

April 17th, 2018

The Honourable Catherine McKenna, P.C., M.P.
Minister of Environment and Climate Change Canada
200, Sacré-Coeur Blvd
Gatineau, Quebec K1A 0H3
via e-mail: ec.ministre-minister.ec@canada.ca

Re: Multiple Issues Impacting the Saskatchewan Supply Chain

Dear Minister McKenna,

The Saskatchewan Industrial and Mining Suppliers Association (SIMSA) represents over 160 of Saskatchewan's companies involved in the industrial, mining, and energy supply chain; whose total annual revenues exceed \$14-billion and employ 14,000 employees. SIMSA's mandate is to represent the interests and concerns of Saskatchewan industrial equipment and service suppliers, through promotion of its members and the creation of partnerships with industry and other associations. See www.simsa.ca for further information.

The purpose of this correspondence is to communicate for your understanding the effects of government policy on our organization, and the resource companies we serve. In particular, we wish to convey that SIMSA's membership is doubly impacted by any policies affecting the mining and oil sectors in Saskatchewan. Not only are we subject to policy changes directly, but additionally, we are critically impacted by policy affecting our major clients – the mining, oil, and gas sectors.

The impact of such policies on these sectors can cause a range of issues, all of which have devastating effects on the supply chain. Historically, new policies have typically caused to increased costs and the regulatory burden such that companies are forced to; (1) reduce margins, (2) reduce regional spending, (3) leave the region for better economics elsewhere, and/or (4) collapse.

These four resultants thus directly impact the supply chain with the respective;

1. Pressure to reduce supply chain profit margins past the point of economic feasibility
2. Critical loss of income
3. Complete devastation of the supply chain
4. Devastation of the western Canadian economy.

These resultants are so grave that SIMSA does not wish to draw attention to the direct impact on its membership, but rather to the impact on the mining and oil sector in general.

As such, SIMSA supports the Saskatchewan Mining Association's (SMA) position on the following items:

1. *Impact Assessment Act (IAA) (Bill C-69)* (see the attached letter to Thomas Bigelow, Clerk of the Standing Committee on Environment and Sustainable Development; from the SMA dated March 27th, 2018)
2. *Greenhouse Gas Pollution Pricing Act*, the *Federal Carbon Pricing Backstop*, and the *Clean Fuel Standards* (see respective attached letters to: Sean Keenan, Director General, Sales Tax Division – Tax Policy Branch from the SMA dated Feb 12, 2018; to yourself from the SMA dated June 23, 2017; and to Cam Carruthers, Executive Director of Oil, Gas, and Alternative Energy Division, Environment and Climate Change Canada, dated Feb 5, 2018)
3. *The Federal Output Based Carbon Based Pricing System Framework* (see attached letter to yourself from the SMA dated April 9, 2018)
4. Oil and Gas Pipeline construction

Impact Assessment Act (IAA) (Bill C-69)

SIMSA specifically agrees that the SMA's 2 proposed amendments, are crucial to the continued success of the Saskatchewan mining industry. As such, SIMSA specifically requests:

1. Assessment of mining projects should remain under provincial jurisdiction and the federal IAA requirements should only apply in jurisdictions in which an established environmental assessment (impact assessment) process is absent or where a jurisdiction requests for the federal requirements to apply. It must be recognized that mining and resource development is constitutionally under provincial jurisdiction.
2. Projects that are currently undergoing Agency assessment under the *Canadian Environmental Assessment Act, 2012 (CEAA 2012)*, or those that will enter the process before the coming into force of the IAA, must be allowed to continue under CEAA 2012 unless the proponent requests transitioning to the IAA.

In regards to the above, we note that Regulatory uncertainty is a key issue for the resource sector and the cumulative impact (cost and regulatory uncertainty) of all of the federal legislative and regulatory changes is likely to be crippling for our industry – this is because capital likes to stand on concrete, not sand; it needs to know it will see a return on investment or it will travel elsewhere. Some examples of these cumulative impacts are from changes proposed to: CEAA 2012 (i.e. IAA); the *Greenhouse Gas Pollution Prevention Act*; the *Clean Fuel Standards*; the *Metal Mining Effluent Regulations*; proposed *Coal Effluent Regulations*; the *Fisheries Act*; *Navigation Protection Act (Canadian Navigable Waters Act)*; and others.

Competitiveness of Saskatchewan mining companies is a significant challenge due to lower rates of international taxation and less stringent regulatory requirements in other jurisdictions.

As with certainty of IAA process and requirements, certainty around timelines is a key foundation for an effective and efficient assessment process. Uncertainty around timelines is a challenge for the mining industry, so SIMSA is concerned (as is the SMA) that the overall timeframe to complete an assessment will in fact be longer than under the current CEAA 2012 process, which is already unreasonably uncertain and lengthy. Specifically, the 300 days allocated in s. 28(2) is too long and there are too many opportunities for government to “stop the clock” within the proposed IAA.

There should also be no unregulated timelines in the legislation and subsections 18(4) and 65(6) should be amended accordingly to set a time limit on Ministerial decisions.

Greenhouse Gas Pollution Pricing Act (GGPA), Federal Carbon Pricing Backstop, and the Clean Fuel Standard (CFS)

SIMSA agrees with the SMA, that the GGPA as proposed would result in costs to the Saskatchewan mining industry in the order of hundreds of millions of dollars over the first five years that the Act is in force, and this does not include the significant additional costs related to the purchase of goods and services that will be incurred as a result of the proposed federal Clean Fuel Standard. This is one of the doubly impacted items referred to earlier herein.

There is also significant uncertainty and concern with respect to anticipated increases in future fuel and electricity costs. Emissions-intensive, trade-exposed (EITE) sectors, such as mining and oil, are price takers in the world market and are unable to pass on their additional input costs to their customers. Worse yet for SIMSA, is given the company’s need to rightfully respond to the desires of their shareholders; increased costs from fuel and electrical consumption must be compensated for to maintain profitability – the likely target is cost reductions extracted from the supply chain.

To be clear, SIMSA does not hold a grudge nor blame SMA member companies for placing economic pressure on our membership – we realize this is the harsh reality of our customer’s need to remain competitive in international markets.

We also agree with the SMA that a carbon pricing backstop is unnecessary to meet provincial and federal GHG emission reduction targets.

Two key unintended consequences of the proposed GGPA and the proposed Clean Fuel Standard are those of carbon and investment (opportunity) leakage. Should companies operating in Canada be forced to relocate to jurisdictions that offer a more competitive business climate as a result of the onerous addition of federal and provincial GHG and climate change regulatory requirements, their products will continue to be produced. The difference is that production will come from countries that likely have lower environmental standards than Canada resulting in potentially

higher GHG emissions globally, with a commensurate reduction in economic opportunity in Canada.

Companies also carefully consider the range of costs (including regulatory and tax burden) that can be incurred in various jurisdictions and make their determination of where to do business accordingly. As mentioned above, the cumulative impact of all of the federal proposals around GHG reduction and climate change must be considered. The SMA – and thus SIMSA - would strongly recommend that a full cost accounting be undertaken for both the regulated community and the consumers who will ultimately bear the financial burden of these proposals.

The SMA has specifically noted an item which is critical to SIMSA:

In addition to the direct costs that will be borne by the mining industry there will also be indirect costs that will be passed along by suppliers of goods and services to their customers (i.e. mining companies) as a result of increased costs that they incur as a result of the carbon tax. These will be seen in all goods and services that will be provided to a mine or services to transport our products to market, a few of which include: transportation fuels; aviation fuels, construction contracts, etc. In addition to the indirect costs associated with the proposed GGPPA, the federal government has also recently proposed a new Clean Fuel Standard which will introduce significant additional indirect costs to our industry.

SIMSA also agrees with the SMA that the CFS is a duplication of, rather than complimentary to, the Carbon Pricing Backstop being proposed by the federal government and that this standard would place a duplicate and inappropriate cost and administrative burden on industry.

As the SMA noted, in addition, large industrial consumers in energy-intensive, trade-exposed (EITE) sectors, such as mining, are price takers in the world market and are unable to pass on their additional input costs to their customers. The vast majority of the costs associated with a CFS will be passed along to the customers of the energy providers – SIMSA’s members - and will be borne directly by the industry. Further, a policy that may require fuel switching by industry to natural gas, biomass, or other renewable fuels may not be possible or may have unintended effects on feedstock availability for other sectors and occupational health and safety concerns for certain industrial applications.

EITE industries are already struggling to compete in a global marketplace as a result of the cumulative impact of new federal regulations. A program that requires energy used at industrial facilities meet a declining GHG standard over time is going to create an additional regulatory imbalance that is not currently borne by our global competitors. We believe that provinces are best positioned to determine the mechanism(s) required for their jurisdictions to meet their respective GHG targets.

In review, two key unintended consequences of the proposed CFS Standard are those of carbon and investment (opportunity) leakage. Companies currently operating in Canada may be compelled to relocate their operations out of Canada to more cost-competitive jurisdictions as a result of the increasingly arduous and cumulative federal and provincial GHG and climate change regulatory requirements. Their products will continue to be produced, but in countries that assuredly have lower environmental and safety standards and without the proposed GHG/climate change requirements. This will result in potentially higher GHG emissions globally. Many companies will not be able to relocate operations as mineral deposits are related to their geographic location. If these companies cannot produce on a globally cost-competitive basis, these operations will be forced to close with consequent losses of thousands of direct and indirect middle-class jobs.

Companies also carefully consider the range of costs (including regulatory and tax burden) that can be incurred in various jurisdictions and make their determination of where to do business accordingly. As mentioned above, the cumulative impact of all of the federal proposals around GHG reduction and climate change must be considered.

The Federal Output Based Carbon Based Pricing System Framework

The proposed Framework states that “Carbon pricing is an efficient way to reduce greenhouse gas (GHG) emissions at the lowest cost to businesses and consumers, while stimulating innovation and clean growth.” SIMSA agrees with the SMA that to date, there has been no empirical evidence provided by the federal government to support the claim that the current carbon pricing approach will be effective in reducing emissions or that it will be the lowest cost to businesses and consumers. The SMA’s members (our major clients) have estimated that costs will be in the hundreds of millions of dollars over a 5-year period.

The federal government has also indicated that it “would assess provincial and territorial carbon pricing systems as a whole against the pan-Canadian carbon pricing standard.” While this appears to indicate that the financial implications for each province or territory would be “equivalent” (a term used by ECCC officials during meetings), the SMA has stated a review of the various jurisdictions that have been deemed as “equivalent” clearly shows that the financial implications are not equivalent. This raises significant concerns regarding jurisdictional competitiveness within Canada and carbon and investment/opportunity leakage to other countries.

The SMA notes that to date, the federal government has also not provided any empirical basis or criteria for a jurisdiction to be “accepted” under the pan-Canadian Framework. It is apparent that the jurisdictions deemed as “accepted” do not have equivalent reductions/projected reductions in GHG emissions. The process and evidence relied on in assessing equivalency to the federal backstop should be

transparent and disclosed in the Regulatory Impact Assessment Statement for the GGPPA prior to the application of the backstop in any jurisdiction.

The SMA and SIMSA are increasingly concerned that because the federal government has not provided any empirical basis or criteria for being considered “accepted” under the pan-Canadian Framework, the Government of Saskatchewan’s comprehensive climate change resiliency plan, despite its GHG emissions reduction targets, may not ultimately be accepted by the federal government. This would result in our industry (and others in Saskatchewan) being subject to both federal and provincial requirements with respect to carbon pricing, accounting and reporting as alluded to by the federal government’s following statement:

“After reviewing each system, the Government of Canada intends to implement the federal backstop **in whole or in part** (emphasis added) on January 1, 2019 in any province and territory that does not have a carbon pricing system that meets the benchmark.”

SIMSA and the SMA would therefore strongly recommend that the federal government work closely with the province of Saskatchewan to come to an arrangement whereby the provincial system would be “accepted” by the federal government.

As such, SIMSA and the SMA believe that a carbon tax implemented on a national versus international level is largely ineffective in reducing GHGs in energy intensive and trade exposed industries such as the Saskatchewan mining industry. The result is that our industry will shoulder a disproportionate financial burden due to being price takers on the international market.

Oil and Gas Pipeline Construction

SIMSA’s membership represents not only the supply chain to the mining sector, but also the oil and gas sectors. In addition to the aforementioned issues, our membership has concerns with government policy regarding oil and gas pipeline construction.

Saskatchewan’s oil is land locked – it must reach tide water to achieve a second market, that being the rest of the world, in addition to its current American market. This will allow for higher prices to be obtained by two key factors; (1) Brent and WTI vs. Western Canada Select, and (2) reduced competition with American suppliers to American refineries.

As with the mining sector issues noted above, the economic impact on the oil industry – including the pipeline owner/operators – has a direct impact on the supply chain.

In summary, SIMSA's membership is doubly impacted by any policies affecting the mining and energy sectors in Saskatchewan. Not only are we subject to policy directly, we are critically impacted by policy affecting our major clients .

In conclusion, SIMSA requests that SMA member companies, and other resource sector producers, be allowed to compete fairly on an international level.

Thank you for taking time to hear our concerns. SIMSA is willing to engage with further discussion upon your request. We look forward to your response.

Thank you,



Eric Anderson,
Executive Director, SIMSA

CC via email

- The Honourable Scott Moe – Premier of Saskatchewan (premier@gov.sk.ca)
- The Honourable Ralph Goodale – Canada Minister Public Safety and Emergency Preparedness (ralph.goodale@parl.gc.ca)
- The Honourable Dustin Duncan – Saskatchewan Minister of the Environment (env.minister@gov.sk.ca)
- The Honourable Jeremy Harrison – Saskatchewan Minister of Trade and Export Development (minister.teic@gov.sk.ca)
- The Honourable Bronwyn Eyre – Saskatchewan Minister of Energy and Resources (ministerer@gov.sk.ca)
- Brad Trost – Member of Parliament for Saskatoon-University (SIMSA's office riding) (brad.trost@parl.gc.ca)
- Thomas Bigelow, Clerk of the Standing Committee on Environment and Sustainable Development (envi@parl.gc.ca)
- Sean Keenan, Director General, Sales Tax Division – Tax Policy Branch (carbonpricing-tarificationcarbone@canada.ca)
- Cam Carruthers, Executive Director of Oil, Gas, and Alternative Energy Division, Environment and Climate Change Canada (ec.cfsncp.ec@canada.ca)
- Pam Schwann – President of the Saskatchewan Mining Association(pschwann@saskmining.ca)
- Ken Cenaiko - SIMSA Board Chair (ken.cenaiko@croatiaindustries.com)