FERTILIZER CANADA
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October 29, 2021

Trade Policy Branch
Ministry of Trade and Export Development
Government of Saskatchewan
1000, 2103 – 11th Avenue
Regina, Canada
S4P 3Z8

Via email: osman.rahman@gov.sk.ca

Re: Border Carbon Adjustments Consultation

Dear Mr. Rahman,

On behalf of our member companies, Fertilizer Canada would like to thank you for this opportunity to provide input on the Government of Saskatchewan's policy position on potential federal border carbon adjustments (BCAs) for Canada. As federal and provincial governments across Canada develop carbon policies, BCAs will likely have an important role to play in maintaining the global competitiveness of Canadian industries and in preventing carbon leakage.

Fertilizer Canada represents manufacturers, wholesalers, and retail distributors of nitrogen, phosphate, potash, and sulphur fertilizers – the backbone of Canada's agri-food economy. Fertilizer is responsible for half of the world's current food production, and our industry is a major contributor to this global supply, supporting food security in Canada and around the world. We also contribute approximately $24 billion annually to Canada's economic activity, and our industry has facilities across Canada supporting the employment of over 76,000 individuals throughout the supply chain. Our industry is one of the most energy-intensive, trade-exposed (EITE) industries in Canada with world-class, sustainable operations resulting from early action to reduce its environmental footprint. However, as an EITE industry, our members are highly vulnerable to carbon leakage and investment moving abroad.

As the home of some of the world's largest potash deposits, Saskatchewan plays a central role in our industry. Potash is one of the most valuable metal or mineral products in Canada, coming second only to gold. The fertilizer industry is a significant contributor to Saskatchewan's economy – across the province, we account for approximately $5.5 billion of economic activity and support over 19,000 jobs throughout the supply chain. Our member companies have proactively taken measures to reduce our greenhouse gas (GHG) emissions, and as a result Canadian potash is already the most environmentally sustainable potash in the world, producing approximately 50 per cent fewer emissions than potash produced elsewhere.

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Canada is also home to a number of nitrogen production facilities, and the largest concentration of nitrogen manufacturing facilities in North America is found in Alberta. Our nitrogen production facilities upgrade Canadian natural gas, the most efficient and lowest carbon dioxide (CO_2) emission feedstock and fuel source, into ammonia and its primary upgrade products (urea and ammonium sulphate), and nitric acid and its primary upgrade product (ammonium nitrate). Nitrogen manufacturing is a significant contributor to Canada's manufacturing and value-added economy, and nitrogen production in Saskatchewan alone achieved $636 million in gross sales in 2020 and directly provides 226 full-time jobs.

Ninety-five per cent of Canadian potash is exported internationally, and 45 per cent of nitrogen products are shipped to Canada's largest trading partner, the United States. As an export driven industry, Canadian fertilizer serves more than 70 countries.

BCAs have significant potential to mitigate the risk of carbon leakage for EITE industries by levelling the playing field for Canadian producers in both domestic and foreign markets; however, a number of risks must first be addressed in order for BCAs to be effective. Based on the questions posed for consideration, we have developed the following recommendations for the design and implementation of BCAs in Canada.

Recommendations

Scope and Design

BCAs should take the form of import charges combined with export rebates and / or other forms of relief measures to be determined in the future. As described above, the fertilizer industry in Canada has proactively worked to reduce its environmental footprint, which makes Canadian fertilizer some of the most environmentally sustainable fertilizer in the world. We are proud of this effort and the positive impact that this work has had on the environment. However, Canadian fertilizer producers pay higher production costs than their competitors in other jurisdictions due to these self-imposed environmental efforts as well as government-mandated regulations and taxes and other external factors. Fertilizer Canada's members are price-takers in the global market, and these increased production costs cannot be passed down to their consumers. With the price of carbon rising to $170 per tonne by 2030, our industry will face substantial barriers when attempting to continue to improve our energy efficiency and environmental performance.

Since the intention of BCAs is to maintain competitiveness and prevent carbon leakage, an export rebate should be applied to help offset some of these costs and would help the Canadian fertilizer industry maintain its global competitiveness as Canada works toward our ambitious climate targets. Similarly, import charges should reflect the cost of compliance with current Canadian industrial carbon pricing regulatory systems. However, the use of export rebates must be carefully considered, as these could potentially provide a stronger incentive to export product than

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to supply the needs of the domestic market. Additionally, if these are perceived internationally as an export subsidy, Canadian exports could potentially be subjected to retaliatory tariffs.

Additionally, the proposed BCA design should account for the revenue collected under the policy and should include clear revenue recycling plans to support and incentivize further emission reductions in Canada.

International Trade Considerations

BCAs in Canada should not allow for exclusions for certain products / countries or variations in rates for different products / countries. Allowing exclusions or significant variations in rates would defeat the purpose of BCAs, which is to level carbon costs between countries and to protect the global competitiveness of our economy and its EITE sectors. States that meet the climate standard set by Canada should not be impacted by BCAs, and states that do not meet the standard should see BCAs as an incentive to improve their environmental performance if they wish to be competitive in the Canadian market. **However, harmonization with our key international trading partners, notably the United States and European Union, should be the priority for the Government of Canada. Incentivizing improved environmental performance via implementation of BCAs will be most effective if Canada has an aligned BCA policy with our key trading partners. To ensure the efficacy of BCAs, Canada should seek this alignment with our partners as early as possible in the policy development process.**

Canada should work with international partners to develop a standardized system that measures environmental performance in a comparable manner across varying policy and regulatory approaches. This could potentially be done through the World Trade Organization (WTO) to ensure that Canada continues to comply with international trade obligations. Canada should engage with other states through the WTO to develop a framework for BCAs and the creation of a standardized environmental performance measurement system should be included in this framework. Recognizing that widespread alignment across WTO members will be challenging to achieve, this work can also be pursued through bilateral or multilateral trade negotiations with Canada's key trading partners.

Environmental and Economic Considerations

The design and implementation of BCAs must go hand-in-hand with existing carbon pricing systems to ensure Canadian producers can invest in environmental performance improvements while maintaining their global competitiveness. For both BCAs and existing policies, maintaining competitiveness for EITE industries and preventing carbon leakage must continue to be a key objective. Additionally, the federal government should work with provincial governments and other stakeholders to consider the most effective methods of using the revenue collected from BCAs to provide much needed

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support for research, development, and implementation of emissions-reducing technologies in Canadian industries.

As mentioned previously, Fertilizer Canada's members have already implemented measures to reduce their environmental footprint. As a mature EITE industry, further environmental performance improvements will require major investments of time and capital to develop and implement emerging emissions-reducing technologies, such as carbon capture, utilization, and storage (CCUS). BCAs have the potential to lessen these barriers to implementation of emissions-reducing technologies by levelling the playing field between Canadian producers and their international competitors that do not face similar carbon pricing regulations. **However, BCAs will not erase all barriers our industry faces in reducing emissions, and both the federal and provincial governments must continue to engage with industry to ensure that climate targets and policy are realistic and achievable**.

Although BCAs could support Canadian producers, there is a potential for import charges to cause unintended consequences for Canadian fertilizer companies and farmers, who rely on imported fertilizers for specific nutrients that are not manufactured in Canada. Agricultural production in Eastern Canada in particular depends heavily on imported crop nutrients to meet the needs of crops grown in the region. It is imperative that Canada's approach to BCAs balances the need to support efficient fertilizer production with the need to secure necessary crop inputs across Canada. **The federal and provincial governments must ensure that any BCA system would not result in unintended consequences for Canada's farmers and ensure that potential consequences are accounted for and addressed in the policy development process.**

Concluding Remarks

Thank you again for this opportunity to provide input on the development and implementation of BCAs in Canada. We believe that, if designed and used well, BCAs could be an integral piece of Canada's climate approach by levelling the playing field between Canadian producers and those in other jurisdictions and reducing the barriers Canadian producers currently face in investing in further emission reductions. Maintaining competitiveness for EITE industries and preventing carbon leakage have already been recognized as key priorities for Canada's carbon pricing system, and BCAs could further support these priorities and make it easier for Canadian producers to continue to reduce their emissions.

We stand ready to work with the Government of Saskatchewan and the Government of Canada in the development and implementation of BCAs. We would be pleased to schedule a virtual meeting to further discuss our comments above. Please contact us with any questions related to these recommendations.

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Sincerely,

McKenzie Smith
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CC: Martine Dubuc, Associate Deputy Minister, Environment and Climate Change Canada

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