



The Clean Fuel Standard – compliance flexibility prioritizes consumers' interests

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Late last year, federal Environment & Climate Change Minister McKenna announced the government's intention to begin consultations on a new Clean Fuel Standard (CFS) that aims to cut GHG emissions by 30 MT by 2030. We saw the CFS initiative as a clear opportunity to build a well-balanced pan-Canadian fuel standard that was effective, efficient and transparent in driving real emissions reductions.

We haven't changed our mind on that. Over the past 10 months, we have been fully engaged in the consultation process, reaching out to and working with a wide variety of stakeholders, and providing technical, economic and practical insights based on our industry's substantial experience as the obligated party in multiple renewable fuel and low carbon fuels standards here in Canada and abroad.

Our objective is a CFS that delivers on its ambitious emissions reduction target at the lowest possible cost to fuel consumers. A key enabler of this objective is giving obligated parties – fuel suppliers – maximum compliance flexibility by setting an achievable target and leaving it to fuel suppliers to determine how best they can cost-effectively comply. Imposing additional, prescriptive requirements will only constrain fuel suppliers' ability to do this.

Unsurprisingly, other voices with a vested interest in specific compliance solutions are calling for less flexibility and more prescription, without regard to the additional compliance costs. Biofuel interests, both in Canada and the US, propose that the CFS require an increase in the current federal Renewable Fuel Standard (RFS) volumetric mandates for ethanol and biodiesel. In doing so they put their own economic interests ahead of those of fuel consumers, because a volume requirement layered on top of a simple emissions reduction target reduces compliance flexibility and imposes additional costs.

Undoubtedly, increased renewable fuels blending will be an important compliance pathway for the CFS. The CFS will likely increase the demand for both ethanol and biodiesel. But it should be an option, rather than a mandated requirement. This was a key point made by Scott Thurlow, former President of the Canadian Renewable Fuels Association, in a recent article in Policy Options. According to Thurlow, "the volume-based approach of the RFS frustrates efficient achievement of that goal (cost-effectiveness), and the only people who will pay for it are Canadian consumers".

The proposed CFS is unique in that it will apply to transportation, and the buildings and industrial sectors. No other jurisdiction in the world has included fuels used in the buildings and industrial sectors in a comparable fuel standard. The fuel cost and competitiveness implications for industrial fuel consumers in energy intensive, trade exposed (EITE) sectors could be significant. Here again, compliance flexibility across the full spectrum of fuels is a critical contributor to keeping compliance costs as low as possible.



Yet, some voices are proposing the government ‘partition’ the 30 MT reduction target by prescribing specific reduction targets and different approaches for transportation and stationary fuels. They acknowledge that a broad, flexible, market-based mechanism generates reductions at lower cost, but still want to force specific emissions reductions and approaches in specific sectors. It begs the question – are GHG emissions from one sector somehow worse/better than emissions from other sectors? Or is it again an effort to favour specific compliance solutions?

The federal government has championed carbon pricing as a cost-effective approach to GHG emissions reduction. Cost-effectiveness should also underpin CFS design. Compliance flexibility must trump a prescriptive approach driven by vested interests.

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