

SEP 26 2019

Hon. Amarjeet Sohi
Minister
Natural Resources Canada
580 Booth Street, 21st Floor
Ottawa, Ontario K1A 0E4

Dear Minister Sohi:

Re: Clean Fuel Standard

Further to our discussion in Cranbrook, BC, I am writing regarding the federal government's proposed Clean Fuel Standard (CFS) and the serious impacts it would have on Newfoundland and Labrador and its one and only oil refinery, North Atlantic Refining Limited (NARL). The Government of Newfoundland and Labrador continues to have significant concerns that the proposed CFS does not address the unique economic and geographic situation of our Province and could cause significant economic harm to the people of Newfoundland and Labrador. It is essential that these concerns be addressed prior to finalizing the CFS.

To date, our Government has provided multiple written and verbal submissions to Environment and Climate Change Canada (ECCC) explaining the Province's concerns regarding the proposed CFS. Correspondence included a February 2018 position paper on the CFS, and letters in December 2018, April 2019, and August 2019 outlining how the proposed CFS would impact the Province. In March 2018, my Government participated in an in-person meeting on the CFS with ECCC where officials reiterated concerns but did not receive any clear response from federal officials. We appreciate these opportunities to provide our input, which we hope the CFS framework will ultimately reflect. I recently received a response letter from Minister McKenna in late August 2019 in which she outlined some of the measures currently being considered within the CFS with the intent to address some of the concerns expressed by stakeholders. These include removal of self-produced fuels used in stationary applications from compliance requirements as well as compliance flexibility that includes a compliance fund and credit market. Unfortunately, these measures do not adequately address the significant negative CFS impacts on Newfoundland and Labrador stakeholders, our economy and the security of our energy supply.

The proposed CFS will affect this Province, particularly through the direct impact on NARL. NARL is a significant contributor to the Province's economy in terms of employment, energy supply and security, rural economic development, investment spending and government tax revenue. While the majority of NARL's output is exported internationally, a significant component of NARL's business is its wholesale and retail operations within the Newfoundland

and Labrador market. NARL has advised that approximately 10 to 15 per cent of its refined products, on average annually, are sold in Newfoundland and Labrador, which accounts for up to approximately 40 per cent of the Province's total fuel consumption. This means NARL is a critical contributor to supply chain security for petroleum products in the Province. Without it, the Province would have to rely exclusively on external supply for refined petroleum products including foreign imports. The adverse compliance cost that would be incurred by NARL under the proposed CFS can be detrimental to its industry competitiveness and this is a fundamental energy security issue for Newfoundland and Labrador.

Officials with the company have indicated to Government that it would be competitively exposed under the proposed CFS. NARL would have to recoup costs incurred, including compliance and credit costs, from the Newfoundland and Labrador market and this would create significant household impacts. NARL has estimated the infrastructure costs of complying with the proposed CFS are \$20-30 million and additional annual ethanol and renewable diesel costs of approximately \$65 million. NARL has indicated that this would threaten its commercial viability and risk the company seeking additional opportunities to export, which would seriously jeopardize Newfoundland and Labrador's energy security and represent a significant loss to the provincial economy.

NARL faces significant technical and supply logistics challenges in meeting the proposed CFS. Renewable fuel supplies for blending would need to be imported due to lack of local supply. NARL's operations are only located within Newfoundland and Labrador which means it does not have the same flexibility of other Canadian supply companies to effectively blend biofuel, nor can it increase blending in one region to offset its obligation in another. Due to the small market size of this Province, the large size of blend stock marine shipments, and lack of rail, storage and blending infrastructure, there is a lack of available compliance flexibilities in Newfoundland and Labrador.

At present, Newfoundland and Labrador food self-sufficiency is approximately 10 per cent with a Provincial Government commitment to increase this to at least 20 per cent by 2022. Other provinces could comply with the proposed CFS by developing local feedstock. Given our Province's current food self-sufficiency levels and short growing season, developing feedstock to comply with the proposed CFS would likely undermine this food security imperative. Diverting food crops to biofuel feedstock could also increase the amount of shipping required for food imports to our Province thus increasing carbon emissions or missing an opportunity to reduce them.

Given these constraints and others, it is critical that the federal CFS recognize the regional disparity faced by smaller regional suppliers like NARL and the unfair advantage it provides to larger competitors. As proposed, the CFS will result in a significant economic burden that will further impede the refinery's competitiveness and negatively impact the provincial economy and energy security of Newfoundland and Labrador. It is critical that these concerns are addressed in the CFS.

The Province's position with respect to NARL and renewable fuel options has not changed materially since 2010-2011, when the Government of Canada announced the regulation. The Canada Gazette and news releases at the time explicitly stated that, for technical reasons, "a permanent exemption" was being provided to Newfoundland and Labrador. It is not clear why the Government of Canada would rescind this "permanent" exemption commitment to the people of the Province as the relevant logistical, geographical, technical, and economic circumstances have not changed significantly in the intervening years.

We have also noted ECCC has not provided a provincial cost-benefit analysis of the CFS so there is no evidence that this harmful policy would reduce the province's carbon emissions. 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.

Thank you for giving this important issue your attention. I look forward to hearing from you.

Sincerely,



SIOBHAN COADY, MHA
St. John's West
Minister

- c. Hon. Dwight Ball, Minister for Intergovernmental and Indigenous Affairs
- Hon. Seamus O'Regan, P.C., M.P.
- Hon. Dominic LeBlanc, P.C., Q.C., M.P.
- Hon. Catherine McKenna, P.C., M.P.