



December 8, 2020

Honourable Jonathan Wilkinson, P.C.  
Minister of Environment and Climate Change Canada  
Government of Canada  
House of Commons  
Ottawa, ON K1A 0A6

**Sent via Email**

Dear Minister Wilkinson:

We are writing to you today to follow up on our meeting in September regarding how the private sector can work collaboratively with the federal government in achieving economic recovery and climate action.

Fighting climate change is a foundational priority for the federal government and for your department. That commitment is manifest in the recent introduction of Bill C-12 which would formally enshrine net zero emissions by 2050 into Canadian law.

We continue to support your efforts in this regard. BCA and its member companies are committed to building a better Alberta within a more prosperous Canada. Shaping a low-carbon Canada that is inclusive and prosperous is an important piece of that work. We look forward to working with you and your office to advance this goal.

When we met with you in September, you told us that the Clean Fuel Standard is an important pillar in your efforts to meet and exceed Canada's Paris Accord targets and put us on a path to achieve net zero.

Since that time, we have been studying the CFS closely and consulting widely with our members, as well as a broad range of non-governmental stakeholders, on the proposed regulation. We are pleased to share with you an advance copy of a policy white paper on the CFS that we will be releasing in the coming days.

In that paper, we acknowledge that the CFS has the potential to create a significant incentive to invest in carbon capture, hydrogen production, biofuels, and other forms of renewable electricity that could benefit Alberta both environmentally and economically.

However, our research and consultations have also uncovered several important concerns that we believe will impede the effective deployment of the CFS; will undermine Canada's global economic competitiveness; and will have a disproportionate impact on lower-income Canadians, and on Alberta specifically. These concerns can be divided into three broad categories:

**1. The CFS offers limited environmental benefit at a relatively high cost**

One of the declared features of the CFS is that it is solution-agnostic; companies can choose from multiple pathways to comply with the standard. In practice, however, businesses have noted that the design of the standard favours high-cost, pre-determined pathways and places implicit limitations on which technologies can be used to achieve emissions reductions.



Many of our member companies are concerned that the allotted timeframes for generating compliance credits (five years, or 10 in the case of carbon capture projects) are too short to make investments in major emissions-reducing projects economic. As a result, the CFS will bias short-term stopgap measures over the transformative change your government is eager to enable.

Moreover, businesses are unsure if their projects can be approved and built in time to comply with the standard as it tightens over time. Studies from the World Bank show Canada is already recognized as one of the slowest countries in the world at granting approval for major construction projects. Without a significantly reimaged and transformed approvals process, companies are concerned that they will not be able to build their projects in time to comply with the fuel standard.

Finally, questions have been raised about whether the CFS can deliver on its stated goal of achieving 30MT in annual emissions reductions. Some researchers argue that most of that reduction will be attributable to other initiatives taking place in parallel to the CFS. Navius Research, for example, has suggested that the CFS will only result in 7MT of new reductions at most. Considering some of the expenses associated with CFS compliance, this result could be achieved at far lower cost through alternative emissions reduction strategies.

## **2. Negative impact on businesses and consumers, especially in Alberta**

We are concerned that the CFS will have an unintended negative impact on lower-income Canadians and Albertans in particular. It will inevitably result in higher fuel costs for consumers and, when the standard comes into effect for gaseous fuels, will also drive up electricity and home heating prices for Albertans. Unlike the carbon tax, there will be no offsetting rebate, meaning the impact will be highest on those who can least afford to bear the costs.

As you know, Canada will be the first jurisdiction in the world to impose a clean fuel standard on gaseous and solid fuels. As the standard raises fuel prices, it will layer substantial new costs not just on fuel suppliers and consumers, but also on any business that needs energy to operate. We have reservations about the impact these increased costs will have on our businesses' ability to compete in foreign markets—especially for our energy-intensive, trade-exposed industries.

Moreover, these impacts are magnified in Alberta where businesses do not have access to an emissions-free baseload electricity as is the case in most other provinces. Not only would a CFS on natural gas raise electricity prices relative to other provinces, but it would also obstruct the incentive to electrify business operations in Alberta because companies cannot eliminate their exposure to natural gas.

## **3. The operation of the regulation is unclear and compliance penalties are severe**

Our report also raises numerous concerns about how the standard would operate in practice. Most of these concerns center around the operation of the compliance credit market. Specifically: whether or not there would be sufficient access to credits.



## BUSINESS COUNCIL OF ALBERTA

To some extent, this issue is related to the challenges of timely project approvals and the limited timespan for credit generation, described above. However, it also touches on several other challenges, including biofuels blending. The BC and California experiences suggest that biofuels blending is the most common approach to fuel standard compliance. However, Canada is a large net importer of these fuels and it could take several years to bring additional domestic capacity online. In the meantime, businesses will have limited compliance options, even ignoring the fact that there are technical limitations to how much blending can take place in colder climates.

Access to credits is a paramount concern for businesses because of the consequences of non-compliance with the regulation. Companies have a limited ability to defer compliance or pay into the Fund Compliance Mechanism. Because the CFS is housed within the *Environmental Protection Act*, failure to comply carries with it criminal charges. Businesses are extremely concerned that a lack of credit purchase options, and lengthy regulatory and approvals processes, could make compliance impossible, potentially resulting in jail time.

Our attached research paper provides more detail on these, and other, issues. It also offers several proposals for how the CFS could be improved. We welcome the opportunity to discuss our findings with you at a time of your convenience.

Yours truly,

Handwritten signature of Adam Legge in black ink.

Adam Legge  
President  
Business Council of Alberta

Handwritten signature of Mike Holden in black ink.

Mike Holden  
Vice President, Policy & Chief Economist  
Business Council of Alberta

cc: Honourable Seamus O'Regan, P.C. Minister of Natural Resources Canada  
Ms. Christine Hogan, Deputy Minister, Environment and Climate Change Canada  
Mr. Marlo Reynolds, Chief of Staff, Office of the Minister, Environment and Climate Change Canada