



June 25, 2025

The Hon. Tim Hodgson, P.C., M.P.
Minister of Energy and Natural Resources
580 Booth Street
Ottawa, ON K1A 0E4
HonTim.Hodgson@nrcan-rncan.gc.ca

Electronic Transmission

Re: Federal Industrial Carbon Policy – Competitiveness Concerns

Dear Minister Hodgson,

On behalf of the Industrial Gas Users Association (IGUA), please accept my congratulations on your election and appointment as Minister of Energy and Natural Resources. We write to highlight urgent challenges facing Canada's large industrial sector, specifically regarding federal Industrial Carbon Policy (ICP) as regulated under the Greenhouse Gas Pollution Pricing Act administered by Environment and Climate Change Canada (ECCC). We share your government's ambition to build a strong, resilient, and inclusive economy that works for everyone, while tackling the generational challenges of climate change and productivity decline.

As you and your Cabinet colleagues begin advancing the priorities outlined in the Prime Minister's recent letter to Ministers, we respectfully bring forward urgent concerns from Canada's large industrial sector regarding federal ICP. We believe there is a timely opportunity to ensure carbon policy better supports economic competitiveness, investment certainty, and industrial decarbonization – all key elements of your government's broader economic and environmental vision.

ICP is increasingly hindering industrial competitiveness, especially as key trading partners like the United States and Mexico move away from carbon pricing. We urge the government to pause, reconsider, or phase out the policy in favor of targeted support to better drive industrial decarbonization. Reform is essential to addressing cost burdens, enabling investment, and preserving the competitiveness of *Energy-Intensive, Trade-Exposed* (EITE) industries. IGUA's membership is comprised entirely of EITE industries.

IGUA represents the largest industrial natural gas consumers in Ontario and Quebec, spanning sectors such as chemicals, refining, steel, aluminum, forest products, mining, and manufacturing. Our members provide thousands of high-quality jobs, often as the anchor employers in both rural communities and major industrial hubs like Montréal, Bécancour Sarnia, Sudbury, and Hamilton. The industrial sector is a cornerstone of Canada's economy and prosperity.

Our members are committed to environmental leadership. They have aggressive 2030 carbon reduction targets, and most are pursuing net-zero by 2050 strategies. We support a balanced and competitive approach to decarbonization. Some IGUA members have decreased or mitigated their consumption of natural gas to reach their objectives while others have reduced their emissions by increasing their use of it. The role of this strategic resource in decarbonization is complex. It cannot and should not be simplistically eliminated through top-down policies in the same way that coal is addressed. IGUA members are experts in the critical nuances of natural gas and are willing to assist.

New Investment Barriers

The federal ICP is deterring new industrial investment. Cost pressures tied to the policy are prompting companies to delay or abandon projects and, in some cases, relocate operations. This is particularly problematic for sites facing end-of-life infrastructure decisions. By happenstance, many of our members currently find themselves at this critical juncture in their

operational history. They require special consultation and attention as a result.

Many industries cannot fully electrify due to technological limitations, economic imperatives or both. Natural gas remains a vital fuel that can significantly reduce emissions where electrification is not feasible. Investors require energy flexibility, security, resiliency and affordability combined with policy stability to commit to long-term industrial projects.

The Important Role of Natural Gas

The Federal Clean Electricity Act introduces complications and uncertainty regarding the future reliable and affordable supply of natural gas, which is crucial to any realistic energy transition. This is particularly important for industry, as it replaces heavier emitting fuels like coke and bunker oil. Natural gas supports decarbonization in industrial processes while preserving operational reliability and cost-efficiency.

For many IGUA members, electrification is either not possible, practical or affordable. Natural gas must remain part of a flexible, low-carbon energy mix. Policymaking should empower industries to develop cost-effective emissions reductions solutions suited to their needs, over imposing more top-down, rigid mandates. It also can't be forgotten that natural gas is not just a strategic energy resource but also a critical feedstock for many industries.

Recommendations for a Competitive, Decarbonized Future

Your government's commitment to deploying AI, revitalizing infrastructure, and catalyzing private investment is commendable. Similarly, industrial decarbonization demands a pragmatic, predictable, and innovation-oriented policy. IGUA proposes ten recommendations, which echo the spirit of your government's stated goals to improve productivity, catalyze nation-building projects, and modernize economic governance:

1. Stabilize Carbon Pricing

Reduce or freeze the carbon price stringency factors at 2024 levels for a period of three years. Also modernize the existing system to better reflect the actual situation of large industrials - primarily their limited ability to decarbonize without cutting production. This provides cost certainty amid global volatility and helps prevent carbon leakage.

2. Remove Carbon Costs from Electricity Pricing

Amend federal carbon tax obligations for natural gas-fired electricity to prevent double-costing on low-carbon grids. This supports electrification and avoids penalizing industrials.

3. Expand Offsets and Compliance Flexibility

Develop high-integrity offsets to enable flexible compliance, innovation and site-specific solutions. Enable the use of federal offsets across all provincial systems for compliance purposes.

4. Recycle Carbon Revenues to Industry

Return 100% of carbon revenues to originating sectors in all jurisdictions, aligning with the preferred Ontario Emissions Performance Standard (EPS) model which reinforces a "polluter invests" principle.

5. Shift to Incentive-Based Tools

Prioritize funding mechanisms over penalties, such as Investment Tax Credits (ITCs), Contracts for Difference (CfDs), and targeted grants – commonly referred to as a "carrots over sticks" approach.

6. Reassess Overlapping Federal Regulations

Repeal or revise the Clean Electricity Regulations and the Oil & Gas Emissions Cap to avoid conflicting mandates and investment barriers – in federations like Canada, this is often referred to as the “pancaking effect” of well-intentioned but duplicative regulations.

7. Establish a Federal Industrial Energy Policy Advisory Council

Create a permanent council to provide policy guidance grounded in real-world industrial sector experience.

8. Streamline Regulatory and Funding Approvals

Adopt a client-focused approach to reduce delays and accelerate project timelines.

9. Benchmark Against International Competitors

Monitor competing jurisdictions and adjust Canadian policy accordingly, to preserve competitiveness.

10. Support Innovation and Emerging Technologies

Promote appropriate adoption of hydrogen, Carbon Capture Use and Sequestration (CCUS), renewable natural gas, biofuels, and verified offsets through supportive ICP design.

Conclusion: A Balanced Path Forward

We listened to the first speech you delivered as Minister to the Calgary Chamber of Commerce with great interest and were encouraged by its content. Through that address, we heard a great deal of conceptual alignment with the ten recommendations listed above. We were particularly interested in the overarching message you delivered about expertise in the investment and deployment of capital. We couldn't agree more. EITE industries need to be free to make energy investment decisions according to their circumstances, needs and expertise. Canada's industrial sector is committed to responsible environmental leadership. Carbon policy must, however, be pragmatic, predictable, and innovative to protect economic growth and ensure emission reductions are achieved.

We welcome the opportunity to meet with you and your team to discuss these issues in detail. Please advise on a convenient time in the coming weeks. Thank you for considering our recommendations. We look forward to continued collaboration.

Sincerely,

A handwritten signature in blue ink, appearing to read "J. Irving".

Jacob Irving
President, Industrial Gas Users Association

CC:

Hon. François-Philippe Champagne, Minister of Finance and National Revenue

Hon. Mélanie Joly, Minister of Industry

Hon. Julie Dabrusin, Minister of Environment and Climate Change

Marc-André Blanchard, Chief of Staff to the Prime Minister

Tim Krupa, PMO, Director of Policy