



**Canadian Vehicle  
Manufacturers' Association**  
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des constructeurs de véhicules

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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  
77 Wellesley Street West, 10<sup>th</sup> Floor  
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**Subject: EBR Registry Number: 012-6837 – Cap and Trade Regulatory Proposal and Revised Guideline for Greenhouse Gas Emissions Reporting – CVMA Submission**

Dear Ms. Ollevier:

The Canadian Vehicle Manufacturers' Association (CVMA), representing FCA Canada Inc., Ford Motor Company of Canada, Limited, and General Motors of Canada Company appreciates the opportunity to review and comment on the Cap and Trade Regulatory Proposal and Revised Guideline for Greenhouse Gas Emissions Reporting. Honda of Canada Mfg. and Toyota Motor Manufacturing Canada Inc. share our views and support this letter. This letter represents the views of all of the vehicle manufacturers operating facilities in Ontario.

Vehicle manufacturers have a long track record of reducing energy consumption and greenhouse gas (GHG) emissions. We are continuing to take action to reduce our carbon emissions. This is demonstrated by the publicly outlined company-wide targets for GHG and/or energy intensity reductions for each of the five manufacturers out to 2020-2025.

We support a broad based, economy-wide approach to reducing carbon emissions. Without a continental approach to carbon pricing, it is critically important that Ontario protect its auto manufacturing sector (vehicle manufacturing and their supply chain) from carbon leakage.

In moving to implement the cap and trade program, efforts to reduce greenhouse gas emissions should be geared towards supporting, maintaining, and further advancing vehicle manufacturing in the province. Over the course of the last many months, we have raised several key issues with the government and are concerned that they still remain.

Please note that our comments are provided in the absence of a review of the findings of the cap and trade economic modelling work commissioned by Ministry of the Environment and Climate Change (MOECC) as well as other Ministries. We look forward to the opportunity to discuss the results of this study with the MOECC.

The **issues that still remain and must be addressed** are as follows:

**1. Designation of the auto sector (including Ontario's auto supply chain) as high risk for carbon leakage as a result of being very trade exposed**

The government has acknowledged but not documented that the auto manufacturing sector is highly trade exposed and is at risk for carbon leakage due to the high level of product export (more than 97% of vehicles manufactured are exported) and continuing manufacturing cost pressures. Competing jurisdictions for auto manufacturing facilities do not have a carbon policy similar to the one that Ontario plans to implement on January 1, 2017. Furthermore, certainty around the access to free allocations is required beyond the compliance period in order to provide investment certainty.

The regulation, as currently written, does not address the high risk designation which is essential to protect vehicle manufacturing from carbon price risk and for product mandate considerations in the long term. We expect that this will be corrected in the final regulation.

**2. A cap reduction factor no greater than 1% that recognizes auto's past performance and realistic reduction opportunities**

The vehicle manufacturing industry has been proactive in reducing energy use and improving energy efficiency in its operations for more than four decades. Because of this historical focus and continuous progress, there remain limited technological opportunities for large emission reductions in the auto sector.

The Cap Adjustment Factor proposed in Table 5 of the draft regulation is not achievable for our sector. Regardless of the Assistance Factor, the sustained reduction of 4.57% proposed year over year is not achievable before or after 2020. Consequently, we will be finishing the first compliance period in 2020 with requirements to purchase significant allocations and will start the second compliance period well above the anticipated new baseline. This GHG reduction "debt" will be difficult to reduce, even with large investments in future technology advances, if available. We expect that this too will be corrected in the final regulation.

**3. Mitigation of energy pass through and other costs for the industry and the supply base cost increases and impacts**

Under the draft cap and trade regulations, electricity generation is being included in the scope of the program. During the implementation of the cap and trade program, the government must ensure that the cost of electricity does not increase further due to the pass-through of carbon costs to trade exposed sectors such as motor vehicle manufacturing.

The 2016 Provincial budget indicates that "*The government will also take steps to ensure that the net impact of cap and trade would not result in an overall increase in electricity costs for commercial and industrial consumers*". This is a positive step. However, the regulations must provide greater clarity regarding the cost of electricity and offsetting measures and needs to be documented.

In addition, the direct and indirect energy cost impacts compounding through the automotive supply chain needs to be addressed. This can be accomplished through revenue recycling for efficiency projects and other means to ensure that this trade exposed sector also remains viable in Ontario. These offsetting measures must take into account the increased cost of transportation of raw materials, components and finished products.

Due to our historical focus on energy reduction, most vehicle manufacturers are challenged to find significant energy reduction projects. At this time, there are limited technological options for our

painting process, which represents the largest GHG source. All vehicle manufacturers basically use the same painting technology, with incremental improvements seen with each new generation. If new technology becomes available, it is normally prohibitively expensive to introduce in an existing plant, so would be introduced when a new paint shop is built, typically after thirty or so years of life. Fulfilling the MOECC vision of technological innovation and a low carbon economy will require extensive investment. We request that the MOECC address each of the issues addressed above and commit to providing direct access to funds and give priority to projects, direct and indirect, that support and maintain the competitiveness of the vehicle manufacturing sector.

Overall, we are concerned that the draft regulation has been rushed to finalization, with the theory that any concerns can be addressed in the post-2020 regulation. However, as detailed above, the first regulation leaves auto manufacturers in a very vulnerable position in terms of cost and competitiveness. The vulnerable position may be difficult to rectify in the future. We request that serious consideration be given to our comments about our trade exposed situation, the cap reduction factor, and the electricity cost issue. The industry cannot wait until post-2020 for our issues highlighted above to be addressed. The regulation needs to be right at the start.

Our comments on specific sections of the cap and trade regulatory proposal are outlined in the Attachment.

We trust that our comments will be considered. Vehicle manufacturers wish to work with the Ministry as you move forward with the implementation of the cap and trade program. It is in our shared interest to effectively reduce GHG emissions while supporting competitiveness and attracting investment.

We look for further interaction with the Ministry once our submission has been reviewed. In the meantime, please call me at 416.364.9333 should you have any questions.

Yours sincerely,



Yasmin Tarmohamed  
Vice President, Environment, Health and Safety

Attachment

cc: P. Evans, Ministry of the Environment and Climate Change  
R. Fleming, Ministry of the Environment and Climate Change  
A. Wood, Ministry of the Environment and Climate Change  
H. Pearson, Ministry of the Environment and Climate Change  
S. Imbrongo, Ministry of Energy  
G. Gherson, Ministry of Economic Development, Employment and Infrastructure  
J. Espie, Ministry of the Environment and Climate Change  
C. Finley, Ministry of Economic Development, Employment and Infrastructure  
J. Espie, Ministry of the Environment and Climate Change  
N. Daube, Ministry of Finance  
M. Olsheski, Ministry of Energy  
A. Bevan, Office of the Premier  
J. McEachern, Office of the Premier

**ATTACHMENT**  
**CVMA Detailed Comments**  
**Cap and Trade Regulatory Proposal and Revised Guideline for**  
**Greenhouse Gas Emissions Reporting**

**COMMENTS ON THE DRAFT REGULATION:**

- **Allocation Method and Motor Vehicle Manufacturing**

Appendix A.1 in the draft regulation outlines four eligibility determination methods for free allocations (page 45 and 46). The Director has been afforded the flexibility to determine which of the allocation methods is most appropriate for facilities that are eligible for free emission allowance allocations which is positive. The Ministry has suggested that the energy used based allocation methodology is most suitable for vehicle manufacturing combustion emissions. We recommend that individual companies be able to apply for an alternate allocation methodology for a specific facility.

Our understanding is that the portion for Combined Heating and Power (CHP) has been excluded from the energy base number (the B factor) which is encouraging.

- **Assistance Factor (AF)**

Under Section A.2.1, "AF1" is presented as being "equal to 1 in the first compliance period (2017 to 2020)". It is encouraging that an assistance factor (AF) of 1 (100%) is being provided for the first compliance period.

In previous discussions with the Ministry, it was stated that allowance calculations for capped emitters would include an assistance factor based on each industry's leakage risk. The Ministry has presented metrics of High, Medium or Low and that risk would be assessed by industry or industry group (4-digit NAICS code). As Ontario has indicated that there is a desire to link the cap and trade program, with Quebec and California, and both jurisdictions have methodology for calculating trade exposure in their regulations, there is precedent for including a trade exposure rating.

However, the regulation is silent on the AF post 2020 and information confirming that vehicle manufacturing is deemed high carbon leakage risk is not provided. We recommend that the government commit to extending the AF equal to 1 for vehicle manufacturing for a minimum of 10 years and make adjustments accordingly (i.e. downwards) once other competing jurisdictions where automobiles are manufactured implement a comparable carbon policy. This should be included in the regulation.

Also, we wish to highlight that it is difficult to clearly evaluate the impact of the proposed regulation when it is set out only for the first four years.

- **Cap Adjustment Factor:**

As already indicated, the cap adjustment factor (Table 5, page 74) which is 4.57% in 2018, 9.14% in 2019 and 13.71% in 2020 is very aggressive. Regardless of the allocation approach used, we can only reasonably meet a 1% cap slope. Furthermore, several Ontario sites have been provided a Cap Adjustment Factor of '1' for the entire first compliance period, including ALL historical based fixed process allocations (Table 5) and several Direct Allocation facilities (Table 4, Page 72). Vehicle manufacturing should be afforded the same opportunity given our long history. We recommend that Table 5 in the draft regulation be revised so that the cap adjustment factor is equal to a 1% reduction for motor vehicle manufacturing.

If the current proposed cap adjustment factor was carried forward through 2030, it has been estimated that a minimum of 60% of the emissions allocations would need to be purchased by the vehicle manufacturing sector as there is no known or foreseeable cost-effective alternative to using natural gas for painting operations (i.e. bake paint, temper booth air, and abatement for VOC emissions). This cap adjustment factor, as proposed, effectively negates the AF, which is designed to protect the Ontario economy from carbon leakage. Furthermore, the proposed cap adjustment factor has the potential to impact investment decisions (carbon leakage) as new buildings and paint shops will need to consider a carbon cost in operations. Typically, vehicle paint shops have a life of 30 plus years. Therefore, a vehicle assembly plant emitting 60,000 tonnes GHG would need to consider an additional operational cost that could be approaching \$1.8M (assuming carbon cost approaching \$50 per tonne). Hence, our recommendation that the cap adjustment be revised to no more than 1% for our sector.

- **Regulatory Impact Analysis and Economic Modelling**

While the EBR proposal includes a regulatory impact statement, it is short on the quantitative details including the costs to facilities or sectors, the impact on Ontario's economy and the expected GHG emission reductions attributed directly as a result of the proposed regulations. Given the financial implications for all involved, this information along with the economic modelling results undertaken by the Ministry of the Environment and Climate Change (MOECC) and other Ministries needs to be openly shared to ensure transparency and credibility of the process and be published in the final regulations.

- **Other**

The draft regulation contains elements that can be difficult to follow and complicated, therefore, we suggest language simplification and streamlining sections, where possible so affected entities can easily follow and understand the requirements. We also request that guidance documents covering the elements of the program and definitions of the terminology be developed to assist participants.

The Ontario government needs to ensure that the administrative requirements under the cap and trade regime be held to a minimum and do not impose undue administrative burden on the regulated community.

## **SPECIFIC COMMENTS ON THE DRAFT REGULATION**

### **DEFINITIONS (PAGE 3-4):**

The terms "Chief Officer" and "Chief Financial Officer" are not outlined in the Act (Bill 172) or the proposed regulation. We recommend that the "Chief Officer" and "Chief Financial Officer" terms be addressed in the regulation or in guidance as it would provide clarity of the requirements.

Also, the Ministry should issue guidance materials where terms used in the Act or regulations are addressed. Some specific examples are: primary account holder, account agent, a capped participant versus market participant, budget year, production year, energy use year and year data.

### **SECTION 17: INFORMATION TO BE PROVIDED FOR REGISTRATION (PAGE 13)**

S17 (2) 1 requests further information for registration whereby "each unique identifier used under the "reporting regulation" is to be provided. It is unclear if this registration is required at the corporate level. Clarification is required in this regard.

S17 (1) 4 is unclear with respect to determination of a "business relationship" between two facilities. The Ministry needs to clarify this issue in the regulation or in additional guidance.

### **CAP AND TRADE ACCOUNTS AND TRANSACTIONS (PAGE 18 TO 24)**

Where the director shall retire allowances from an account due to an administrative infraction (When holding limit is exceeded (Page 18), Emission Allowances in Closed Accounts (Page 24), Suspension of authority re: accounts (Page 21)), the account owner should be eligible for relief, due process and potentially compensation for their lost allowances. The proposed regulation should be revised to reflect this.

### **A.1 ELIGIBILITY FOR FREE ALLOCATION (PAGE 44)**

Clarity is needed on the eligibility for applying for allowances free of charge for vehicle manufacturing. Section A.1 indicates that energy use reported under general stationary combustion for the operations of equipment related to natural gas as described in Table 2 of O. Reg. 452/09 are **not eligible**. The language needs to be clarified to specifically reference item 19 in Table 2 of O. Reg. 452/09.

### **A.2 HOW TO APPLY FOR ALLOWANCES (PAGE 44 -46)**

As indicated above, it is encouraging that the Director has been given the authority with respect to the allocation method to be used by the company/facility and that the Ministry has suggested the energy used based allocation methodology is most suitable for vehicle manufacturing combustion emissions. However, the draft regulation requires clarification and simplification in Appendix A.2 for industries who report under general stationary combustion under the reduced formula of  $B_t = A_{ft} \times [(B_{et}) \times C_{ct}]$ . It is currently understood that vehicle manufacturing will utilize either the Energy use-based allocation or History-based allocation method depending on the specific circumstances at each facility.

Also, confirmation is needed that auto manufacturing will utilize the energy use allocation value (Bet) as outlined in A.2.4. or an alternate by seeking Director Approval.

### **A.4.3 APPLICATION OF EARLY REDUCTION CREDITS (PAGE 58)**

In item f), a verification report prepared by an accredited verification body (as defined in the GHG reporting regulation) in accordance with ISO 14063-3 has been proposed as part of the application for early reduction credits. Considering the verification report and the application requirements, the process for those seeking early action credits is very onerous and expensive. It would be helpful if the process was simplified and streamlined including a guidance document for applying for early reduction credits.

### **A.4.5 ELIGIBILITY CONDITIONS FOR EARLY REDUCTION CREDITS (PAGE 60)**

Regarding early reduction credit eligibility, the requirements should be modified so that a facility having made a decision to either purchase an alternative fuel at a higher cost **or** invest in modifications or replacement of equipment in order to use the replacement fuel would both be eligible to apply for early reduction credits. The requirement should be one or the other but not both conditions. Otherwise, it would be restrictive, penalizing proactive good behavior given its very limited applicability. The wording should be in line with the WCI guidelines for early reduction allowances. The wording should be changed as follows:

- *“If the emissions reduction is achieved as a result of the substitution of a fuel with a replacement fuel at a facility*
  - a) *The average price paid for the replacement fuel .....same period; **or***
  - b) *The person must have paid .....during the reduction period.”*

As written, it appears to be more stringent than Quebec's cap and trade program which means that very few projects would be eligible. In addition, due to the global recession in 2008-2010, emission intensity spiked for many regulated facilities, which effectively excludes them from being eligible for early reduction credits. We recommend that facilities should be given the ability to adjust the reference years in their application based on Director Approval.

Also in this section, in A.4.5 (e), we are assuming that early action on the Save on Energy and other provincially funded programs do not fall under listed exclusions. The draft regulation or guidance should clarify that the portion of the project funded by the regulated entity would be eligible for early action credit as incentives often represent a small portion of the total project costs.