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Policy regarding voluntary participation in **THE OUTPUT-BASED PRICING SYSTEM**

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Policy regarding voluntary participation in the Output-Based Pricing System

Purpose

Under section 172 of the *Greenhouse Gas Pollution Pricing Act* (GGPPA) a person responsible for a facility may request that the facility be designated as a covered facility under the GGPPA. Each application will be assessed on its merits and on a case-by-case basis. This policy outlines the considerations the Minister will take into account when making such a designation. It also outlines the procedures that the person responsible for such facilities is to follow when requesting such a designation. Finally, the policy also lays out the considerations that the Minister would take into account when cancelling a designation made under section 172 of the GGPPA.

This policy does not apply to facilities that meet the criteria in section 8 of the *Output-Based Pricing System Regulations* (OBPS Regulations). Persons responsible for these facilities are required under the GGPPA to apply to register these covered facilities.

The aim of this policy is to minimize competitiveness and carbon leakage risks from the exposure of a sector to the federal fuel charge (under Part 1 of the GGPPA), while retaining a price signal on carbon pollution that creates an incentive to reduce greenhouse gas emissions (GHGs).

Part 1 of this policy applies to facilities engaged in an activity set out in column 1 of Schedule 1 of the OBPS Regulations. Part 2 enables additional facilities to apply to be included in the Output-Based Pricing System (OBPS).

Definitions

For the purposes of this policy, **facility** has the same meaning as under the OBPS Regulations.

Schedule 1 activity means an industrial activity listed in column 1 of Schedule 1 to the OBPS Regulations.

Additional industrial activity means an industrial activity that is listed in Appendix A of this Policy.

The **date of first production** means either:

- a. the date on which the facility first produces a product; or
- b. the date on which the facility starts producing a product resulting from being engaged in a Schedule 1 activity or an additional industrial activity after a major retrofit has occurred; or
- c. the date on which the facility resumes the production of a product from a Schedule 1 activity or an additional industrial activity after an expansion has occurred.

A **new** facility is a facility whose date of first production is in the previous three years. In determining the date of first production for a new facility all industrial activities the facility is currently or was previously engaged in should be taken into account.

A **major retrofit** has occurred if the facility ceases to be engaged in a Schedule 1 activity or additional industrial activity as its primary activity and instead, becomes engaged in a different Schedule 1 or additional industrial activity as its primary activity.

An **expansion** has occurred when a facility has increased its production from a Schedule 1 activity or additional industrial activity by 25% or more.

Designation as a covered facility

The Minister will take into account the following considerations when making a decision regarding the designation of a facility as a covered facility:

Part 1: Facilities undertaking Schedule 1 activities

Section A: Facilities that have reported emissions of 10 kt of CO₂e or more

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. The facility is engaged in any of the activities set out in column 1 of Schedule 1 to the OBPS Regulations;
3. A report was made, in accordance with a *Notice with respect to reporting of greenhouse gases (GHGs)* published under section 46 of the *Canadian Environmental Protection Act, 1999*, in respect of that facility indicating that that facility emitted a quantity of GHGs equal to 10 kilotonnes of carbon dioxide equivalent (kt of CO₂e) or more, as one or more facilities as defined in such a notice, during the 2017 calendar year or after; and
4. A complete application to designate the facility as a covered facility in the OBPS is submitted in respect of the facility in the form and manner determined by the Minister. The application must be made by a person responsible for that facility.¹

Section B: New, retrofitted or expanded facilities that are projected to emit 10 kt of CO₂e or more

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. The facility is engaged in any of the activities set out in column 1 of Schedule 1 to the OBPS Regulations;
3. No report on GHG emissions from the facility was required under a previous *Notice with respect to reporting of greenhouse gases (GHGs)* published under section 46 of the *Canadian Environmental Protection Act, 1999*, and it:
 - a. is a new facility,
 - b. has undergone a major retrofit in the past three years, or
 - c. has undergone an expansion in the past three years;
4. The person responsible for the facility submits as part of its application to designate the facility as a covered facility in the OBPS estimates, bearing a valid engineering stamp and signature of an engineer, in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrates that the facility is projected to emit 10 kt of CO₂e or more in any of the 3 calendar years following the date of first production. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions; and

¹ For the purpose of section 172 of the GGPPA, the person responsible for the facility is the person who owns or is otherwise responsible for the facility, including the person who has the charge, management or control of or is the true decision maker with respect to the operations of the facility.

5. A complete application to designate the facility as a covered facility in the OBPS is submitted in respect of the facility in the form and manner determined by the Minister. The application must be made by a person responsible for that facility.

Part 2: Facilities in sectors at significant risk of competitiveness impacts and carbon leakage

Section A: Facilities that have reported emissions of 10 kt of CO₂e or more

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. A report was made, in accordance with a *Notice with respect to reporting of greenhouse gases (GHGs)* published under section 46 of the *Canadian Environmental Protection Act, 1999*, in respect of that facility indicating that that facility emitted a quantity of GHGs equal to 10 kt of CO₂e or more, as one or more facilities as defined in such a notice, during the 2017 calendar year or after;
3. The facility is either engaged in an additional industrial activity listed in Appendix A of this Policy, or successfully applies for an additional industrial activity to be added to Appendix A ;
4. The facility is not engaged in a Schedule 1 activity as its primary activity; and
5. A complete application to designate the facility as a covered facility in the OBPS is submitted in respect of the facility in the form and manner determined by the Minister. The application must include the information set out in Appendix C of this Policy. The application must be made by a person responsible for that facility.

Section B: New, retrofitted or expanded facilities that are projected to emit 10 kt of CO₂e or more

1. The facility is located in a province or area set out in Part 2 of Schedule 1 to the GGPPA;
2. No report on GHG emissions from the facility was required under a previous *Notice with respect to reporting of greenhouse gases (GHGs)* published under section 46 of the *Canadian Environmental Protection Act, 1999*, and it:
 - a. is a new facility,
 - b. has undergone a major retrofit in the past three years, or
 - c. has undergone an expansion in the past three years;
3. The person responsible for the facility submits as part of its application to designate the facility as a covered facility in the OBPS estimates, bearing a valid engineering stamp and signature of an engineer, in accordance with the law of a province or territory that governs the practice of professional engineering, that demonstrates that the facility is projected to emit 10 kt of CO₂e or more in any of the 3 calendar years following the date of first production. Such estimates should be consistent with currently recognized industry practices for the quantification of emissions;
4. The facility is either engaged in an additional industrial activity listed in Appendix A of this Policy, or successfully applies for an additional industrial activity to be added to Appendix A;
5. The facility is not engaged in a Schedule 1 activity as its primary activity; and
6. A complete application to designate the facility as a covered facility in the OBPS is submitted in respect of the facility in the form and manner determined by the Minister. The application must include the information set out in Appendix C of this Policy. The application must be made by a person responsible for that facility.

Timing

A person responsible for a facility seeking to request designation for the 2024 calendar year must submit its application for registration and request for designation during the 2023 calendar year to be considered for designation for the 2024 calendar year.

The proposed [Regulations Amending the Output-Based Pricing System Regulations and the Environmental Violations Administrative Monetary Penalties Regulations](#) (the proposed Amendments) include provisions regarding the compliance period for facilities located in a jurisdiction in which the fuel charge applies. Should the proposed Amendments to the Regulations be finalized, the first compliance period for a covered facility registered under section 171 of the GGPPA or designated as a covered facility under subsection 172(1) of the GGPPA will start on January 1 of the year following the calendar year in which the facility is registered or designated. As a result, the person responsible for a facility that is requesting designation as a covered facility for the 2024 calendar year should submit a request in 2023 in sufficient time for the request to be fully considered.

Please note that due to the careful analysis that is required of every request for designation, absent unusual circumstances, Environment and Climate Change Canada (ECCC) does not anticipate being able to process requests for voluntary participation for the 2024 compliance period received after October 15, 2023. For applications received before October 15, 2023, where additional information is required before the application can be considered complete, absent unusual circumstances, ECCC does not anticipate being able to process these requests if all necessary information is not received prior to November 15, 2023.

Notification of decision

A person responsible for a facility that makes an application under this policy will receive a notification indicating the decision regarding their request to have their facility designated as a covered facility.

A person responsible for a facility that is designated as a covered facility and registered in the OBPS will be notified of the industrial activities that apply for that facility.

Cancellation of designation

A person responsible for a facility that has been designated as a covered facility under section 172 (1) of the GGPPA may apply to have the designation of the facility cancelled. An application to cancel a designation must be made in the form and manner prescribed by the Minister.

If a cancellation request is granted, it will generally take effect at the end of the compliance period in which the application is made.

This Policy is effective from January 1, 2023. This Policy may be amended from time to time.

Appendix A: Additional Industrial Activities

This Appendix includes the additional industrial activities from sectors at significant risk of carbon leakage and competitiveness impacts.

Additional industrial activities may be added to this Appendix in the following circumstances:

The applicant successfully demonstrates that:

1. The industrial activity is not set out in column 1 of Schedule 1 to the OBPS Regulations;
2. The industrial activity is an activity that is engaged in at a covered facility or at a facility for which the person responsible for the facility has made a request for the facility to be designated as a covered facility under section 172 of the GGPPA;
3. The industrial activity is included in a sector listed in the table in Appendix B of this Policy or successfully applies for its sector to be added to that table by demonstrating that the sector faces significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing;
4. The industrial activity:
 - accounts for 20% or more of the quantity of GHGs from the facility; or
 - results in revenue, in dollars, attributable to the sale of the product produced by the facility from that industrial activity of 20% or more of the revenue, in dollars, attributable to the sale of all products produced by the facility from all of the facility's industrial activities;
5. The industrial activity is not the production of an intermediate product or the production of a by-product of an activity that is set out in column 1 of Schedule 1 to the OBPS Regulations or another additional industrial activity engaged in by the facility; and
6. The industrial activity is:
 - the production of a single product; or
 - the production of multiple products, if these products are, commonly produced in an integrated production process, and measured using the same units, and where any variation in the proportion of production does not impact the emission intensity of the additional industrial activity.

List of additional industrial activities from sectors at significant competitiveness and carbon leakage risk

<u>Additional Industrial Activity</u>	<u>Unit of Measurement</u>
NAICS 2123 - Non-metallic mineral mining and quarrying	
Mining and processing of nepheline syenite	Tonnes nepheline syenite
Production of granules of traprock	Tonnes of granule of traprock
NAICS 3113 - Sugar and confectionery product manufacturing	

<u>Additional Industrial Activity</u>	<u>Unit of Measurement</u>
Production of confectionary products	Tonnes of finished confectionary products
NAICS 3114 - Fruit and vegetable preserving and specialty food manufacturing	
Production of preserved fruits and vegetables by canning, pickling, or brining	Tonnes of preserved fruits and vegetables
311611 - Animal (except poultry) slaughtering	
The slaughtering of pigs and production of pork products for human consumption that will not undergo an additional transformation at the facility.	Tonnes of finished pork
NAICS 3112, 3118, 3119 - Miscellaneous food manufacturing	
Production of high purity food grade plant protein isolate or concentrate for food processing industrial sectors	Tonnes of dry protein
NAICS 32222 - Paper bag and coated and treated paper manufacturing	
Production of tapes made from paper products excluding medical tape at a facility that is not engaged in the activity listed in item 36 of Schedule 1 of the OBPS Regulations.	Tonnes of tape
NAICS 324 - Petroleum and coal product manufacturing	
Refining of used oil to produce lubricants	kilolitres of re-refined lubricant
Asphalt shingle and coating material manufacturing	tonnes of asphalt shingles and coating material
Production of refined wax from a secondary petroleum product	Tonnes of wax
NAICS 3251, 3252, 3259 - Other chemical manufacturing	
Production of zinc oxide	Tonnes of zinc oxide
Production of dried industrial phosphates, not including ammonium phosphate	Tonnes of dried industrial phosphates
Distillation of coal tar	Tonnes of coal tar distillation products

<u>Additional Industrial Activity</u>	<u>Unit of Measurement</u>
Production of biodiesel	Litres of biodiesel
Production of uranium as uranium trioxide (UO3)	Tonnes of Uranium
Production of polyvinyl chloride resins	Tonnes of PVC resins
Butyl Rubber Manufacturing	Tonnes of Butyl rubber
1,3- Butadiene Manufacturing	Tonnes of 1,3 - Butadiene
Production of malic acid	Tonnes of malic acid
Production of fumaric acid, not including fumaric acid used to produce malic acid	Tonnes of fumaric acid
Production of synthetic lubricant base stock oils or lubricant antioxidant additives	Tonnes of synthetic lubricant base stock oils and lubricant antioxidant additives
NAICS 331 - Primary metal manufacturing	
Production of high alloy steel ²	Tonnes of high alloy steel
Production of hot rolled steel at a facility that is not engaged in the activity listed in item 19 or 20 of column 1 of Schedule 1 of the OBPS Regulations.	Tonnes of hot rolled steel
Production of finished or semi-finished aluminium products from aluminium or aluminium scrap.	Tonnes of finished and semi-finished aluminium products
Production of uranium as uranium fluoride (UF6) or uranium dioxide (UO2)	Tonnes of Uranium
NAICS 33211 - Forging and stamping	
Forging of steel	Tonnes of forged steel
NAICS 33635 - Motor vehicle transmission and power train parts manufacturing	
Production of transmission and power train parts	Number of parts

² **High alloy steel** is steel with a total content of alloying elements (other than carbon, phosphorus, sulfur and nitrogen) of 5% or more by mass, including stainless steel. **Stainless steel** is steel that contains more than 10.5% chromium and less than 1.2% carbon by mass.

<u>Additional Industrial Activity</u>	<u>Unit of Measurement</u>
NAICS 33639 - Other motor vehicle parts manufacturing	
Production of plastic automotive fascias	Shipped kilograms of automotive fascias

Appendix B: Sectors at significant risk of carbon leakage and competitiveness impacts

The table in this Appendix includes sectors that have facilities located in Canada and that:

- have or may have GHG emissions of 10 kt of CO₂e or more per year;
- are engaged in an activity for which an Output-Based Standard (OBS) has not yet been specified under the OBPS Regulations; and
- have been identified as facing significant competitiveness and carbon leakage risks from the application of carbon pollution pricing.

Sectors at significant competitiveness and carbon leakage risk from carbon pollution pricing include sectors that meet the factors listed in this Appendix, as well as sectors that were identified based on the factors in the *Policy for voluntary participation in the OBPS* that was in effect in 2022.

Sectors may be added to the table in this Appendix in the following circumstances:

- a. The applicant demonstrates that using credible data, the sector is in a high or very high EITE risk category³, when the entire industrial sector is exposed to the federal fuel charge under Part 1 of the GGPPA at \$110 per tonne of CO₂e in 2026, or are more than 80% trade exposed using the above criteria.
- b. The applicant demonstrates that when other metrics or factors are considered the sector is at significant risk of carbon leakage due to carbon pollution pricing. These other factors include:
 - i. Competitors are included under the OBPS or competitors would be eligible if they were operating in a backstop jurisdiction - i.e., the facilities produce products that are already or could be captured under the OBPS;
 - ii. Carbon costs are large relative to revenue – i.e., facilities that make up 10% or more of the sector's revenue face carbon costs that exceed 3% of revenue;
 - iii. The sector is unable to pass on carbon costs to consumers as indicated by the sector having a trade exposure level that exceeds 60%;
 - iv. The estimated indirect carbon costs for the sector result in the sector being in the high or very high EITE risk category when both direct and indirect costs are included in determining the carbon costs of the sector.

Where factor a) or b) (i) is met, this will be considered a sufficient condition for the sector to be added to the table. For sectors that meet factors b) (ii) – (iv), sectors are to meet at least two out of the three factors in order for the sector to be added to this table.

³ Sectors with EITE risk of high or very high are sectors where:

- the emissions intensity equals or exceeds 3% and trade exposure equals or exceeds 20%, or
- the emissions intensity equals or exceeds 15% and trade exposure equals or exceeds 10%, or
- the emissions intensity equals or exceeds 30% and a trade exposure of any level is achieved.

Where,

Emissions Intensity = Direct Carbon Cost / Gross Value Added (GVA)

Trade Exposure = (Imports + Exports) / (Imports + Sales)

Table of sectors where the application of carbon pollution pricing may create a significant competitiveness and carbon leakage risk

21222	Gold and silver ore mining
2123	Non-metallic mineral mining and quarrying
3112, 3118, 3119	Miscellaneous food manufacturing
3113	Sugar and confectionery product manufacturing
31142	Fruit and vegetable canning, pickling and drying
311611	Animal (except poultry) slaughtering
321	Wood product manufacturing
32222	Paper bag and coated and treated paper manufacturing
324	Petroleum and coal product manufacturing
3251, 3252, 3259	Other chemical manufacturing
3254	Pharmaceutical and medicine manufacturing
32613	Laminated plastic plate, sheet (except packaging), and shape manufacturing
32614	Polystyrene foam product manufacturing
32621	Tire manufacturing
3271, 3272, 3274, 3279	Non-metallic mineral product manufacturing (except cement and concrete products)
331	Primary metal manufacturing
33211	Forging and stamping
33392	Material handling equipment manufacturing
33441	Semiconductor and other electronic component manufacturing
33611	Automobile and light-duty motor vehicle manufacturing
33633	Motor vehicle steering and suspension components (except spring) manufacturing
33635	Motor vehicle transmission and power train parts manufacturing
33639	Other motor vehicle parts manufacturing
33641	Aerospace product and parts manufacturing

ECCC may update the list in the table from time to time.

Appendix C: Supplementary information to support applications from sectors at significant risk of carbon leakage and competitiveness impacts

The person responsible for a facility that is making a request for designation of a facility as a covered facility in accordance with Part 2 of the *Policy Regarding Voluntary Participation in the Output-Based Pricing System* must provide the following information as part of their application.

1. Reference years

The reference years for a facility should be:

- a. 2017, 2018 and 2019 for an existing activity if data is available for those years;
- b. The three calendar years preceding to the compliance period for which the emissions limit is calculated, if the data are not available for the three calendar years referred to in a); or
- c. The compliance period for which the emissions limit is being calculated, if the data are not available for the calendar years set out in a) and b).

For a new, retrofitted or expanded facility, the information under section 3 of Appendix C can be estimated for the three first years from the date of first production. These estimates should be based on engineering estimates, bearing a valid engineering stamp and signature of an engineer in accordance with the law of a province or territory that governs the practice of professional engineering.

The facility must indicate the reference years that will be used and in the case of engineering estimates provide details on the methods used to perform the calculations.

2. Additional Industrial Activities

The person responsible for the facility must report all additional industrial activities engaged in at the facility.

The person responsible for a facility that is making a request to recognize an additional industrial activity must provide information on the production processes at the facility as well as information related to the factors listed in Appendix A, to support its request.

3. Information on emissions, production and transfers of thermal energy

The following information on emissions, production and transfers of thermal energy⁴.

- a. The total GHG emissions for the facility;
- b. The total GHG emissions associated with all Schedule 1 activities undertaken at the facility other than electricity generation from fossil fuels;
- c. The total GHG emissions associated with the generation of fossil fuel electricity at the facility;
- d. The total GHG emissions associated with each additional industrial activity undertaken at the facility;
- e. The total purchases of thermal energy that are purchased from covered facilities. The ratio of heat from the combustion of fossil fuels of the seller, where available;

⁴ Thermal energy means useful thermal energy in the form of steam or hot water that is intended to be used for an industrial purpose.

- f. The total sales of thermal energy to all covered facilities whose main activity is a Schedule 1 or additional industrial activity. The ratio of heat from the combustion of fossil fuels for the facility; and
- g. The production associated with each additional industrial activity.

This information must be provided for each of the reference years identified under section 1. The person responsible for the facility should use the same method to quantify the information for each of the reference years and detail this method in the application.

4. Quantification of emissions, production and transfers of thermal energy

The information under section 3 a) for the reference years should be provided based on the information submitted to the Greenhouse Gas Reporting Program, where available, with adjustments made for consistency with the OBPS Regulations. Specifically, for a facility for which a report was made, in accordance with a *Notice with respect to reporting of greenhouse gases (GHGs)* published under section 46 of the *Canadian Environmental Protection Act, 1999*, in respect of that facility as one or more facilities as defined in such a notice, during the reference years, the emissions for that facility should be provided as reported under the notice for each of the reference years. These facility totals should be adjusted for consistency with the OBPS Regulations. For example, emissions of CH₄ and N₂O from the combustion of biomass should be excluded from facility totals.

To the extent possible, the information under b), c), d), e), f), and g) should be quantified in accordance with the OBPS Regulations. In all other cases, this information should be quantified in accordance with industry best practices.

The information under 3 g) should include the quantity of each type of product produced by carrying out the additional industrial activity for each of the reference years in mass, volume or number of units, according to the units of measure currently used by the industrial sector in question.

All information should be provided using the International System of Units (SI units).

5. Third Party Review

An independent third party reviewer must review the information detailed in this appendix. The third party reviewer must:

- a. be a professional engineer certified in accordance with the law of a province or territory that governs the practice of professional engineering, or a chartered professional accountant certified in accordance with the law of a province or territory that governs the practice of professional accounting;
- b. have technical knowledge and expertise of greenhouse gas emission quantification methodologies for the sector, and audit practices; and
- c. not be the person responsible for the facility or a director, officer or employee of the person responsible for the facility or of an affiliate, or an employee or agent of the Government.

The third party reviewer must attest that the information in the application is complete, the information submitted under section 3 of Appendix C is free of material errors and omissions and the application has been prepared in a manner that is consistent with this Policy. Appropriate materiality thresholds can be found in subsection 49(2) of the OBPS Regulations.