

Environment and Climate Change Canada
ec.cfsncp.ec@canada.ca

RE: Clean Fuel Standard

I am writing to provide comments on behalf of the Government of Newfoundland and Labrador to the Proposed Regulatory Approach for the Clean Fuel Standard (CFS), released by Environment and Climate Change Canada (ECCC) on June 28, 2019. The Government of Newfoundland and Labrador continues to have significant concerns that the proposed CFS fails to address the unique geography and economic conditions of our province and will potentially cause significant economic harm to the people of Newfoundland and Labrador. The concerns Newfoundland and Labrador put forward regarding the Renewable Fuels Regulations that led Canada to "permanently" exempt the province from biofuel blending obligations still exist and remain valid. Our Government has provided numerous written and verbal submissions to ECCC explaining these concerns with respect to the proposed CFS, with no formal written response to the issues raised.

We note there are no emission reduction requirements for liquid self-produced/used fuels used in stationary sources and for fuels sold in remote communities. While these are good step, they do not adequately or effectively recognize the unique situation of our province.

The proposed CFS will affect Newfoundland and Labrador in particular through the direct impact on North Atlantic Refining Limited (NARL). NARL is a significant contributor to the province's economy in terms of employment, energy supply and security, investment spending and taxation. While NARL exports the majority of its output, its wholesale and retail operations supply the province with 40 per cent of total fuel consumption. Without it, the province would have to rely exclusively on external producers, including imports. NARL has advised that due to the disproportionate economic burdens CFS places on its operations, it has been evaluating options to exit the provincial market and focus exclusively on export markets. Such an outcome of the CFS is unintended, and unacceptable.

There are unique factors that limit the availability of compliance flexibilities to operations in this province. NARL's entire operation is located in Newfoundland and Labrador. As such, it does not have the same flexibility as other Canadian supply companies to effectively blend biofuel, nor can it increase blending in one region to offset its obligation in another. As proposed, the CFS unfairly penalizes NARL as its competitors can offset their provincial obligations elsewhere at lower cost, which adversely affects NARL's competitiveness within the provincial market.

Supply logistics limit options for compliance under the proposed CFS. The bulk of biofuel shipments in North America utilize railway infrastructure that does not exist in Newfoundland and Labrador, thus creating a supply logistics barrier. Shipments by marine vessel, the only option available, pose quality risks, logistical issues and costs unique to this province. Compounding these shipping costs is NARL's inability to take advantage of the economies of scale of larger biofuel shipments because of the small provincial market size. This further increases the cost of meeting CFS obligations and gives an unfair advantage to larger interprovincial operators over smaller regional participants.

There is no commercial production of biofuels within the province. In 2017, the Government of Newfoundland and Labrador outlined its plan to increase the province's food self-sufficiency from 10% to 20% by 2022. It is not practical for NARL to meet its CFS obligation from local biofuel production. The province's limited agriculture capacity must not be diverted from food supply to fuel supply.

According to the National Energy Board, household expenditures on energy are highest in Atlantic Canada. The proposed CFS is anticipated to negatively affect Newfoundland and Labrador. For example, the two diesel blending options of "biodiesel" and "renewable diesel", both present challenges to this province due to climate and/or market. NARL has advised that biodiesel is not a year-round viable option in the province due to biodiesel's poor extreme cold-weather performance. While renewable diesel is a technically feasible option, the blend stock would substantially increase retail prices compared to other jurisdictions using biodiesel. This option will also depend on whether NARL, as small industry producer, can access the limited global renewable diesel market. A comprehensive cost benefit analysis at the provincial and territorial level is essential to evaluate regional disparities and ensure costs associated with CFS do not disproportionately burden one province over another.

In January 2019, Newfoundland and Labrador introduced a federally-approved carbon-pricing system, which includes a performance-based system for industrial emitters that targets the identical greenhouse gas sources as the proposed CFS regulations. The introduction of overlapping policies will increase the cost of compliance obligations with no apparent evidence of incremental emission reduction for the province. No consideration of the interaction between CFS and various provincial carbon-pricing programs is included in the proposed regulatory design. We have noted ECCC has not provided a provincial cost-benefit analysis of the CFS. As such, there is no evidence that this policy will reduce carbon emissions in the province whereas there is evidence that the policy will harm economic performance, energy security and food security.

With limited supply options, geographic limitations and generally poor extreme cold-weather performance of biofuels, supply companies have advised there would be limited blending occurring within the province. Companies would have to meet their provincial CFS obligation through the credit clearance/compliance fund mechanisms or through increase blending in other jurisdictions. Neither of these options contribute to the reduction of the province's greenhouse gas emissions. It also highlights the lack of compliance flexibilities available due to our province's geographic location.

According to the proposed CFS regulations, ECCC is still considering additional exemptions based on the following criteria: (1) reductions of greenhouse gas emission; (2) technical feasibility and supply logistics; (3) household costs; (4) availability of compliance flexibilities; (5) interaction with provincial carbon pricing and other greenhouse gas mitigation regulations; and (6) adverse compliance cost and industry competitiveness. The Province of Newfoundland and Labrador received a "permanent" exemption from the Renewable Fuels Regulations to recognize and address the same criteria ECCC has outlined. Despite this, the province is not being afforded the same consideration under CFS, and it appears ECCC is rescinding its exemption commitment to the people of Newfoundland and Labrador. It is not clear why the "permanent exemption" would be rescinded as the relevant logistical, geographic, technical and economic circumstances have not changed significantly in the years since the exemption was established.

The Government of Newfoundland and Labrador feels strongly that the CFS burdens the local market and negatively impacts the economic situation of our residents, and request that exemptions to the Renewable Fuel Regulations be extended to the province under CFS as well. We look forward to a positive response.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ted Lomond".

TED LOMOND
Deputy Minister