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Industrial Gas Users Association (IGUA) Submission to Environment and Climate Change Canada (ECCC) on the Consultation Paper on the Federal Review of the Output-Based Pricing System (OBPS) Regulations

IGUA Supports Climate Action and Industrial Decarbonization

Industrial Gas Users Association (IGUA) represents the largest industrial natural gas consumers from the chemicals, steel, forest products, mining and manufacturing sectors in Ontario and Quebec. IGUA members are committed to climate action and have publicly committed to decarbonization. Back in 2016, IGUA's pioneering work with Dr. Bataille and Mr. Seton Steibert identified pathways for de-carbonization of Canada's heavy industry and flagged the economic opportunities for Canada in leveraging its resources, clean power and industrial base to become a global leader in de-carbonized industry. With Dr. Bataille subsequently becoming the lead author of the industry chapter of the IPCC report, competitiveness of energy intensive and trade exposed industry has finally become mainstream in the carbon mitigation discourse.

We understand the world needs to find a way to meet the demands for energy and commodities without adding carbon emissions. We also understand that the demand for commodities will continue to grow even in a decarbonized world and Canada can have a competitive advantage as the global supplier of low -carbon, bio-based and synthetic commodities.

Finally, we are also mindful that as a trading nation, it is important for Canada to protect the competitiveness of its industrial base as it moves to decarbonize its economy. Carbon leakage is neither good for the environment nor for the Canadian economy. IGUA has partnered with Dr. Bataille and Mr Steibert on a new study to identify opportunities for Canada to strengthen its industrial base and balance of trade through decarbonization of heavy industry.

IGUA appreciates the opportunity to comment on the proposed federal changes to OBPS, even though our members fall under provincial carbon regulations because federal regulations serve as a backdrop for the provincial systems and are the backstop if needed. We will confine our comments to high-level business issues.

[Evolution of Canada's Climate Policy Should be Reflected in the OBPS Review](#)

It is great to see Canada clearly articulate in its last climate plan that Canada's path to decarbonization is not through de-industrialization. For the first time in decades Canada's climate policy recognizes the economic opportunity of having a strong decarbonized industrial base. Leveraging Canada's clean power, natural and human resources and industrial base to situate Canada as a global supplier of choice for low carbon, synthetic and bio-based commodities, is finally part of the energy-climate policy. Preserving the competitiveness of Canada's trade exposed industry is finally a policy objective.

However, understanding the intricacies and nuances of competitiveness are complicated, especially for Canada as a trading nation with a unique trading relationship with the US. Canada needs to develop additional capacity and deeper understanding of the impact of direct (scope 1) and indirect (scopes 2,3) emissions regulations on competitiveness.

While today we have the beginnings of a foundation to make investments for a net-zero transformation, we still have a very complex and fragmented provincial and territorial system, with different coverage, prices, rules, boundaries and incentives. We need to ensure any policy and regulatory revision brings us closer to a stable climate policy that is fair, consistent, and predictable to send a clear market signal for long term capital investments in technology (with 40+ year life expectancy) necessary for deep emission reductions.

The evolution of Canada's climate policy to support industrial decarbonization must be reflected in regulatory frameworks and machinery. Avoiding carbon leakage should be a part of any climate regulatory review. A rebalancing of the desire for simplicity with complex reality of heavy industry is warranted more than ever to prevent carbon leakage and avoid net increase in global emissions.

[OBPS Consideration of Competitiveness Issues Needs to Be Improved](#)

More Granular, Sector by Sector, Product by Product Analysis is Needed.

The review of competitiveness impacts on energy intensive and trade exposed industry (EITE) sectors is cursory. The same metrics as previous reviews are used (low, medium and high categorization of emission intensity, \$ direct compliance cost / \$ GDP, and trade intensity). For complex sectors with varied products this is inadequate. Product competitiveness is not uniform by sector. The usefulness of concepts like 'industry averages' when every facility has been granted an exemption should be re-examined.

[Comprehensive Competitiveness Impact Tests Should be Integral to the Review Process](#)

Addressing competitiveness impacts should go well beyond responding to industry concerns. Canada needs to integrate competitiveness impact analysis into its regulatory and policy processes and develop the capacity to evaluate the impact of direct (scope 1) and indirect (scopes 2,3) emissions regulations and non-priced regulatory instruments (e.g., Clean Fuel Standard, Clean Electricity Standard etc.) on competitiveness. These indirect costs are expected to increase and could have a substantial impact on competitiveness if ignored.

The Interplay Between Different Regulations must be Understood and Accounted for to Avoid Pancaking of Regulations and Incent Investment

Changing several inter-related components of the policy and regulatory landscape (price of carbon, OBPS stringency, carbon border adjustment measures, direct regulations and incentives) independently without adequate attention to the intricacies of their inter-dependencies and the impact on competitiveness creates uncertainty and stifles action and investment in long-life industrial upgrades. Failure to factor the interdependencies results in pancaking of regulations and mixed price signals. The OBPS review should address the inter-dependencies with other key policies under development. The implementation of OBPS changes should be coordinated with the implementation of carbon border adjustment measures and carbon price increases to protect industrial competitiveness.

Additional Observations:

Canada needs to create a regulatory environment that promotes long term policy certainty. The proposed changes in the OBPS review will have significant impacts on industrial sector costs. Every effort should be taken to adjust the implementation and timeline to mitigate the negative impact on competitiveness.

- Increase in stringency factors should be tied to introduction of carbon border measures.
- The new updated criteria for assessing provincial and territorial systems aimed at better aligning marginal carbon price signals under the different systems will likely raise costs in some jurisdictions to be more in line with the federal OBPS back-stop. Implementation should be mindful of regional impacts.
- Developing new standards and opt-in allowances will increase the coverage of emissions to additional products and would considerably reduce costs of facilities that are able to join.
- Canada should be open to sector specific initiatives “in lieu of” or in addition to carbon pricing to drive carbon reduction without adverse impact on competitiveness, e.g.
 - Direct incentive for electric mining vehicles.
 - Direct investment in hydrogen hubs in industrial clusters such as Sarnia and Hamilton in Ontario and Contrecoeur in Quebec.

Thanks again for the opportunity to comment. IGUA looks forward to

Sincerely,

A handwritten signature in black ink, appearing to read "S. Rahbar". The signature is fluid and cursive, with a large loop at the beginning.

Dr. Shahrzad Rahbar