

The Honourable Catherine McKenna
Minister of the Environment and Climate Change
House of Commons, Ottawa
Ontario K1A 0A6
via email: ec.ministre-minister.ec@canada.ca

February 8, 2019

Re: Clean Fuel Standard Regulatory Design Paper

Dear Minister McKenna,

We, the undersigned, are writing in support of the Government of Canada's ongoing commitment to develop a national Clean Fuel Standard (CFS) that encompasses some of the largest sources of greenhouse gas (GHG) emissions - transportation, buildings, and industry. The proposed aim of the CFS, to reduce GHG emissions by 30 MtCO₂eq by 2030, will help Canada meet its 2030 climate target and accelerate its transition to a low-carbon economy.

Overall, we are pleased to see that the recent CFS regulatory design paper includes the development of a policy supporting electric vehicle (EV) uptake through their inclusion as credit generating activities, and development of energy effectiveness ratios for electrification and fuel switching to reflect avoided fossil fuel emissions. EVs are necessary to decarbonize the transportation sector and as such they support the goals of the CFS. ***We recommend that ECCC require revenues from the monetization of credits generated by EVs to be reinvested in initiatives that accelerate further EV adoption.*** These initiatives could include investment in programs to help offset the upfront costs of EVs, charging infrastructure, and public education, among others. We also believe there is an important coordinating role for the federal government to ensure that EV credit revenues are reinvested in a manner that is consistent with the forthcoming Zero Emissions Vehicle strategy and that minimizes regional disparities.

We also applaud some key design features in the draft regulatory design paper, including: the effective partitioning of liquid, gaseous and solid streams; development of a Fuel Life Cycle Assessment Modelling tool; the proposal to include sustainability criteria, reporting and verification in general that encourages environmental integrity and broad stakeholder participation; and thoughtful consideration of direct land use change (DLUC). We support both the 30 MtCO₂eq overall target and the 23 MtCO₂eq liquids target, although ***we believe there should be a process to consider increasing the targets as part of the five-year review.***

However, ***we recommend that ECCC include indirect land use change (ILUC) accounting in the CFS well before the planned five-year review in 2025. We strongly suggest that ECCC clearly express an intent to integrate ILUC accounting into the program and provide a specific timeline for doing so in CG1 so that impacted parties can plan accordingly.*** The

government should act immediately to undertake the necessary research and stakeholder consultations, and to ground-truth factors to incorporate into the regulatory framework. In doing so, ECCC can draw on leading practices from other jurisdictions, including California. Delaying inclusion of ILUC accounting risks undermining the GHG reduction benefits of the CFS, locking in investment in suboptimal biofuel sources, and creating regulatory uncertainty for the biofuel industry. In addition, ***we believe that ECCC can and should include requirements in CG1 related to DLUC***, including the ineligibility of renewable feedstock sourced from modification of land with high ecological value.

In the interim, to minimize the impact of delaying inclusion of ILUC accounting, it would be useful to publish reference values that industry and investors could use to guide research and development (R&D) and investment decisions until final Canadian values are determined. It would also be useful to eliminate or discount (in CG1) the use of feedstocks that consistently demonstrate high ILUC impacts, based on robust data available from other jurisdictions.

With respect to the newly announced Task Group on emission-intensive and trade-exposed (EITE) sectors, we recognize the importance of adequately addressing competitiveness concerns to help ensure a healthy Canadian economy and protect against carbon leakage. However, ***we recommend that ECCC require the EITE sectors to provide clear evidence of competitiveness impacts from the proposed design of the CFS***. The proposed CFS has a number of flexibilities designed to reduce costs, such as a market where fuels can compete for lowest cost reductions, incorporation of process improvements from upstream oil and gas facilities, an allowance of up to 10% trading across fuel streams, and a focus on liquid fuels which have less cost impact for most industries. Furthermore, the EITE Task Group should be guided by a clear mandate, operate in a transparent manner, and include broad perspectives - including adequate civil society representation.

Minister, we commend you and the CFS Team for the incredible work done to date to develop this important regulation. We look forward to continued collaboration towards an ambitious, comprehensive and credible Clean Fuel Standard.

Yours sincerely,

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