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Department of Finance Canada
14th Floor
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Comments submitted by email to ccus-cusc@fin.gc.ca

RE: Response to the Carbon Capture, Utilization, and Storage Investment Tax Credit Draft Legislation

On behalf of Ontario's more than 3,000 environment and cleantech firms, the Ontario Environment Industry Association (ONEIA) is writing to provide our comments on the federal carbon capture, utilization and storage investment draft legislation released on August 9, 2022.

ONEIA acknowledges the importance of designing an investment tax credit for Carbon Capture, Utilization, and Storage (CCUS). We agree that incentives to capture and utilize or store carbon are an important tool to kickstart activity in this nascent area. Carbon capture and storage are vital parts of the overall pathway to reach net zero emissions by 2050. If the details of the CCUS Investment Tax Credit Draft Legislation and Regulations are well established, Canada will have an important tool in the effort to achieve a net zero emission future.

About ONEIA

Ontario is home to Canada's largest group of environment and cleantech companies. The most recent statistics from the federal government show that Ontario's environment sector employs more than 226,000 people across a range of sub-sectors. This includes firms working in such diverse areas as materials collection and transfer, resource recovery, composting and recycling solutions, alternative energy systems, environmental consulting, brownfield remediation, and water treatment – to name just a few. These companies contribute more than $25-billion to the provincial economy, with approximately $5.8-billion of this amount coming from export earnings.

ONEIA members are committed to engaging with governments as they develop policies and regulations that are consistent with our principles of sound science, a sound environment, and a sound economy.

Eligible Use of Captured Carbon

The Draft Legislation has defined a narrow scope for eligible use of captured carbon. It limits the use of that to which is stored in, or otherwise used for (a) dedicated geological storage; or (b) producing concrete using a qualified concrete storage process. With respect to utilization, ONEIA finds this to be an unnecessarily specific and narrow scope.

The utilization of carbon to be permanently stored in concrete is only one of many possible beneficial uses. Furthermore, the potential to permanently store carbon in concrete is not significant. Even with 100% concrete market penetration, the amount of carbon stored would be less than 50,000 tonnes per year. Therefore determining ‘producing concrete’ as the only eligible use outside of geological storage is a massive limitation on the incentive to capture carbon.

There are many potential beneficial uses for captured carbon. One example is the conversion of carbon to fuels such as methane, methanol, gasoline, diesel, and sustainable aviation fuel (SAF); these clean fuels would offset the use of fossil fuels, thereby creating a net reduction in GHG emissions. Other innovative utilization pathways are also being explored, including conversion to carbonate rocks, fertilizer, and plastics. Excluding these uses from the Legislation is too restrictive and leaves no incentive to pursue new solutions and or aim for additional technology development and innovations.

ONEIA recommends that the Department of Finance Canada consider expanding the Eligible Use of Capture Carbon to include all uses that result in a net reduction of carbon emissions

The 45Q Credit for Carbon Oxide Sequestration in the United States offers a good example of a broad scope for eligible use of captured carbon in a CCUS Incentive Program. The 45Q Tax Credit includes a broad scope of utilization methods for carbon oxides [US IRC Section 45Q(f)(5)]:

> *(A) In general*
> *For purposes of this section, utilization of qualified carbon oxide means—*
> - *(i)* *the fixation of such qualified carbon oxide through photosynthesis or chemosynthesis, such as through the growing of algae or bacteria,*
> - *(ii)* *the chemical conversion of such qualified carbon oxide to a material or chemical compound in which such qualified carbon oxide is securely stored, or*
> - (iii) *the use of such qualified carbon oxide for any other purpose for which a commercial market exists (with the exception of use as a tertiary injectant in a qualified enhanced oil or natural gas recovery project), as determined by the Secretary.*

This more open definition allows for more carbon utilization activities to be incentivized. It also allows the program to grow and include innovations in the future.

It should be noted that US IRC Section 45Q(f)(5) goes on to link eligibility for the credit to lifecycle greenhouse gas emissions, including permanent isolation and displacement.

Keeping Pace with the United States
The United States has passed the Inflation Reduction Act of 2022, which contains a suite of climate change investments. It is expected that the Act will trigger a flurry of activity in the renewable energy and climate change mitigation space. In particular, increased tax credit values for 45Q Credit for Carbon Oxide Sequestration will drive further CCUS activity in the United States.

The amount of resources available to drive CCUS activity are limited, both in terms of capital investment and human capital. Canada should consider the implications of the Inflation Reduction Act in the United States and strive to implement its CCUS program to avoid losing out on project activity.

ONEIA appreciates the opportunity to provide our comments and suggestions and is ready to work with the Department of Finance and other areas of the government to advance the CCUS investment tax credit. We welcome the opportunity to discuss our position and recommendations further. Please contact our office at info@oneia.ca or at (416) 531-7884 should you have any questions.

Yours truly,

Michelle Noble,
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