

MAR 10 2020

The Honourable Jonathan Wilkinson  
Minister of Environment and Climate Change Canada  
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Dear Minister Wilkinson:

**RE: Clean Fuel Standard**

I would like to take this opportunity to congratulate you on your November 20, 2019 swearing in as Minister of Environment and Climate Change Canada (ECCC) following your tenure as Minister of Fisheries, Oceans and the Canadian Coast Guard, as well as Parliamentary Secretary to the Minister of Environment and Climate Change. As Minister of Natural Resources (NR), I look forward to working with you on some key files for the Government of Newfoundland and Labrador, including the ECCC's proposed Clean Fuel Standard (CFS), which is the subject of this letter.

I was interested and pleased to read your mandate letter from Prime Minister Trudeau. It highlighted that Canadians chose on Election Day to fight climate change while keeping our economy strong and growing. The letter also states, "We are committed to evidence-based decision-making that takes into consideration the impacts of policies on all Canadians..." I believe we share a common cause with appropriate flexibility to ensuring effective CFS policy for Canada while respecting the unique situation of Newfoundland and Labrador.

In light of your mandate, I would like to reiterate that the Government of Newfoundland and Labrador has significant concerns that the proposed CFS fails to address the unique geographic, climatic 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. On April 17, 2019, I sent a letter to then Minister of ECCC, the Honourable Catherine McKenna, outlining these concerns, and on August 26, 2019 my department's Deputy Minister Ted Lomond sent a letter of concerns to ECCC. Several submissions from departmental officials preceded the letters during the consultation process outlining our Government's concerns. While I did receive a response from the Honourable Catherine McKenna on August 28, 2019, which invited further feedback on the CFS Proposed Regulatory Approach, to date, our concerns have not been appropriately addressed.

To assist in providing you an understanding of Newfoundland and Labrador's perspective on the CFS, and in response to a January 20, 2020 email from the ECCC Clean Fuel Standard Team, which invited feedback on the CFS before formal 2020 engagement occurs, I offer the following overview of our perspective.

The Government of Newfoundland and Labrador recognizes the changes to CFS that ECCC has adopted after consultations with the emission-intensive and trade exposed sector, specifically, the removal of emission reduction requirements for liquid self-produced/used fuels used in stationary sources and the exemption of fuels sold in remote communities. While these changes are a step in the right direction, they insufficiently address the unique situation of our province.

The Government of Newfoundland and Labrador is concerned about the affect the proposed CFS will have on our province, in particular through the direct impact on our one and only refinery, 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. NARL has advised that approximately 10 to 15 per cent of its refined products, on average annually, are sold in Newfoundland and Labrador. This has accounted for approximately 40 per cent of the province's 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 that could see it 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 Canada Energy Regulator (formerly 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. 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 a small independent producer, can access the limited global renewable diesel market. As well, shipping, storage and blending requirements for NARL on site for both gasoline (with ethanol) and diesel/furnace oil (with renewable diesel/biodiesel) would require separate systems of new infrastructure and significant investment costs. A comprehensive cost benefit analysis at the provincial and territorial level, which has also been raised by other jurisdictions, 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.

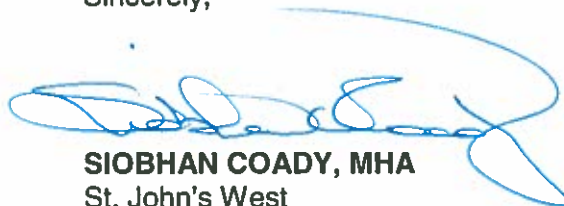
Further to the above, ECCC, according to the proposed CFS regulations, is still considering additional exemptions based on the following criteria: (1) reductions of greenhouse gas emission; (2) technical feasibility and supply logistics; (3) household costs; (4) availability of compliance flexibilities; (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 (see section 4)(g) of the Renewable Fuels Regulations which can be viewed at <https://laws-lois.justice.gc.ca/eng/regulations/SOR-2010-189/index.html>). 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. 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.

I look forward to hearing from you on this important issue.

Sincerely,

A blue ink signature of Siobhan Coady, written in a cursive style.

**SIOBHAN COADY, MHA**  
St. John's West  
Minister

c. Hon. Dwight Ball  
Premier of Newfoundland and Labrador

Hon. Seamus O'Regan  
Minister of Natural Resources Canada

Hon. Chrystia Freeland  
Deputy Prime Minister and Minister of Intergovernmental Affairs