



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

September 30, 2022

Department of Finance Canada
14th floor
90 Elgin Street
Ottawa, Ontario K1A 0G5

Via email: Consultation-Legislation@fin.gc.ca

Re: Fertilizer Canada Feedback and Recommendations to Draft Legislative Proposal for the Investment Tax Credit for Carbon Capture, Utilization, and Storage (CCUS)

Fertilizer Canada and its members are pleased to have this opportunity to provide input on the draft legislative proposal for the Investment Tax Credit for Carbon Capture, Utilization, and Storage (CCUS) to implement Budget 2022 tax measures and amendments, as announced for consultation on August 9, 2022.

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. Our industry has facilities across Canada 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.

CCUS is a promising technology with the potential to deliver tangible and quantifiable emission reductions for our industry in the near- to medium-term. For additional context, we have added a short backgrounder on CCUS in the fertilizer industry as an appendix, found on pages 7-8.

We were pleased that the Government of Canada is committed to implementing investment tax credits for CCUS to support this transition. It remains critical for tax incentives to be coupled in coordination with other policy and regulatory supports to drive the widespread adoption of CCUS technology in our industry, notably through funding for infrastructure requirements to access CCUS (e.g. carbon trunk line).



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

Feedback and Recommendations for the Proposed CCUS Investment Tax Credit

Fertilizer Canada and its members have reviewed the proposed legislative amendments and explanatory notes for the proposed the Investment Tax Credit for CCUS. Feedback and recommendations are provided below, which mainly align with our previous policy recommendations submitted during earlier consultations around the design of a proposed CCUS Investment Tax Credit. Specific feedback and questions for clarification are included based on the proposed legislative definitions and text.

Scope and eligibility of the Investment Tax Credits for CCUS:

At a high level, the CCUS Investment Tax Credit must be able to meet the industry needs to assist in offsetting the initial capital costs of investing in the necessary technologies and infrastructure to capture and sequester carbon. We strongly encourage Finance Canada to review additional funding opportunities as well as an additional production tax credit to offset the ongoing operational costs that will be required to successfully implement CCUS within Canada. Coupled with an effective capital cost tax credit, this will signal certainty to potential investors that their specific projects will qualify for the credit, as well as providing certainty on the amount of credit they could expect based on the projected investment.

Currently, the proposed scope of qualified CCUS expenditures under the draft Investment Tax Credit only includes direct qualified expenditures for carbon capture, transportation storage or use. **The scope of qualified expenditures in 127.44 (8)(a) should be amended to remove the exclusion of expenditures incurred for feasibility studies (A) and front-end engineering studies (B) in 127.44(8)(a)(iii) (A) and (B).** Inclusion of other costs critical to implementing the project plan, including front-end engineering and design studies, assessments, and installation costs are foundational to the success of CCUS project implementation and investment. These costs can be significant and are integral to the project plan, so we ask for inclusion of these types of costs to be reconsidered. Additionally, **we recommend that 127.44(8)(a) (iv) excludes capitalized interest and similar expenses by virtue of section 21.** With rising interest rates, inclusion of interest could increase competitive advantage.

Eligibility should be expanded to include indirect costs such as utilities (cooling water or steam, electrical infrastructure), energy use, purchasing land, and increased labour requirements related to implementing these technologies. These discrepancies should be addressed in the technical guidance documents developed by the Department of Natural Resources.



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

All carbon capture and storage projects and carbon capture and use projects that permanently sequester carbon at both new and existing facilities should be eligible for the Investment Tax Credit.

Within the proposed legislative definitions, subsection 127.44(1), the definition of a *qualified CCUS project* currently includes a requirement that a qualified CCUS project is not operated to service a facility that existed on April 7, 2022 for the purpose of complying with emission standards under the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations. **We recommend removing this limitation, to avoid potentially limiting the utility of the tax credit.**

Fertilizer Canada is seeking clarification to ensure that the scope of qualified CCUS projects is not further limited, as projects that receive the CCUS tax credit must remain eligible for other federal and provincial / territorial tax and carbon credits, including the OBPS. **Further, we want to ensure that the CCUS credits will remain eligible to stack with other available credits.**

The definitions in subsection 127.44(1) for eligible use of qualified CCUS expenditure are limited to “*dedicated geological storage*” and “*producing concrete using a qualified concrete storage process*”. Ineligible uses include enhanced oil recovery, and any other purpose. In other jurisdictions demonstrating growing adoption of CCUS technology, enhanced oil recovery projects have been a primary motivator for CCUS projects resulting in reduced overall emissions compared with traditional oil production. As has been stated in recent remarks by Minister Wilkinson, global demand for oil production is anticipated to remain relatively stable leading into 2030 and the mid-2030’s, and the reality is that there will continue to be a role for hydrocarbon fuels to 2050 and beyond.¹ This oil can be produced with a significantly lower carbon footprint through enhanced oil recovery, and should be incentivised accordingly. **We recommend that the CCUS investment tax credit amend the terms of 127.44(1) to allow eligible use of enhanced oil recovery, and consider alternative means for defining eligible vs. ineligible technologies (such as through technical guidance documents) to allow greater flexibility to the legislation as technologies and adoption advance.**

Class 57 sets out definitions referring to equipment, building and structures and property that is part of the CCUS project as qualified CCUS expenditures. However, other types of cost such as energy use or utilities (i.e. cooling water or steam, electrical infrastructure etc.), labour requirements, purchase of land are necessary in the CCUS project and as such should be expanded to include these types of costs. **We**

¹ <https://www.canada.ca/en/natural-resources-canada/news/2022/07/remarks-by-the-honourable-minister-jonathan-wilkinson-minister-of-natural-resources.html>



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

recommend expanding the definition of CCUS expenditure to include Class 58 and Class 59 that are also related to CCUS.

Clarification on assessment terms:

We are seeking clarification on the circumstances affecting changes to project or eligible use ratio within the five-year assessment terms. As indicated in subsection 127.44(6) requires a taxpayer to file a new project plan if there have been any changes to the project, and reductions beyond 5% in quantity of carbon captured in the project during any five-year period over the life of the project necessitates filing a new project plan. Additional information is needed on what is defined as a change to the project, and the conditions and terms for review of “extraordinary circumstances” such as plant shutdowns or failure of transportation or storage equipment to minimize reporting burden.

Fertilizer Canada recommends adding flexibility to the 5% threshold and increasing the limit in subsection (6)(b) beyond 5% to recognize that circumstances such as plant shutdowns, failure of transportation or equipment, scheduled maintenance, and supply chain issues could impact this reduction.

Alignment with other jurisdictions:

Alignment or equivalency to the U.S. approach for tax credits incentivising investment in CCUS will be important for the Canadian model to keep pace and encourage investment within our industry sectors. Recent changes to the 45Q credit under the *Inflation Act* in the U.S. have made further improvements to the eligible tax credits per tonne, moving incentives from \$50 USD to \$85 USD per tonne. Further to overall competitiveness with the U.S., the 45Q tax credit is applicable for captured carbon utilization in enhanced oil recovery.

As CCUS incentives continue to evolve in the US and other jurisdictions, Canada’s tax incentives will need to be sufficiently ambitious to compete with those more lucrative programs in order to stay competitive and drive the private sector investment that is necessary for decarbonizing Canadian industry, and achieving Canada’s climate goals.

Climate risk disclosure & knowledge sharing requirements:

At a high level, the proposed requirements for climate risk disclosure and knowledge sharing create an additional long-term administrative burden on companies that are investing significantly to decarbonize. Twenty years of climate risk reporting is an onerous commitment, and we recommend that this requirement should be reviewed every five years as public disclosure practices evolve. Companies that already disclose climate risk at a high level should not be required to do additional reporting, as their



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

existing sustainability and ESG reports should be able to meet climate disclosure requirements.

The proposed tax credit includes requirements for CCUS projects with eligible expenses above \$250 million over the project lifetime to contribute to public reporting for the purposes of knowledge sharing. Depending on the scope and level of detail required by Natural Resources Canada for report content, there could be a risk to commercially sensitive information that could limit the ability for companies to utilize the tax credit.

Fertilizer Canada recommends that Natural Resources Canada work with industry to refine the knowledge sharing requirements to ensure that no proprietary or commercially sensitive information would be released through public reporting, and minimize reporting burden.

Other comments on conditions for success:

Government-funded and industry accessible carbon trunk lines near large facilities that could benefit from CCUS, as well as regionally focused low-cost CCUS infrastructure, are steps in addition to the proposed Investment Tax Credit for facilities that implement the technology that would enable widespread adoption. Government has a significant role to play in making CCUS accessible to all industries and companies, which has the potential to result in significant emissions reductions.

From an industry perspective, there is a very short window of time for companies to successfully execute these projects. Our member's facilities have limited opportunities to execute projects of this size (e.g. every 4 years) and they would be additional to any projects required for the base business (safety, regulatory, etc.). For investment in CCUS to be a success, additional flexibility in the timelines for project may be needed.

Lastly, we would like to identify several administrative and operational challenges that could arise with the current proposed structure for the project plan filing and approvals process. These should be addressed to reduce administrative burden and improve the utility of the tax credit. Suggested administrative and operational improvements are as follows:

- Extend the deadline for project plan filing. As noted in the formula of “qualified carbon capture expenditure”, the project plan is to be filed with the Minister of Natural Resources before the time of the expenditure is incurred. This timeframe for filing may be tight especially if projects are sizable. Further, we need clarification that this is based on when the project plan is filed, and not based on approval by the Minister of Natural Resources. If it's the later, then the length of time for approval will hinder the ability to claim the CCUS credit.



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

- Clarify the timeframe for approval of the project plan following submission to the Minister of Natural Resources. Clear guidelines are needed for submission as it could cause delays on the approval process.

Concluding Remarks:

Global companies with facilities across North America and the world can select where to invest in CCUS, and this decision is often determined by the regulatory environment of that jurisdiction in comparison to its competitors. With an unparalleled increase in carbon price and a lack of competitive tax incentives, Canada's CCUS business environment is not currently competitive in a global market. Regulatory certainty and public infrastructure in combination with tax supports will allow Canada to compete with other jurisdictions that are moving quickly and aggressively to reduce barriers to CCUS investment.

Thank you for this opportunity to provide comments on the proposed Investment Tax Credit for CCUS. Our industry has a strong interest in CCUS, and we stand ready to work with the Government of Canada on developing the policies and programs that will support emission reductions through a widespread adoption of CCUS technology. We are available to meet to further discuss the comments outlined above and the conditions for a successful Investment Tax Credit to support CCUS adoption in our industry.

Sincerely,

Nadine Frost
Director, Policy & Industry Standards

CC:

ccus-cusc@fin.gc.ca

Michael Sabia, Deputy Minister, Finance Canada

Christine Hogan, Deputy Minister, Environment and Climate Change Canada

John F.G. Hannaford, Deputy Minister, Natural Resources Canada



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

Backgrounder on CCUS in the Canadian Fertilizer Industry

As part of our industry's continual efforts to improve environmental sustainability, we have conducted a Technology Scan to identify potential emissions-reducing technologies that could be implemented in fertilizer production in Canada. The Technology Scan explains current manufacturing processes, evaluates new and emerging technologies against their emission reduction potential, commercial scalability, economic viability, and regional considerations, and provides technology and policy recommendations based on this evaluation. Through this exercise, CCUS was identified as one of the most promising technologies for emission reduction in fertilizer manufacturing in the near- to medium-term.

CCUS is currently most economically and technically viable as a mechanism to capture industrial process (IP) emissions at facilities that produce ammonia, although there is potential for CCUS to be used to capture combustion emissions at nitrogen manufacturing facilities given adequate policy and financial supports. Similarly, there are also potential opportunities for CCUS to reduce emissions at potash mines and facilities with sufficient support for implementation and advancement of CCUS technology for these sites.

When manufacturing ammonia, there are two sources of emissions: concentrated process carbon dioxide (CO₂) emissions and dilute CO₂ emissions associated with combustion of natural gas as a fuel. The incremental costs associated with capture of process CO₂ is mainly due to compression. This process is technically feasible although the capital and operating costs remain high. The capture of CO₂ from combustion requires much higher capital investments and ongoing operational costs to both purify and compress emissions prior to capture.

With the right supports in place, CCUS can be implemented to capture industrial process emissions at facilities that produce ammonia but has notably less emission reduction potential at facilities that upgrade a large portion of that ammonia to urea. This is because in the production of urea, an important agricultural product in Canada, process CO₂ emissions are already captured and utilized as a feedstock which is required to upgrade ammonia to urea. Nevertheless, in some cases, excess process emissions that are not used for urea production may offer early opportunities for deploying CCUS in ammonia manufacturing.

CCUS will be an essential technology for the fertilizer industry's transition from production of grey hydrogen / ammonia (produced with natural gas) to blue hydrogen / ammonia (produced with natural gas plus CCUS). Alberta is home to one of the largest concentrations of nitrogen production facilities in North America with seven facilities in the province, in addition to major production units in Saskatchewan, Manitoba, and



FERTILIZER CANADA

FERTILISANTS CANADA

907 – 350 Sparks, Ottawa ON K1R 7S8

T (613) 230-2600 | F (613) 230-5142

info@fertilizercanada.ca

fertilizercanada.ca | fertilisantscanada.ca

Ontario. These facilities produce ammonia and its primary upgrade products (urea and ammonium sulphate), and nitric acid and its primary upgrade product (ammonium nitrate and urea ammonium nitrate).