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des constructeurs de véhicules**

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December 16, 2015

Ms. Melissa Ollevier
Senior Policy Advisor
Air Policy Instruments and Programs Design Branch
Climate Change and Environmental Policy Division
Ministry of the Environment and Climate Change
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Subject: EBR Registry Number: 012-5666 – Cap and Trade Program Design Options

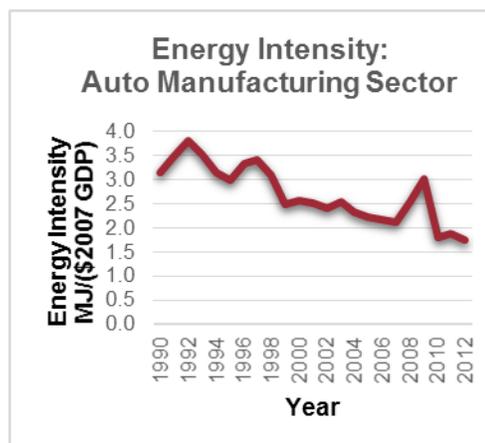
Dear Ms. Ollevier:

The Canadian Vehicle Manufacturers' Association (CVMA) appreciates the opportunity to comment on the proposed Cap and Trade (C&T) program Design Options document (November 2015). Honda of Canada Mfg. and Toyota Motor Manufacturing Canada Inc. share our comments and support this letter. This letter represents the collective view of all vehicle manufacturers operating automotive assembly facilities in Ontario.

Vehicle manufacturers in Ontario have a long history of taking action to reduce energy consumption and their carbon footprint through investment in new processes, energy conservation, and waste diversion – and remain committed to reducing greenhouse gas (GHG) emissions going forward.

Energy Intensity (MJ/\$2007 – GDP) in the auto manufacturing sector has been decreasing since 1990 (source: NRCAN). Put another way, the auto manufacturing sector has become increasingly more energy efficient over time. Efforts are being made to continue this trend.

Auto manufacturing contributes less than one percent of Ontario industrial GHG emissions (source: MOECC). Ontario auto manufacturing is efficient – emitting less than half of the direct and indirect GHG emissions per vehicle built when compared to European auto manufacturing (source: ACEA; CVMA).



Ontario auto manufacturers are committed to reducing GHG emissions. All five auto manufacturers – FCA Canada Inc., Ford, General Motors, Honda, and Toyota – have set company-wide public targets to reduce GHG and/or energy intensity ranging from 1% to 3% per annum reaching out to the 2020 – 2025 timeframe.

Ontario auto manufacturing is also highly trade exposed (source: StatCan data) and very sensitive to any cost increases. That is why the design of Ontario's Cap and Trade program is very important to the competitiveness of Ontario auto manufacturing and the economic and environmental objectives of Ontario.

The MOECC Cap and Trade consultations to-date and the program design options discussion paper have provided some useful information. We acknowledge and support the MOECC's approach to transition industry to a Cap and Trade program by proposing an assistance factor of 1 (100%) for large emitters (>25,000t CO₂e) for the first compliance period from 2017 to 2020, and for proposing an emissions allocation process designed for Ontario. However, there remains uncertainty in the details of the program, in particular post 2020, and in the determination of trade exposure and in the assistance factor to address the risk of carbon leakage. It is still too early based on available information to assess the full impact of a Cap and Trade program; CVMA looks forward to further discussions on the assistance factor and allocation formula development for the automotive sector and the inclusion of free allowances.

The auto manufacturing sector is a key driver for Ontario's economy contributing significantly to Ontario's manufacturing GDP (20% plus) and providing tens of thousands of direct and indirect high paying jobs. The auto manufacturing sector is highly integrated and competitive between Canada and the U.S. and in particular the U.S. Midwest and South (our competing jurisdictions). Manufacturing plants on both sides of the border are competing for capital, investment and product mandates.

Considering the high cost of electricity in Ontario, currently twice the rates of those in the U.S. Midwest and South (source: AMPCO), in addition to the impact of our colder winters on energy consumption, long supply chains, and the extremely competitive nature of auto manufacturing, Ontario auto manufacturers are very concerned about any incremental added direct cost (carbon) and indirect cost (electricity and supply chain). These added costs may erode competitiveness and impact investment decisions and product mandates.

It is critical that the government provide an economic analysis of the various design options being considered. The economic impact of a proposed program on auto assembly needs to be considered on a holistic basis where the cumulative effect of increasing costs of transportation, direct energy use and increasing electricity costs are considered and mitigated across the supply chain.

The issues of most relevance to the auto manufacturing sector are: trade exposure, carbon leakage risk and assistance factor, cap reduction factor, impact on electricity cost, impact on supply chain cost, and credit for early action.

Trade Exposure, Carbon Leakage Risk, and Assistance Factor

Ontario auto manufacturers are highly trade exposed at 94% (source: StatCan data) exporting more than 90% of production to the U.S. market. No other industry, as significant to Ontario's economy as auto manufacturing, is as highly trade exposed.

California, which does not have an auto sector, defines trade exposure above 19% as high. Quebec defines NAICS code 33 as trade exposed and would include auto manufacturing if Quebec had an auto manufacturing sector. Europe defines high trade exposure above 30% and the auto manufacturing sector in Europe is at 31%. The MOECC is proposing to define trade exposure in Ontario at 10%. However, the MOECC has also proposed that Ontario's auto manufacturing sector is a medium risk for carbon leakage. Considering the extremely high trade exposure of Ontario's auto manufacturing sector (94%), and the risk of increasing GHG emissions and losing employment through carbon leakage, MOECC must define auto manufacturing as a high carbon leakage risk.

The MOECC is proposing an assistance factor of 1 (100%) for the first compliance period (2017 – 2020) to transition large emitters (>25,000t CO₂e) into the Cap and Trade program. The MOECC has not indicated what the assistance factor will be post 2020 to address carbon leakage. This, and the unknown future cost of carbon, creates significant uncertainty as to the future impact of the program, which could negatively influence investment decisions and securing future product mandates. CVMA recommends that the MOECC maintain an assistance factor of 1 (100%) for high carbon leakage sectors through to the end the program (assumed to be 2030) and that the MOECC review this every 5 years and adjust accordingly as competing jurisdictions implement similar carbon policies.

Cap Reduction Factor

The MOECC has proposed that the cap reduction factor will be set within a range of 2% to 4%. A 1% cap reduction would represent a reduction of 72,000t GHG emissions from the auto sector in 2030. This is greater than the current total emissions from a typical assembly plant. A 4% reduction would require a reduction of 289,000t GHG emissions by 2030. This is more than half of the collective total emissions from the eight auto assembly plants in Ontario. Considering the sector's high trade exposure, history of reductions, and publicly stated commitments to further reduce carbon and/or energy intensity, CVMA recommends that the MOECC consider setting the cap reduction factor not exceeding 1% for the first compliance period to fully determine the impact on industry.

Impact on Electricity Cost

The MOECC has indicated that electricity generation will be included in the Cap and Trade program and that this sector will not be eligible for an assistance factor. This means that there will be no protection from the carbon cost passed through for electricity consumption (indirect impact) for trade exposed industries. We are concerned that passing through the carbon cost via the Hourly Ontario Energy Price (HOEP) may result in a multiplier effect on electricity prices that will not be offset by a reduction in the Global Adjust for auto manufacturing that are Class A large electricity consumers. We are also concerned that the MOECC will not apply an assistance factor, or similar measure, to address the carbon leakage risk from the carbon cost embedded in electricity generation for trade exposed sectors.

CVMA recommends that if protection is provided for direct impacts, the same should apply for indirect emissions. The MOECC should evaluate applying the carbon cost in electricity generation through an uplift charge, and that measures are put in place to prevent carbon leakage risk from the carbon cost embedded in electricity generation for trade exposed sectors. One potential method would be to provide trade exposed sectors with a rebate on their utility bill for the embedded carbon cost in electricity, similar to the approach used by California. Given the already low level of carbon in the electricity sector, MOECC should also consider less stringent and costly reduction targets for carbon in that sector.

Assurance is also needed that any capital investment opportunities related to combined power projects (CHP) remains a cost effective solution for industry to offset improved energy efficiency and that CHP projects are not discouraged through a cap and trade program. Co-generation systems support the province's goals and have the potential to increase fuel efficiency, reduce energy costs and reduce GHG emissions.

Impact on Supply Chain Cost

Ontario's auto supply chain base is a very important component of a robust, successful and competitive auto manufacturing sector. Auto manufacturing suppliers include large emitters (above 25,000t GHG) that will be directly impacted (Cap and Trade) and indirectly impacted (electricity), many small emitters (less than 25,000t GHG) that will be indirectly impacted (heating fuel and electricity), and logistics/shippers that will be indirectly impacted (transportation fuel). While the MOECC has indicated that the embedded carbon cost in the auto supply chain will be evaluated in the economic modelling conducted by the MOECC's contracted consultant, the MOECC has not indicated in the consultations nor the discussion paper how the carbon leakage risk from the carbon cost embedded in the supply chain for trade exposed sectors will be addressed.

A study of the competitiveness implications of GHG emissions regulation on American industries found that about three-fourths of the estimated compliance cost for the U.S. motor vehicle manufacturing industry lay in the compliance cost pass through effects from its suppliers other than electricity service suppliers (Ho, Morgenstern, and Shih 2008)¹. About 10% of the total cost for the U.S. industry was due to compliance costs associated with direct emissions and the other 15% was connected to electricity service compliance costs. Of the studied U.S. industries, the motor vehicle manufacturing industry had the largest percentage disparity between estimated compliance costs due to direct GHG emissions versus indirect emissions. This type of finding underlines the importance of taking all supply chain indirect GHG emissions into account, not just electricity energy services, when considering the potential implications of GHG emissions regulation on compliance cost exposure.

CVMA recommends that measures be put in place to prevent carbon leakage risk from the carbon cost embedded in and passed through the supply chain for trade exposed sectors. One potential method would be to allow smaller emitters supplying trade exposed sectors to apply for a rebate on their energy utility bills for their embedded carbon cost.

Credit for Early Action

CVMA recommends that credit for early action applies to the period from before 2008 (when Ontario joined the Western Climate Initiative) up to the date that the baseline is set, just prior to the start of the program. It is important to reward positive past performance and to encourage proactive reductions to continue.

Use of Proceeds

The design consultation needs to lay out the approaches for the use of proceeds to fully understand the extent which increased costs might be mitigated. Our data indicates that in order for assembly operations to make even marginal reductions to GHG emissions, significant capital investments need to be made. Proceeds from the sector are unlikely to adequately fund these investment opportunities.

¹ Ho, M.S., Morgenstern, R., and Shih, J-S. (2008) Impact of Carbon Price Policies on U.S. Industry. Resources for the Future Discussion Paper 08-37

Vehicle manufacturers wish to work with the Government to design a Cap and Trade that reduces GHG emissions while supporting competitiveness and attracting investment.

Yours sincerely,

A handwritten signature in black ink that reads "Yasmin Tarmohamed". The signature is written in a cursive, slightly slanted style.

Yasmin Tarmohamed
Vice President, Environment, Health and Safety

cc: H. Pearson, MOECC
R. Fleming, MOECC
J. Whitestone, MOECC
P. Evans, MOECC
V. Severino, MEDEI
G. Gherson, MEDEI
S. Thompson, Finance

ATTACHMENT - CVMA SPECIFIC COMMENTS ON THE CAP AND TRADE DESIGN OPTIONS

CVMA has reviewed the questions outlined in the Cap and Trade Design Options discussion paper and has provided feedback on the specific questions where appropriate based on the information available.

1. Linking with Quebec and California

California and Quebec do not have auto sectors and while any Cap and Trade program will add cost to our sector, our assessment suggests that linking with Quebec (QC) and California (CA) should increase the number of allowances available for auction and therefore has the potential to make more offset allowances available than Ontario alone. However, the auction management (purchase, management, etc.) and surrendering process must be as simple as possible to avoid extra administrative burden on industry.

Ontario also needs to consider other manufacturing jurisdictions without a carbon program in order to prevent carbon leakage. This consideration should impact the length of time that trade sensitive sectors are given free allowances, relief from electricity pass through costs and a realistic cap slope for reductions.

Jurisdictions with higher carbon content in their energy mix will effectively be subsidized by jurisdictions such as Ontario with less carbon emissions. Care must be taken to ensure that carbon pricing is fair between jurisdictions and furthermore that Ontario is not negatively impacted by currency fluctuations between the Canadian dollar and international currencies.

2. Timing

As with any program, there needs to be time to ensure the framework and infrastructure put into place is robust and has been fully tested. A 2017 start date is aggressive, program start dates and targets should be adjusted based on the readiness of the province to initiate this program including sufficient time for proper sector economic analysis, stakeholder consultation and pilot testing.

Q: How do you anticipate this timing affecting your sector and/or facility?

Should the program start in 2017, it would present a challenge to set-up administrative systems, however the effect of the timing decision ultimately depends on the tools and supports provided by the MOECC to ensure all parties understand their obligations.

Q: Noting that a later program start date would mean a steeper decline in annual caps to support achievement of Ontario's GHG reduction targets, does a January 1, 2017 start date give sufficient time for industry, businesses, and households to prepare for a cap and trade program?

Please refer above.

Q: Ontario plans to have extensive training and outreach to assist emitters with understanding their compliance obligations under the program. What else can Ontario do to support industry as it prepares for a cap and trade program?

Allocations are considered financial assets and industry would need to fully understand how to manage the accounting process for purchased, received and surrendered allocations. Our understanding is that free allocations may still be taxable, this needs to be addressed by the government.

3. Program Scope

With respect to the program scope, vehicle manufacturers prefer a broad scope. In this regard, how electricity is handled and dealt with under the program is important to the auto sector as our facilities have a flat load profile, which it cannot shift, and Ontario has higher electricity costs compared to competing auto manufacturing jurisdictions. The pass through of electricity costs as a result of a Cap and Trade program to the auto sector will be significant because the base load of auto assembly plants is consistent. Ontario needs to consider rebates by electricity suppliers.

For the vehicle manufacturers who have already implemented energy reduction projects and programs, unless a production line is shut-down, there are limited opportunities to reduce costs. The industry is not necessarily creating the peaks in demand but are paying the peak costs.

There will be an increase in operating costs throughout the automotive supply chain, even to locations that are not currently above the 25,000t CO₂e threshold. Cap and trade costs will be imposed on all industries regardless of the point of regulation.

a. Sector Coverage

Q: Should consideration be given to broadening the scope to other sectors?

The government needs to consider the sectors where there is the ability to significantly reduce GHG emissions.

Q: How should Ontario's program treat energy-from-waste facilities considering that emissions from landfilling are proposed not to be covered by the program?

Energy from waste should be excluded. However, landfill gas emissions are not the equivalent to utilizing landfill gas as a fuel, which is considered biomass and therefore exempt in GHG reporting regulations.

b. Point of Regulation

For the automotive sector, the point of regulation should be at the facility or company level for large emitters. If the point of regulation is the facility, the movement of allowances between facilities within the same company should be administratively easy and efficient. Electricity treatment requires consideration when looking at the scope and design of the program.

Q: What are the implications of the identified points of regulation from your sector's or facility's perspective?

There is a significant risk to the automotive sector for direct energy and electricity cost increases at the facility and throughout the supply chain. Consideration needs to be given to an effective electricity cost mitigation approach.

c. Emissions Coverage

The auto sector's main use of natural gas is to heat buildings and to run process equipment for the paint shop. Natural gas is used for paint curing ovens; to temper paint booth environments; and to operate abatement equipment at specified temperatures required in Ministry approved Environmental Compliance Approvals.

Paint shops are analogous to fixed process emissions since incoming paint booth air needs to be tempered and dried, abatement equipment needs to be operated and the painted vehicle needs to be cured in paint ovens. This creates a limited ability to change the process and natural gas usage except when there is a change in technology (technological limitation). Similar to the fixed process scenario considered for 100% allocation allowances, natural gas consumption in the painting process varies directly with hours of operation and outside temperature. Therefore, painting vehicles in an auto assembly facility should be considered and treated in a similar manner as fixed process emissions.

Q: How should treatment of fixed process and combustion emissions differ?

Both process and combustion emissions should be addressed according to the industry's technical ability to reduce emissions. For vehicle assembly there is very little opportunity for emissions reductions.

Q: What should be the guiding principles for defining what are fixed process emissions versus combustion emissions?

Process emissions are those that are unavoidable by-product of the production process.

d. New and Expanding Facilities

Q: The proposal indicates that new facilities emitting 25,000 tonnes or more of GHG annually would not have a direct compliance obligation until their third year of operation (these facilities would still have an indirect compliance obligation for fuel use). Would you propose a longer or shorter time? If so, what duration and why?

This proposal seems appropriate for new facilities. The regulation needs to consider the various stages of getting a new facility up and running and how to determine the allocations using a fair and balanced approach.

Q: For existing facilities that are expanding, it is proposed that the compliance obligation start the first year that the regulatory threshold is exceeded, does this allow sufficient time for entities to prepare for compliance?

No, this does not allow sufficient time for entities to prepare for compliance. For expanding facilities, a logical baseline should be established to determine the appropriate allocations for that facility at the end of the compliance period, after emissions have been third-party verified. Careful consideration needs to be given to the size of the expansion and allowances need to be provided to account for the expansion. Sufficient time also needs to be provided for the facility to undertake the true up and verify the allocations.

e. Opting in

The program also needs to have some provisions for opting out. Criteria and rationale should be included in the design so that a company is not penalized if there is a significant change in their operations.

Q: Is opting in an option that would be supported by stakeholders?

Yes, we support opting in as an option as long as it is a fair process that would ensure the facilities are not "charged twice" for emissions and given credit for emission reductions.

Opting into the program may allow facilities to further control their costs as long as opt in no longer allows the pass through costs from direct fuel suppliers (scope 1) to be imposed on the facility.

Q: Are there benefits or problems that have not been identified?

There is a potential for pass through costs to continue for a facility that has opted into the program.

Q: Should an entity be able to opt out of the program after opting in (provided they are operating below the regulatory threshold)? If so, under what conditions?

Yes, the program needs provisions for opting out. Facilities should be able to opt out at specific intervals if ownership or business conditions change. This would assist in ensuring that a company is not penalized if there is a significant change in their operations.

Q: What sort of limitations should be applied to the proposal to allow opting in?

Opt in should be allowed for facilities emitting less than 25,000t CO₂e within the same sectors of companies already targeted by the Cap and Trade design and direct emissions are greater than 1,000t CO₂e.

4. Setting the Cap – 2017 to 2020

We wish to be part of the discussion on setting and forecasting 2017 targets and the process needs to be open and transparent.

The auto sector contributes less than 1% of the total emissions reported under Ontario's reporting regulation and has made tremendous improvements in energy efficiency over the years. It will be very difficult to make significant year over year improvements on an ongoing basis. The paint shops account for the majority of GHG emissions, but significant step-wise reductions are only possible during a new paint shop investment (typically after a 20 to 25 year life cycle). Although it is being proposed to give an assistance factor of 1 (100%) during the first compliance period, the gap in emissions created by the cap will accumulate over time.

The cap slope decline should be reasonable and based on achievable reductions. The CIPEC data for motor vehicle manufacturing should be used as the basis for developing the cap slope. There is no "low hanging fruit" as the sector has made year over year improvements since the 1970s. The auto manufacturing sector is able to contribute to the provincial GHG reductions, but 4% per year is probably not achievable on an ongoing basis. We note that trade exposed sectors in California are provided with different slopes and those with long standing energy use reduction efforts should not be penalized.

Q: If Ontario sets a 2020 cap that would achieve reductions beyond achieving the 2020 GHG reduction target, would that ease the transition for compliance periods post-2020?

We do not support setting a 2020 cap that would achieve reductions beyond the target. Typical reductions are approximately 1 to 2% per year per vehicle produced for auto facilities. An increased cap slope from the already stated 3.7% would likely be technically unachievable for our sector.

Q: What should Ontario take into account as detailed work is undertaken to forecast emissions for the starting cap in 2017

Forecast emissions should be based on 2015 emissions adjusted after consultation with sectors.

5. Market Design Features.

After the first compliance period, Ontario should evaluate the program and determine at that time if alignment is required or is beneficial for the province and those sectors impacted. Careful consideration needs to be given to the proposed market design options to ensure that it is as administratively efficient as possible. Manufacturing facilities under the 25,000t CO₂e threshold should be allowed to opt-in or out of the program under specified conditions.

Q: What is the interest in participating in a practice auction to assist emitters and participants with understanding the auction process?

The auto manufacturing sector is interested in participating in a practice auction. This will allow entities to pilot the process and potentially decrease later administrative burden. The government should also seek stakeholder feedback on the process.

Q: To enhance compliance flexibility, should Ontario proceed with an initial four –year compliance period and then align with three-year compliance periods post-2020?

Yes, this will allow entities to understand the process fully and the government to make adjustments as necessary.

Q: What processes can Ontario put in place to ease registration reporting requirements?

A simplified reporting, allocation purchase, registration and surrendering process would assist in easing registration reporting requirements. For example, the Ministry should consider using the infrastructure that is already in place, such as the Single Window Information Manager (SWIM) system.

6. Price Stability Mechanisms

Controlling price is important to ensure it does not escalate too steeply and it is important to have a mechanism in place to control run-away costs. More discussion is needed on potential mechanisms as we do not fully understand the approach as outlined. Clarification of the situation after 2020 is needed and it would be helpful for the MOECC to provide examples.

Q: What are the risks of Ontario not implementing a strategic reserve?

At this time, we only have a cursory understanding of a potential strategic reserve. Based on our current understanding, removing allocations from the total by putting them in the reserve may actually increase the risk of price escalation. There may be other implications if allowances are not placed in the reserve early in the process that may need to be considered.

Q: What should Ontario consider in determining the size/use of the strategic reserve?

Ontario needs to consider the cap slope and the feasibility of the covered entities in meeting their obligations. If the size of the strategic reserve is too high, there will be insufficient allocations available for purchase.

7. Mitigating Carbon Leakage

a. Distributing Allowances: Emissions Intensity and Trade Exposure

Overall, it is difficult to comment on distribution of allowances appropriately without knowing how MOECC will be looking at allowances post 2020.

The Ontario auto sector trade exposure is over 90% which is unique (in the EU, the auto sector is 31% trade exposed). It is critical that the MOECC recognize that increased production costs in Ontario contribute to an uncompetitive situation compared to other North American facilities that are producing vehicles. Existing electricity rates are already creating competitiveness challenges.

Although free allocation to 2020 is a helpful transition strategy, the allocation distribution from 2020 to 2030 is critical and at this time is unclear. The leakage model presented by the MOECC to the sector was an improvement over the CA model in that it recognizes trade exposure separately from energy intensity. However, there is no rationale for limiting the vehicle manufacturers to a “medium” risk when the trade exposure risk alone is so great (94%). The Ontario manufacturers will be trade exposed until competing jurisdictions, primarily in the U.S., have a carbon policy in place. The Ministry should plan to review trade exposure periodically.

An evaluation of carbon leakage must consider intra-firm competition for investment. Many Canadian facilities compete with U.S. and other international facilities for volume manufacturing of the same products. As these facilities use the same processes, incremental cost increases can result in disproportionate losses in production as a result for competition from other facilities within the same company. Intuitively, this model of carbon leakage differs from the model discussed above due to the lack of empirical data given the small number of cap and trade programs in place. The main concern is not the ability to pass on costs, but the ability to compete for product mandates.

Q: Are adjustments required to the proposed approach for assessing leakage risk to reflect Ontario's unique circumstances?

Ontario and the EU are currently the only Cap and Trade jurisdictions with automotive manufacturing. The Ontario automotive manufacturing industry is over 90% trade exposed, so regardless of our energy intensity the MOECC should recognize the auto sector is at high risk for carbon leakage. Other U.S. states that do not have cap and trade legislation, but have automotive manufacturing, such as Michigan, Illinois, Indiana, Kentucky, Missouri and Texas have electricity emission factors of up to 5 times higher than Ontario. For an average automotive manufacturing facility to relocate to one of those regions, NA would see an average increase in scope 2 CO₂e emissions of 125,000t CO₂e per year per facility.

Q: What are the strengths and weaknesses of Ontario's proposed approach to address carbon leakage risk? Are there additional steps Ontario should consider? Are there measures that could be improved?

Automotive manufacturing is over 90% trade exposed in Ontario and needs to be given special consideration for carbon leakage. The MOECC should add a category that puts high trade exposed industries at a high leakage risk regardless of emission intensity.

b. Flexibility Mechanism

The proposal is reasonable and we are supportive of the allowances not expiring.

c. Use of Offset Credits

The design should include offsets and we are supportive of verifiable offsets that are beyond those occurring in Ontario and Quebec. However, we are unclear if 8% will be sufficient as the program evolves in future years.

Protocols for offset credits should be simple and not complex. They need to be broad enough to allow for creation of offsets.

d. Border Carbon Adjustments

Border carbon adjustments would be a massive government intrusion into the marketplace. Markets typically react negatively to intrusion and the province would likely experience unintended consequences.

100% free allocation is a better approach than border carbon adjustments for the automotive sector. We note that electricity and natural gas is already subject to border carbon adjustments.

Q: For the next compliance period (post 2020) how should the different EITE risk classes be treated with regard to setting the “assistance factor”?

As previously noted, the EU considers an industry at high risk for trade exposure if it is over 30% exposed, and in California the threshold is 19%. Ontario automotive manufacturing is over 90% trade exposed and needs to be given special consideration for carbon leakage. The MOECC should add another category that puts high trade exposed industries at a high leakage risk regardless of direct emission intensity.

Q: What should Ontario consider in setting the cap decline factor for sectors eligible for allowances free-of-charge?

Ontario needs to consider what is technically possible. Process emissions in the automotive industry are already extremely efficient and significant work has been done to reduce energy consumption related to comfort heat.

Q: Should fixed process emissions and combustion emissions be treated differently in recognition that emission reduction opportunities for fixed process emissions are more limited in the short-term?

Yes. As noted previously, emissions such as paint ovens and abatement technology where there is no practical alternative available and natural gas consumption varies directly with hours of operation and outside temperature should be treated in the same manner as fixed processes.

Q: What kinds of investments are required to make it possible for your sector to affect significant GHG emissions reductions?

Ontario experiences extreme temperature variation due to its geography with cold winters and regardless of the amount of efficiencies we find, in the foreseeable future natural gas will still be required to heat the buildings. Unless a new technology is developed, significant reductions cannot be achieved within our painting operations.

Q: Do you support additional border carbon adjustments, and if so, which ones?

No. 100% allocation is a better approach.

8. Recognizing Early Reductions

Auto sector has history of early reductions and as such the sector could be expected to continue with a cap slope not exceeding 1%. The design needs to recognize this good work and provide the auto sector a slope that can be practically and technically managed.

Q: Should Ontario develop an early reduction allowance program in addition to recognizing early reductions through benchmarking?

Yes.

Q: If so, what should Ontario consider in developing an early action program?

CVMA recommends that additional specific consultation needs to be undertaken with stakeholders on this topic.

Q: Should early reduction allowances only be considered for sectors being allocated under the energy use-based approach, since there is less incentive for lowering energy use at facilities subject to this allocation method?

No.

Q: Which years should be eligible for recognizing early reductions under the program?

This should depend on the industry and technology advances over time. At a minimum the program should recognize actions pre-2008 through to the start of the cap and trade program.

9. Compliance Requirements

Compliance to regulatory requirements is a priority for the auto industry. We wish to better understand the mechanism for the compliance period beyond 2020.

Q: Is the proposed approach to demonstrating compliance suitable to an Ontario context? How could it be improved?

Allocations should be provided to an entity at the end of each verification reporting period, but the surrendering and true-up should take place at the end of the compliance period. This gives the entity time to purchase allocations during the compliance period, if needed, and adds an appropriate cadence for allocation purchases during the auctions.

Q: Should Ontario include a requirement to submit allowances for a portion of emissions (partial true-up) to give companies and staff experiences before the compliance deadline in 2021?

Entities could be provided the option to surrender allowances once per year during the compliance period, but a final firm deadline in 2021 to meet their compliance obligation.

Q: If so, for what portion of the compliance obligation should companies be required to submit allowances, e.g. 25%, 50%, etc.?

Companies should be allowed to surrender allowances equivalent to up to date verified emissions for the compliance period (i.e. could surrender the equivalent to the verified emissions of 2017 and 2018 in the spring of 2019).

Q: When should the partial true-up take place?

Partial true-up should take place at the mid-point of the compliance period.

10. Enforcement and Penalties

The proposed approach as outlined are similar to those in other jurisdictions and appear appropriate. No additional enforcement tools need to be considered at this time.