

Submitted to the Ministry of Environment Saskatchewan
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Saskatchewan OBPS Program 2023 Discussion Paper

IETA Submission to Ministry of Environment Saskatchewan

The International Emissions Trading Association (IETA) appreciates this opportunity to inform Saskatchewan's Post-2022 Output-Based Pricing System (OBPS) under "*Prairie Resilience: A Made in Saskatchewan Climate Strategy*". IETA applauds the Environment Ministry (the Ministry) for its transparent consultation efforts prior to submitting Saskatchewan's final post-2022 OBPS equivalency proposal to the Federal Government for review.

For over 20 years, IETA has been the leading global business voice on robust market solutions to tackle climate change while driving clean finance at scale. Our non-profit organization represents over 200 companies, including many with major operations, large-scale investment and work forces across Canada and Canada's largest global trade partners. IETA's expertise is regularly called-upon to inform carbon market solutions that deliver measurable climate outcomes, address economic competitiveness and carbon leakage concerns, balance efficiencies with social equity, and support a just transition.

In carefully examining the "*Saskatchewan Output-Based Performance Standards Program 2023 Discussion Paper*" (the Paper), we believe that most proposed OBPS modifications align with Federal Updated Benchmark Criteria for Saskatchewan to retain/expand provincial autonomy over its industrial emissions program. **However, we are extremely troubled by the glaring risks and potential adverse impacts of the proposal to terminate use of compliance offsets under the Saskatchewan 2023 OBPS. We urgently request the Ministry to revisit this proposed modification and prepare alternative approaches to allow for OBPS compliance offsets while also ensuring provincial equivalency.**

IETA understands the constraints, both real and perceived, imposed by the Updated Federal Benchmark Criteria. Our **community is therefore committed to supporting affected provinces, including Saskatchewan and Alberta, to engage the federal government through mid-2022 in advocating for more flexible approach(es) to evaluating the marginal price signal of provincial OBPS programs.** Such flexibility would allow provinces, like Saskatchewan, to operate 2023 compliance offset programs without needing to unnecessarily terminate or limit credit supply.

Priority Recommendations for Proposal Improvements

In terms of priority input on the Paper, IETA encourages the Government of Saskatchewan to urgently:

1. Revise its proposed stance on compliance offsets use under its 2023 OBPS.
2. Consider alternative flexible approach(es) that ensure a marginal price signal is held across the provincial OBPS while still allowing for compliance offsets.
3. In close partnership and coordination with Alberta and other affected provinces, actively engage the Federal Government to allow for a more flexible, fair approach to evaluating the marginal price signal of provincial OBPS programs.

Given Canada's federal benchmark requirements and Saskatchewan's more lenient (than federal OBPS) proposed tightening rates, we understand the rationale for potentially excluding offsets under Saskatchewan's OBPS. At first glance, this may appear reasonable and defensible to retain equivalency¹. However, IETA believes that sacrificing the climate/co-benefits and flexibility of a fungible compliance offset market is an unnecessarily high price to pay to avoid increasing performance standard stringency. **We therefore strongly urge the Government of Saskatchewan to explore more effective, alternative solutions to maintain the marginal price signal without excluding offsets for compliance.** Ultimately, the potential advantages of lowered stringency awarded by the exclusion of offsets will be significantly less beneficial to Saskatchewan in comparison to a dynamic and linkable compliance offset program.

As IETA has communicated numerous times to the Ministry in recent years, compliance offsets are an essential, results-based cost-containment and clean finance tool for any functional greenhouse gas emissions reduction program for large emitters. Today, nearly fifty (50) of these federal/regional/sub-national government-mandated greenhouse gas emissions trading systems exist or are under active development. The majority of these trading systems, located across North America, Asia-Pacific and Latin America, prominently feature offsets as legitimate tools for compliance purposes as well as to enable market linkage(s) and fungibility across other systems/jurisdictions.

As described in IETA's detailed submission on Saskatchewan's 2021 Offsets Program Proposal Paper², high-integrity offsets provide a much-needed lower-cost compliance option that can significantly minimize competitiveness and leakage risks for emitters, like those regulated under Saskatchewan's OBPS. Allowing for compliance offsets also sparks new carbon revenue streams to project developers and communities (including farmers and First Nations Communities) thereby helping drive broad and durable public support for carbon pricing and climate action over the long-term.

¹ In choosing reduced stringency over flexibility, Government of Saskatchewan must also take caution to ensure its proposed stringency will be found equivalent under the Federal Backstop Criteria. The Paper's proposed benchmark tightening (20% for most sectors over a 12-year period) may look favourable at first glance but rates are clearly more lenient than the federal OBPS, which is currently aiming for a 2.0% annual increase to stringency.

² "Saskatchewan Offset Framework Discussion Paper", May 2021 ([Link](#)).

Alternative Flexible, Multi-Period Approach

IETA offers the Ministry an initial proposed alternative flexible approach to ensure marginal price signal is held across provincial OBPS programs while still allowing for compliance offsets. **Rather than evaluating supply of tradable units over a single compliance period, the federal equivalency evaluation would provide much-needed flexibility by considering a multi-period (or multi-year) approach. Under such an approach:**

- ✓ The projected sum of all regulated facilities' compliance obligations over the designated multi-year period (e.g., 3-5 years) would be required to be greater than the projected sum of tradeable units available to the market during this period.
- ✓ To ensure the proper functioning of provincial markets and maintain the marginal price signal under this approach, the expiration period of tradable units should be limited to the length of the multi-year period.
- ✓ Reducing the expiration period would require units to be sold more quickly and reduce speculation, ensuring that credits are brought to the markets and retired within the required period.

We believe this flexible multi-period approach would better allow the Government of Saskatchewan to operate a compliance offset program as well as meet updated federal benchmark criteria without unnecessarily increasing program stringency.

Federal Engagement on Fairer Marginal Price Evaluation Criterion

Importantly, efforts to engage the federal government on the merits/viability of the proposed alternative approach should occur in close coordination with other affected provincial partners. In particular, Saskatchewan should coordinate closely with Alberta, which holds valid and vested interests in maintaining its long-standing, successful Alberta Emission Offset System.

Building on the insights and proposed alternatives shared above, **we recommend that Saskatchewan and Alberta Governments jointly advocate the Federal Government for a fairer marginal price evaluation criterion to allow for the proper functioning of provincially mandated offset programs.**

Voluntary Carbon Market Considerations

Should the Federal Government fail to adjust its criteria for evaluating provincial OBPS marginal price signals – thereby leading to Saskatchewan's inability to use compliance offsets – IETA encourages the Ministry to enable voluntary offset market opportunities across the province.



While not directly supporting regulated emitters, voluntary offset market opportunities could potentially generate projects and revenue to support diversification of the economy and industries/communities in decarbonization. That said, simply attempting to enable voluntary carbon market opportunities should be seen as a "last-resort" measure for Saskatchewan. **The importance of offsets for compliance within large emitter programs cannot be overstated, particularly in the context of industrial competitiveness against emitters operating and complying in jurisdictions** (including Alberta and Federal Backstop jurisdictions) that allow for offsets to be used towards compliance.

Conclusion

Once again, we thank the Ministry for its transparent efforts to engage stakeholders on this critical post-2022 OBPS Proposal prior to finalization and delivery to the Federal Government for review.

If you have questions or require further information on IETA's observations and recommendations, please contact Katie Sullivan, IETA Global Managing Director, at sullivan@ieta.org.