Ms. Paola Mellow
Executive Director, Clean Fuel Standard
Environment and Climate Change Canada
351, boul. Saint-Joseph, 21st Floor, Office 21062
Gatineau, Quebec K1A 0H3

August 26, 2019

Comments regarding the Clean Fuel Standard *Proposed Regulatory Approach*

Introduction

The U.S. Grains Council, Growth Energy, and the Renewable Fuels Association are pleased to put forward comments with regards to Environment and Climate Change Canada's (ECCC) *Proposed Regulatory Approach* (PRA) for the Clean Fuels Standard (CFS).

The CFS is an ambitious policy with the organizing principle to ensure that carbon intensities of fuels used in Canada decrease over time, leading to substantial greenhouse gas (GHG) reductions. As will be discussed in this submission, our organizations find that this organizing principle is being compromised by the PRA, which widens the scope of the CFS.

Increasingly, the CFS is looking to cover the same types of activities as the federal government's carbon pricing plan. This is problematic because Canada already has a carbon pricing plan and doubling up policy rather than allowing different policies to complement each other leads to unintended consequences. The PRA allows for the inclusion of several activities that generate credits in both the CFS and carbon pricing, but only generates an obligation in one of the two programs. This skews the CFS and discourages the use of ultra-low-cost compliance options, like ethanol, in favor of more expensive investments that do not lead to deep decarbonization in the same way.

Furthermore, with the expanded scope of activities generating credits under the CFS, it is unclear that this will be a meaningful program. If credits are too abundant and based on previously planned activities, then the CFS will have failed to have generated new GHG reductions. This submission therefore supports the idea of including a "CFS safety net" that would act as a backstop to ensure that the program brings about real GHG reductions.

RECOMMENDATIONS IN BRIEF

Limit the scope of CFS credit generation to fuels used in Canada. Under the PRA, the breadth of activities that will qualify for credit generation has been broadened substantially, while the total target for GHG reductions has been stagnant.

Credits should not be generated on crude oil exported from Canada, or for carbon captured and sequestered by industry. Best practices for low carbon fuel standards indicate that only fuels used in the jurisdiction should generate credits. Furthermore, the proposal is one-sided since exported crude does not generate debits.

Establish a CFS safety net. To ensure that a clear market signal is sent to renewable fuel producers in Canada, a safety net should be in place that increases the policy's target if business as usual and non-fuel related activities dominate CFS credit generation.

Establish a level playing field for green technologies to compete against each other. Canadians deserve the lowest cost compliance options available to reduce the carbon intensity of fuels. The current CFS structure favors higher cost compliance options, which is against the principles of the program.

Calculate Canada-specific energy efficiency ratios (EER) for electric vehicles (EVs). Failing to take into account how EVs perform in Canada's climate indirectly subsidizes this compliance option as compared to other less expensive green technologies.

DETAILED COMMENTS

CFS scope and credit generation

A low carbon fuel standard is by its very nature supposed to be about the fuels used in a given jurisdiction. Meanwhile, the PRA includes several measures that dilute the program by allowing for credit generation from non-fuels activities. For example, carbon capture and sequestration (CCS) by any industry would now count towards CFS credit generation.

The inclusion of CCS is problematic particularly since projects that would have been built regardless of the CFS will generate credits. In other words, business as usual activity is being counted as if it is part of reductions under the CFS. One example of a CCS project is the Alberta Carbon Trunk Line, which will in and of itself have a capacity of 14.6 megatonnes. This is the equivalent of half of the CFS' target. It is extremely difficult to argue that the CFS is incenting the construction of the Trunk Line given that the first construction licenses were issued in 2011 – well before the federal CFS was conceived. It is incoherent to suggest that the Trunk Line should be the largest single source of credit generation in a program that is about lowering the carbon intensity of fuels. We therefore recommend that CCS should only be allowed to count towards the CFS if and only if CCS is used to sequester emissions related to fuel production and only to the extent that these fuels are used in Canada.

The idea that credits should be generated for crude that is exported from Canada is also a non-sequitur. First of all, these crude exports create no CFS obligation whatsoever, so there is little basis to count credit generation if a fossil fuel primary supplier (FFPS) reduces the carbon intensity of the crude. Second, Canada would be alone in the world as having a low carbon fuel standard that actually favors the producers of crude oil.

CFS safety net

Despite a considerable broadening of activities that generate credits under the CFS, ECCC has kept the target of the program stagnant at 30 Mt. A key risk is that instead of leading towards actions that reduce the carbon intensity of fuels, the CFS credit market could be overrun by inexpensive credits generated by business as usual activities and non-fuel-used-in-Canada related activities.

Against this backdrop, our organizations are supportive of a "CFS safety net" that acts as an insurance policy making sure that the CFS leads to real and positive outcomes for the environment. Under the proposed safety net, once half of the CFS' target is being met by business as usual activities plus non-fuels and other dilutive measures (such as credits generated from exported crude), this should trigger an automatic increase to the CFS's target, with the obligation for each stream of fuel increasing 50%. This would mean that the new CFS target would be 45 Mt by 2030.

This approach is fair to stakeholders in that the compliance obligation is only increased if it turns out that the CFS has not actually had an impact on fuels used Canada. A program review five years after the publication of final regulations should determine if the safety net is triggered.

Critics might suggest that this provision ads uncertainty to the CFS, but the reality is that the CFS safety net would do the exact opposite – it would provide market certainty that the CFS requires action on the behalf of FFPS' and renewable fuel producers in Canada. In the fortunate event that the 30 Mt target is strong enough to incent investments in clean fuels, and clear GHG reductions can be attributed to the CFS in and of itself, the CFS safety net would NOT come into effect.

Establishing a level playing field and EER for EVs

Most would assume that the goal of a low carbon fuel standard is to avoid picking winning technologies, and to allow the products with the lowest cost of abatement to be chosen by market forces. As currently formulated, however, the CFS unintentionally favors some forms of abatement over others.

It is difficult to imagine a product that would provide a better cost-benefit ratio than ethanol. At 20 cents per litre less than gasoline, combined with significant octane value, ethanol saves money while providing GHG emission reductions. This is why the fossil fuel industry in Canada uses more ethanol than they are obliged to under current regulations. One would expect that ethanol would be one of the first and largest winners under the CFS, however, the design of the program actually favors other technologies. Two examples of pathways for GHG reductions that are favored by the PRA are as follows: (i) upstream oil efficiencies; and (ii) use of EVs.

Upstream oil efficiencies generate three different kinds of compliance credits:

1) A credit generated against carbon pricing obligations;
2) A credit generated against CFS obligations through the reduction of the CI of the fuel; and
3) A CFS credit generated on crude that is exported outside of Canada.

Meanwhile, ethanol used by an FFPS only generates credits under the CFS. This fundamentally disadvantages ethanol against investments in upstream oil efficiencies, which are often a more costly way of reducing GHG emissions. Our recommendation to omit exported crude from credit generation helps to level this playing field and would allow Canadians to save money while industry invests in the cheapest compliance options, like ethanol.

With respect to EVs, it would appear as though ECCC has calculated EERs on the basis of driving conditions in California at 23C, with no use of air conditioning, or heating. Furthermore, these values are based only on city driving, which further skews the EER. Needless to say, the climate in Canada is scarcely held stagnant at 23C. Heating demands in Canadian winters create a drain on an EVs energy efficiency. This is well documented and considerably decreases the true EER of EVs driven in Canada.

Providing EVs with an artificially high EER is the equivalent of subsidizing this industry through CFS credits. Canada already has significant subsidies available for EVs, and there is no need to create a new ones. Instead, the CFS needs to remain technologically neutral, and ensure that the EER for EVs reflects the best science available today.

CONCLUSION

The U.S. Grains Council, the RFA, and Growth Energy are appreciative of the opportunity to put forward our comments on the Clean Fuel Standard *Proposed Regulatory Approach*. There are considerable challenges to implementing the CFS, but through constructive feedback – such as the recommendation to establish a CFS safety net – we are confident that a fair program can be developed that will help Canada reach its Paris Accord commitments.

We would welcome the opportunity to discuss our recommendations further and remain available for any clarification.

About us

RFA is the leading trade association for America's ethanol industry, working to advance development, production and use of ethanol as a beneficial renewable fuel.

The U.S. Grains Council is an organization with specialization in markets for barley, corn, sorghum, and related products – particularly ethanol.

Growth Energy is the world's largest association of biofuels and supporters representing 100 ethanol plants and 91 associate members who serve North America's need for renewable fuel.

Brian D. Healy
Director of Global Ethanol
Market Development
U.S. Grains Council

Craig Willis
Senior Vice President,
Global Markets
Growth Energy

Ed Hubbard
General Counsel
Renewable Fuels
Association

U.S. GRAINS COUNCIL

growth energy™ America's Ethanol Supporters

RFA RENEWABLE FUELS ASSOCIATION