



FERTILIZER CANADA

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March 4, 2022

Ministry of Environment  
Climate Change and Adaptation Division  
3211 Albert Street, 2nd Floor  
Regina, SK  
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Via email: [prairie.resilience@gov.sk.ca](mailto:prairie.resilience@gov.sk.ca)

**Re: Saskatchewan OBPS Program 2023 Discussion Paper**

On behalf of our member companies, Fertilizer Canada thanks the Saskatchewan Ministry of Environment for providing us with the opportunity to comment on the recently released *Saskatchewan Output-Based Performance Standards Program 2023 Discussion Paper*. We greatly appreciate your efforts to engage with industry on this important topic, and we hope that the comments outlined in this consultation response help ensure the revised provincial OBPS program continues to protect the global competitiveness of our industry.

Fertilizer Canada represents manufacturers, wholesale, and retail distributors of nitrogen, potash, and sulphur fertilizers. 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. Saskatchewan has some of the world's largest potash deposits in the world and, as one of the most valued metal and mineral products in Canada, potash accounts for 3% of the province's revenues. In addition to eight conventional and two solution potash mines, Saskatchewan is also home to a nitrogen manufacturing facility which upgrades Canadian natural gas into nitrogen fertilizers, one of the most globally traded commodities.

Canadian fertilizer manufacturing facilities are some of the most technologically advanced, energy efficient, and safest facilities in the world. As proactive environmental stewards, our member companies have made tremendous progress to date, with Canadian potash producing 50 per cent fewer emissions in comparison to its global competitors,<sup>1</sup> and Canadian nitrogen facilities ranking first, as the most feed-and-fuel energy efficient plants in the world.<sup>2</sup> Our facilities in Canada are more advanced and efficient in comparison to our global competitors and, as price takers in a global market, we are unable to pass down increased costs to our grower customers. This makes the fertilizer industry one of the most Energy-Intensive, Trade-Exposed (EITE) industries in Canada and around the world.<sup>3</sup> We invite the Government of Saskatchewan to review our recently published Low-Carbon Technology Scan,<sup>4</sup> and we would be pleased to further discuss the findings of this study with your department.

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<sup>1</sup> Global Carbon Footprint Benchmarking for Potash

<sup>2</sup> Canadian Ammonia Producers Benchmarking Energy Efficiency and Carbon Dioxide Emissions

<sup>3</sup> Output-Based Pricing System Regulations: SOR/2019-266

<sup>4</sup> Low-Carbon Technology Scan for the Canadian Fertilizer Industry



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## Concerns and Recommendations

Following our review of the discussion paper, we have outlined our preliminary concerns and recommendations; however, this extremely short consultation timeline presents a significant challenge for Fertilizer Canada and our member companies. As the provincial OBPS program is reviewed by Environment and Climate Change Canada (ECCC), **we ask that the Saskatchewan Ministry of Environment proactively engage with industry where possible to ensure we can develop comprehensive and meaningful recommendations.**

### Scope 2 Emissions

We acknowledge that electricity generation and natural gas transmissions pipelines are currently covered by the federal OBPS but that, as of January 1<sup>st</sup>, 2023, these activities will be covered by the provincial Saskatchewan OBPS program. As regulated emitters with covered facilities in Saskatchewan, our member companies currently hold exemption certificates for fuel charge relief issued under the federal OBPS which exempts them from paying the fuel charge on fuel used at their regulated facility. **It is our understanding that this exemption will remain within the provincial OBPS system. However, as this has not been directly stated in the discussion paper, we ask that the Saskatchewan Ministry of Environment confirm that fuel exemption certificates will remain within the provincial OBPS program in the same capacity as the federal OBPS.**

We are pleased with the proposed approach to cogeneration and the intent to incorporate emissions from on-site electricity generation into the same performance standard allocation that applies to the regulated facility. Cogeneration is an effective way for steam-dependent industries – like fertilizer manufacturing – to increase efficiency and reduce carbon emissions by utilizing a by-product of the steam generation process for product manufacturing. Often, cogeneration offers a cleaner alternative to the purchase of higher-emitting grid electricity. However, as coverage for electricity generation transitions into the provincial system, we fear that any increased costs for electricity producers will be passed down to consumers, including our members, who already pay a price on emissions above their performance standard as regulated emitters. **Therefore, as electricity generation is brought under the provincial system, we ask that the Ministry of Environment ensure the revised system clearly states that scope 2 electricity emissions will be the responsibility of the electricity production facility and that regulated facilities utilizing off-site produced electricity are not paying twice for the same molecule of carbon. Further, Fertilizer Canada asks that if our member companies reduce their own scope 2 emission through cogeneration or self-generation of electricity on site that they are recognized through either generation of performance credits on a relative basis or through the development of a new baseline which accounts for these low-carbon activities.**

### Performance Standard Stringencies

As explained in the discussion paper, we understand that to meet the federal equivalency requirements, Saskatchewan's program will increase stringency on performance standards by 10



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per cent (a total of 15 per cent by 2030) for most sectors, including fertilizer manufacturing and mining. We appreciate that the Ministry of Environment has worked extensively in an attempt to balance the supply and demand of credits in a way that will allow benchmarks to be determined with facility and provincial level data. **We ask that the Ministry of Environment continue to engage with our industry specifically as the federal dynamic modelling is reassessed and as the proposed provincial stringency levels are reviewed by ECCC.**

The federal government conducted preliminary dynamic modelling which did not find nitrogen manufacturing or potash mining to be at high risk for global competitiveness impacts or carbon leakage. While we have been informed by ECCC that nitrogen production will be remodelled and analyzed individually, it is our understanding that potash will not be modelled separately from other mining sectors. Fertilizer Canada and our members are deeply concerned that including potash among other mining sectors will not accurately assess risk specific to our sector and that the model does not account for the unparalleled trade exposure of Saskatchewan potash. **Fertilizer Canada asks that the Saskatchewan Ministry of Environment support our industry where possible in our request that ECCC model potash individually.**

#### Industrial Process (IP) Emissions

With Industrial Process (IP) emissions accounting for approximately three quarters of all nitrogen manufacturing emissions and over half of IP emissions being utilized to manufacture urea and urea ammonium nitrate (UAN), we greatly appreciate that IP emissions were extensively reviewed and specifically included within the discussion paper. It is our shared understanding that ECCC will require all emissions, including IP emissions, to be covered by provincial programs but that they are offering some flexibility as to how the province covers these types of emissions. **Fertilizer Canada thanks the Government of Saskatchewan for its efforts to clearly understand the federal government requirements and for including an allocation that will be applied to the average baseline IP emissions intensity for a facility. Further, we thank you for recognizing the capture and use of IP emissions to manufacture globally traded urea and UAN products by not covering these emissions within the proposed program.**

#### Supply and Demand of Credits

##### *Performance Credits*

Under the proposed approach, performance credits will be awarded to regulated facilities for each tonne of emissions reduced below the facility's permitted emissions in a compliance year. Additionally, as mentioned during the Saskatchewan OBPS Discussion Paper webinar on February 28<sup>th</sup>, it was confirmed that there will be no expiry dates associated with these performance credits and that performance credits can be used at other facilities within an organization and sold to other emitters. **Fertilizer Canada and our members support this approach, and we appreciate the ability to generate performance credits without limiting expiry dates as well as the flexibility to either apply credits at other facilities within an organization (not only the facility where those credits were generated) or sell those credits to other regulated emitters.**



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We believe that a critical factor for the success of the proposed performance credit system is clear transparency with industry if there is to be any re-baselining of regulated facilities. As performance credits are generated and utilized, there should not be any new additional requirements based on performance credit generation, how regulated facilities choose to utilize performance credits (in early years or deferred), or as a result of low-carbon technology adoption to produce new credits. **Therefore, Fertilizer Canada asks that the Saskatchewan Ministry of Environment ensure credits remain relative to the baseline target and that any adjustments to baselines in the future should continue to follow the existing principles of the Saskatchewan OBPS.**

#### *Offset credits*

We note that the Government of Saskatchewan is proposing the removal of offset credits as a regulatory compliance option for regulated facilities within the provincial OBPS program in order to ensure the market is not flooded with credits and demand for credits is maintained. While we recognize the importance of maintaining the carbon price signal with a net demand for credits in the market and its necessity to mitigate a more aggressive increase in benchmark stringency, we are disappointed with the removal of offset credits from the provincial program as an additional opportunity for our member companies. **Offset credits offer our industry a unique opportunity to be incentivized for the sustainable use of our products on cropland. We ask that the Saskatchewan Ministry of Environment continue to consider offset credits within its program where possible without a further increase in benchmark stringency for our industry. Additionally, Fertilizer Canada recommends that Saskatchewan Ministry of Environment collaborate with the federal government and other jurisdictions to recognize offset credits generated in Saskatchewan as possible compliance options in other jurisdictions.**

#### *Carbon capture, utilization, and storage (CCUS) Credits*

The discussion paper indicates that the Ministry of Environment will award credits for carbon dioxide (CO<sub>2</sub>) that is captured and permanently sequestered or utilized. CCUS is a promising emissions-reducing technology for our industry, and we are pleased to see that our members would receive credits for investing in this technology at their facilities and that we would be provided with flexibilities as to how that carbon is captured and stored with a technology agnostic approach. However, since the discussion paper proposes the CCUS credits can not be sold to other regulated parties and only used by the company that generated the credit to meet compliance standards, we fear companies with only one facility in Saskatchewan will not be incentivized to invest in CCUS technologies in the same way as a company with multiple facilities in the province. We believe another possible complication with this approach is how CCUS credits may be generated or utilized across a broad partnership, such as CCUS hub projects, and recommend that these credits do not prohibit or limit other CCUS credits from provincial or federal incentive tax credits. Additionally, we want to highlight that the fertilizer sector is not able to valorize CCUS reductions through the Clean Fuel Standard. **We appreciate that generated CCUS credits can be issued to the operator of the facility which captured carbon via CCUS, however we ask that the Government of Saskatchewan reconsider its approach with respect to the application and sale of CCUS credits as to not limit the use of these credits**



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**at single facilities. Fertilizer Canada would also encourage Saskatchewan Ministry of Environment to consider and communicate how CCUS credits under the provincial OBPS program will interact with the planned federal CCUS Investment Tax Credit system.**

### Saskatchewan Technology Fund

Implementing low-carbon technologies at a commercial scale requires large capital investments and regulatory stability. However, there is a clear interest in pursuing some of these innovations – for example, past funding opportunities in Alberta for CCUS projects have been well over-subscribed, indicating a need for government support to drive the adoption of low-carbon technologies. We recognize that, under the federal OBPS, funds collected must be pooled rather than returned directly to regulated emitters in order to maintain the carbon price signal. However, we are concerned that, without a sector pooling approach, the majority of the funds will be utilized to upgrade outdated infrastructure at crown corporations, limiting access to the funds by other sectors, including the fertilizer industry. **Fertilizer Canada asks that, as the administration and procedures for the Saskatchewan Technology Fund are developed, the Government of Saskatchewan continue to proactively engage with our industry to ensure that our industry can sufficiently access and utilize funds to further reduce emissions in Saskatchewan.**

**We also ask the Government of Saskatchewan to provide more information and clarity as to how crown corporations will contribute to the fund and recommend that the funds be segregated on a sector-by-sector basis to ensure industries like our own are able to sufficiently access funding to support low-carbon technologies at our facilities.** At this time, our understanding is that, beginning in 2023, crown corporations will charge a carbon tax to their customers, and this tax will then be paid into the technology fund. In this case, we ask that the fund also be designed to allocate funds collected through crown corporations to sectors that pay carbon tax to these corporations.

**Additionally, Fertilizer Canada encourages the department to seek solutions for a revenue recycling program which are as simple and transparent as possible with minimal administrative burden and costs while ensuring that the fund supports as many beneficial activities as possible.**

### **Concluding Remarks**

Thank you again for this opportunity to submit feedback as it relates to the *Saskatchewan Output-Based Performance Standards Program 2023 Discussion Paper*.

Our industry recognizes the importance of strong engagement and collaboration with government, and we stand ready to work with the Government of Saskatchewan as the provincial OPBS program is updated and implemented. We ask that, as negotiations between ECCC and Saskatchewan Ministry of Environment occur, our industry be consulted during these discussions to ensure any assumptions are well understood and any potential implications to our industry can be reviewed and considered. Although we appreciate that your department is waiting for a formal response from the federal government, we ask that our industry be consulted on an ongoing basis



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throughout this process to provide our member companies with as much time as possible to review and provide comments or additional information.

Please contact us should there be any questions or concerns related to this submission.

Sincerely,

McKenzie Smith  
Director, Stewardship & Regulatory Affairs

CC: John Moffet, Assistant Deputy Minister, Environment and Climate Change Canada  
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