

August 2, 2023

The Honorable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister and Minister of Finance
90 Elgin Street
Ottawa, Ontario
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Dear Minister Freeland,

Budget 2023 announced the government's intention to consult on the development of a broad-based approach to carbon contracts for difference (CCfDs) in order to support the investments needed to build a competitive clean economy and help meet Canada's climate goals. To realize this vision, we believe it is imperative that this consultation begins as soon as possible so that a new program can be announced in time for the Fall Economic Statement.

The undersigned organizations all believe that broad-based CCfDs are an essential tool to provide certainty around long-term investments in Canada's low-carbon economy. While we recognize and appreciate that the Canada Growth Fund has been tasked with pursuing bespoke contracts for difference (CfDs) we see this work as complementary, and not a substitute for a broad-based program that will have wider impacts on Canada's decarbonization.

Therefore, as the government considers developing a broad-based CCfD program, we believe there are four principles that must guide the program design:

1. **Go as broad as possible:** Decarbonizing the Canadian economy must be an all-hands-on-deck effort. As such, we believe the government should design a CCfD program that has broad eligibility that extends, at minimum, to all industrial emitters that are regulated by Canada's series of industrial carbon pricing systems. This would ensure we maximize the value of CCfDs to unlock decarbonization investments from coast-to-coast-to-coast and position Canada to meet the targets laid out in the federal government's *Emissions Reduction Plan* while maintaining economic competitiveness in a carbon-constrained world.
2. **The sooner the better:** The United States' *Inflation Reduction Act (IRA)* was signed into law in August 2022, upending the playing field for those seeking to invest in Canada's low carbon future. While the government has taken some positive steps with investment tax credits, the need for a more robust response remains. CCfDs are an integral part of that response, leveraging the strengths of Canada's existing policy framework to help match or beat the incentives available in other jurisdictions. There is an imperative to move quickly, as industry and

investors are deciding every day where to allocate capital, and as vendor queues develop in industries where project construction gets underway. While we acknowledge that we need to take the time to ensure that CCfDs are well-designed for the Canadian economy, there is significant risk in waiting too long before moving forward with such a program. Therefore, we urge the government to move quickly on next steps in establishing a broad-based CCfDs program.

3. **Include contracts around credit price value:** We believe there is value to CCfDs that seek to give certainty on the benchmark carbon price schedule, but to maximize the value of CCfDs, there should also be a focus on guaranteeing credit price value. Given investment decisions for large-scale decarbonization projects often hinge on the projected revenues associated with carbon credits, certainty on the value over the long-term is essential. Uncertainty about the future value of carbon credits is cited regularly by industry as a barrier to investment in decarbonization projects and is often the determining factor as to whether a project can advance to a final investment decision.
4. **Use clear eligibility criteria:** In addition to the certainty around credit values provided by the CCfD, and taking into consideration that broad eligibility is essential, industry and investors need certainty about the likelihood of their project qualifying for a CCfD. This can be done through established up-front and existing criteria (e.g., existing provincial and federal quantification methodologies). This maximizes the bankability of CCfDs for industry and investors mirroring the implementation of IRA credits in the United States, accessible without guesswork or a protracted qualification process. For example, under 45Q applicants need only to submit a single tax form to receive the credits.

We trust that a program designed around these four principles will serve to maximize the potential of CCfDs, make Canada a global leader in innovative carbon pricing policy, and better position our country to compete internationally in the race to attract investment and decarbonize our economy. We recognize the ambition that will be required to set up a program that follows these principles and look forward to working with your government in developing this program.

Regards,







Cc *Hon. Steven Guilbeault, P.C., M.P., Minister of Environment and Climate Change
Hon. Jonathan Wilkinson, P.C., M.P., Minister of Energy and Natural Resources
Hon. François-Philippe Champagne, P.C., M.P., Minister of Innovation, Science and Industry*