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Submitted to: Environment and Climate Change Canada
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INPUT ON REVIEW OF THE OBPS REGULATIONS: CONSULTATION PAPER **IETA SUBMISSION TO ENVIRONMENT AND CLIMATE CHANGE CANADA**

The [International Emissions Trading Association \(IETA\)](#) welcomes this opportunity to provide input on the proposed amendments raised in the “*Review of the OBPS Regulations: Consultation Paper*”¹ (the “**Paper**”), published by Environment and Climate Change Canada (ECCC). We hope that IETA’s insights are used to inform modifications to the Output-Based Pricing System (OBPS) that not only build on and improve the federal system, but also effectively reflect the evolving carbon pricing and competitiveness dynamics across Canada and internationally.

As the leading international business voice on climate markets and finance, IETA’s non-profit organization represents nearly 200 companies, including many facing climate risks and opportunities across Canada. IETA’s market expertise is regularly called upon to inform market-based policies that deliver measurable greenhouse gas (GHG) reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

HIGH-LEVEL INPUT

IETA strongly supports the following main principles guiding the OBPS Review process by ECCC:

- ✓ Ensure the OBPS continues to contribute to Canada’s GHG emissions reduction goals, while minimizing competitiveness and carbon leakage risks due to carbon pollution pricing;
- ✓ Ensure the OBPS Regulations can effectively function as a backstop and apply in any jurisdiction in Canada, if required; and
- ✓ Reduce administrative burden, where feasible.

The proposed amendments come at a critical time for Canadian climate and carbon pricing policy. Provinces are now in the throes of preparing proposals to update provincial carbon pricing programs to gain/retain equivalency and align with updated Federal Benchmark Criteria. Adopting well-designed OBPS amendments, as soon as possible and practical, should provide vital guidance to provinces on post-2022 equivalency planning. This will also bolster longer-term market predictability and price signals for Canada’s regulated entities, market participants and project developers.

¹ Review of the OBPS Regulations: Consultation Paper. ECCC. 13 December 2021. ([Link](#))



IETA welcomes explicit reference to linking OBPS federal and provincial systems in the Paper. We are pleased to see ECCC show clear interest in expanding/facilitating future intra-Canadian linkages between the federal OBPS and provincial/territorial programs with trading features. As IETA consistently communicates to ECCC and other stakeholders, the benefits of domestic and international market expansion and linking are clear: bigger and broader markets widen the range of abatement opportunities, help scale clean finance/investment, and drive efficiencies that reduce overall program costs while growing portfolios of climate and co-benefits.

IETA encourages ECCC to develop an “Intra-Canada Carbon Market Linkage Work Plan” in 2022-2023, which would assemble key federal officials from ECCC (and potentially other Ministries), affected provinces, experts and Canadian business. IETA offers any support to ECCC, including through initial concept and work plan development, to realize such a roadmapping initiative through 2022.

INPUT ON PROPOSED AMENDMENTS

APPLICATION OF TIGHTENING RATES

Starting with the 2023 compliance period, the Paper proposes applying an annual tightening rate of 2.0% to most emissions-intensive, trade exposed (**EITE**) output-based standards (**OBS**). We are pleased to see that ECCC is committed to including lower rates (i.e., lower than 2.0%) for sectors where legitimate risks remain based on updated competitiveness and carbon leakage risk analyses. These risks are not exclusively international. Some tightening rates factored into currently comparable provincial systems in Canada (e.g., AB, SK) are lower than the 2.0% increase in stringency. If these provinces fail to implement equally stringent rates, affected OBPS regulated entities could become disadvantaged and in-country shifts in production/emissions may occur post-2022.

Prior to finalizing any tightening rates, additional modeling and frequent ECCC engagement with affected sectors and relevant provinces will be necessary. **Underlying competitiveness impact analyses, used to inform ECCC’s final tightening rate decisions in 2022, should take into account future volumes/availability of lower-cost OBPS compliance units as well as OBPS usage limitations.**

In addition, there is **justifiable concern about the proposed application of tightening rates on industrial process emissions for certain sectors, especially on top of the 80% reduction factor for medium EITE sectors.** In offering the proposal, ECCC points to federal support that impacted companies will receive from industrial decarbonization programs, but this provides minimal comfort to many regulated entities who are still waiting to receive OBPS proceeds after two (2) annual compliance payments have been submitted. As some medium EITE “early movers” have already made significant reduction investments in recent years, there is little more that can realistically be done in terms of near-term decarbonization. For these at-risk (and “early mover”) sectors, **ECCC should give serious consideration to adopting, or at least adapting, the Ontario EPS approach where industrial process emissions are treated separately.**



DEVELOPMENT OF NEW OBS

IETA supports development of additional OBS for activities, as well as their overarching purpose to ensure OBPS regulation can apply across all jurisdictions in Canada, if and where needed. We recognize the legitimate confidentiality concerns prompting ECCC's sound proposal to not create OBS for activities with less than three facilities emitting 10 kt of CO₂e or more per year. We also support the use of 2017-2019 reference year data be used to set the new standards, but are **pleased to see that ECCC intends to remain open to using different reference years, where necessary and on a case-by-case basis.**

REVIEW OF EXISTING STANDARDS

In reviewing existing standards, IETA urges ECCC to remain cognizant of the time required to implement resulting changes at the facility level. Going forward, it would be **beneficial to have regulations finalized well before the date they come into effect.** To further enhance certainty and support budgeting of corporate decarbonization, innovation and investment activities, IETA also recommends that **ECCC publish a schedule of the proposed review timelines.**

VOLUNTARY PARTICIPATION

IETA supports the proposed addition of voluntary participation rules directly within the OBPS regulations. We also support the Paper's proposal to implement an annual deadline for opt-in registration. Eliminating new registrations from beginning throughout the year should simplify the process of exempting OBPS participants from the fuel charge and reduce administrative burden for both regulated/opt-in entities and ECCC.

REDUCING ADMINISTRATIVE BURDENS

We strongly support ECCC's proposal to remove the quantification methodologies from the regulation, instead referencing the quantification methodologies in a separate document. Having alignment with provincial quantification methodologies would benefit companies that operate in different jurisdictions. This would also allow ECCC to implement updated, scientifically-proven methodologies as research and knowledge changes with respect to quantifying emissions.

ADDITIONAL CONSIDERATIONS

As highlighted in IETA's March 2021 comments to ECCC on the Scope of the OBPS Review, **we urge ECCC to continue making the OBPS a much more dynamic system,** which is less rigid than in its current form and can more swiftly respond to stakeholder concerns and urgent modifications.

In addition, IETA encourages **the introduction of an official OBPS appeal process** for error correction and clarification/interpretation of rules. An official appeal process, implemented in all major environmental market and crediting programs, will also significantly enhance transparency and accountability at ECCC



and CRA. Establishing a formal process to transparently address and manage errors, disputes and unfair treatment under the OBPS is extremely important for all market participants and program confidence.

Finally, IETA and Canada's broader business community are patiently waiting for the finalization of regulations for the **federal GHG offset credit system**. Once regulations are final in spring 2022, we hope to see swift program launch and release of initial compliance offset protocols with credit issuances so long-awaited supply can finally become available to the market. In the context of the OBPS Review and current proposed amendments, **we urge ECCC to revisit today's (75%) offset usage limits and return to unlimited (100%) offsets use in future OBPS compliance periods**. To reiterate our above comment regarding tightening rates and updated competitiveness analyses, such final 2022 OBPS design decisions (and underlying impact analyses) **should take into account future OBPS volumes/availability of lower-cost compliance units and usage limitations**.

CONCLUSION

Once again, we appreciate this opportunity to record IETA's insights and recommendations on the OBPS proposed amendments. We look forward to continuing frequent engagement with ECCC through 2022. If you have questions or require further information, please contact **Joseph Hoekstra** at hoekstra@ieta.org.