer Canada represents manufacturers, wholesalers, and retail distributors of nitrogen, phosphate, potash, and sulphur fertilizers – the backbone of Canada's agri-food economy. Fertilizer is responsible for half of the world's current food production, and our industry is a major contributor to this global supply, supporting food security in Canada and around the world. We also contribute approximately \$24 billion annually to Canada's economic activity, and our industry has facilities across Canada supporting the employment of over 76,000 individuals throughout the supply chain. Our industry is one of the most energy-intensive, trade-exposed (EITE) industries in Canada with world-class, sustainable operations resulting from early action to reduce our environmental footprint. However, as an EITE industry, our members are highly vulnerable to carbon leakage and investment moving abroad.

While border carbon adjustments (BCAs) could potentially have a role to play in maintaining the global competitiveness of Canadian industries and in addressing carbon leakage, there are a number of concerns and risks that must first be addressed in order for any BCA policy to be effective. Because it is so early in the development of BCAs for Canada, **Fertilizer Canada asks that Finance Canada develop a set of guiding principles for the development of BCAs.** This would give stakeholders a better sense of how they might be impacted by BCAs and would facilitate more specific feedback on the design and implementation of the policy.

In the absence of a concrete proposal, Fertilizer Canada has identified the following preliminary concerns and recommendations for consideration in the development of BCAs for Canada.



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Key Concerns and Recommendations:

1. Alignment with key trading partners

For BCAs to be effective, it is imperative for the Government of Canada to develop a policy that has agreement or support from our key trading partners. **Harmonization with our key international trading partners, most notably the United States, should be the priority for the Government of Canada. To ensure the efficacy of BCAs, Canada should seek this alignment with our partners as early as possible in the policy development process.** Indeed, if the Government of Canada pursues BCAs unilaterally and without buy-in from trading partners, there is significant potential for other jurisdictions to take retaliatory measures and for trade to be impeded.

As an export driven industry, Canadian fertilizer serves more than 70 countries. Ninety-five per cent of Canadian potash is exported internationally, and 45 per cent of nitrogen products are shipped to Canada's largest trading partner, the United States. Any retaliation or trade disputes that arise from the application of BCAs could severely impact our industry's access to foreign markets. In combination with this, we are not confident that the World Trade Organization (WTO) currently has the necessary strength to manage trade disputes effectively or in a timely manner.

Harmonization with international partners is also important given an objective of BCAs is to drive greater international climate ambition. Incentivizing improved international environmental performance via implementation of BCAs will be most effective if Canada has an aligned BCA policy with our key trading partners.

A further barrier to successfully implementing BCAs in Canada is the variety of different approaches to climate change mitigation and decarbonization taken by different countries. For BCAs to be effective, carbon price must be comparable across jurisdictions. Any environmental performance or carbon pricing comparison system must also be designed to prevent producers or jurisdictions acting in bad faith from circumventing the appropriate carbon price. **The Government of Canada should work with international partners to develop a standardized system that measures environmental performance in a comparable manner across varying policy and regulatory approaches.** This could potentially be done through the WTO to ensure that Canada continues to comply with international trade obligations. The Government of Canada could engage with other states through the WTO to develop a framework for BCAs and the creation of a standardized environmental performance measurement system could be included in this framework. However, recognizing that widespread alignment across WTO members will be challenging to achieve, this work can also be pursued through bilateral or multilateral trade negotiations with Canada's key trading partners.



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2. Maintain existing protections for EITE industries

The design and implementation of BCAs must go hand-in-hand with existing carbon pricing systems to ensure Canadian producers can invest in environmental performance improvements while maintaining their global competitiveness. For both BCAs and existing policies, maintaining competitiveness for EITE industries and preventing carbon leakage must continue to be a key objective. If the Government of Canada decides to pursue BCAs, **we ask that Canada's BCA policy include coverage for fertilizer products in recognition of our industry's high EITE status and risks for carbon leakage.**

The fertilizer industry in Canada has proactively worked to reduce its environmental footprint, which makes Canadian fertilizer some of the most environmentally sustainable fertilizer in the world. We are proud of this effort and the positive impact that this work has had on the environment. However, Canadian fertilizer producers already pay higher production costs than their competitors in other jurisdictions due to these self-imposed environmental efforts as well as government-mandated regulations and other external factors. Fertilizer Canada's members are price-takers in the global market, and these increased production costs cannot be passed down to their consumers. With the price of carbon rising to \$170 per tonne by 2030, our industry will face substantial barriers as we work to improve our energy efficiency and environmental performance. Indeed, all major step-change technologies that have the potential to reduce emissions at our facilities are still in their infancy and are not yet commercially available or economically feasible. Developing these technologies to the point that they can be used in commercial applications will take a significant amount of time and financial resources.

In addition to the ambitious increase in carbon price, Environment and Climate Change Canada (ECCC) is currently also proposing to implement a tightening rate on output-based standards under the Output-Based Pricing System (OPBS). The potential for rising stringency combined with a rapidly increasing carbon price puts our industry at risk for carbon leakage in the near-term, and **BCAs alone will not be a sufficient tool to maintain competitiveness for the fertilizer sector, particularly as BCAs will not be fully developed and implemented in time to address near-term carbon leakage risks.**

To support emission-reductions in EITE industries, **Fertilizer Canada further recommends that Finance Canada work with provincial governments and other stakeholders to determine the most effective methods of using the revenue collected from BCAs to provide much-needed support for research, development, and implementation of emissions-reducing technologies in Canadian industries.**



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3. Explore alternative approaches

As a mature EITE industry, further environmental performance improvements in fertilizer manufacturing will require major investments of time and capital to develop and implement emerging emissions-reducing technologies, such as carbon capture, utilization, and storage (CCUS). BCAs have the potential to lessen these barriers to implementation of emissions-reducing technologies by levelling the playing field between Canadian producers and their international competitors that do not face similar carbon pricing regulations.

However, BCAs will not erase all barriers our industry faces in reducing emissions, and Fertilizer Canada strongly encourages Finance Canada to explore alternative or additional measures that have the potential to address carbon leakage. For example, improving transparency from producers on the carbon intensity of their products could allow Canadian consumers to consciously choose products with lower carbon intensity, which could in turn incentivize producers selling goods in Canada to lower emissions.

Fertilizer Canada also encourages Finance Canada to conduct an analysis on the total cost of compliance with the full suite of carbon and climate regulations, above and beyond the direct carbon price under the Output-Based Pricing System (OBPS), and to take this total cost into account when considering carbon leakage risks. This would provide a more accurate picture of the costs borne by Canadian producers and of the challenges these producers face in regard to reducing emissions. We suggest that Finance Canada work with relevant industry stakeholders to conduct this analysis to ensure that any assumptions being made are as accurate as possible.

Lastly, although BCAs could be beneficial for Canadian producers, there is a potential for import charges to cause unintended consequences for Canadian fertilizer retailers and farmers who rely on imported fertilizers for specific nutrients that are not manufactured in Canada. Agricultural production in Eastern Canada in particular depends heavily on imported crop nutrients to meet the needs of crops grown in the region. **Any effective BCA system should not result in unintended consequences for Canada's farmers. Alternative or additional measures should be explored to mitigate the risk of such consequences.**

Concluding Remarks

Thank you again for this opportunity to provide input on the development and implementation of BCAs in Canada. We believe that, if designed and used well, BCAs could be an integral piece of Canada's climate approach by levelling the playing field between Canadian producers and those in other jurisdictions and reducing the barriers Canadian producers currently face in investing in further emission reductions. Maintaining competitiveness for EITE industries and preventing carbon leakage have already been



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recognized as key priorities for Canada's carbon pricing system, and BCAs could further support these priorities and make it easier for Canadian producers to continue to reduce their emissions. However, as outlined above, there are significant concerns and risks associated with BCAs that must be addressed for such a tool to be effective.

Fertilizer Canada stands ready to work with the Government of Canada in the development and implementation of BCAs. Please do not hesitate to contact us with any questions related to this submission.

Sincerely,

Clyde Graham
Executive Vice President
Fertilizer Canada