



The Policy for recognizing additional industrial activities from sectors at significant risk of carbon leakage and competitiveness impacts

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Environment and Climate Change Canada
Public Information Centre
Place Vincent Massey building
351 St-Joseph boulevard
Gatineau Quebec K1A 0H3
Toll free: 1-800-668-6767
Email: enviroinfo@ec.gc.ca

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Purpose

This policy outlines the considerations the Minister will take into account when making a determination regarding whether to recognize an additional industrial activity.

Definitions

For the purposes of this policy, **facility** has the same meaning as under the *Output-Based Pricing System Regulations* (OBPS Regulations).

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

Additional industrial activities

The Minister will take into account the following considerations when making a determination on whether to recognize an additional industrial activity and add it to the [List of recognized additional industrial activities under the Output-Based Pricing System](#):

1. The activity is not set out in column 1 of Schedule 1 to the OBPS Regulations;
2. The 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 *Greenhouse Gas Pollution Pricing Act* (GGPPA);
3. The activity is included in a sector or sub-sector listed in Table 1 of Appendix A;
4. The activity:
 - accounts for 20% or more of the quantity of GHGs from the facility; or
 - the revenue, in dollars, attributable to the sale of the product produced by the facility from that industrial activity accounts for 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 activity is not an intermediate product or 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 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 variations in the proportion of production does not impact the emission intensity of the additional industrial activity.

Information to be included in the request for an Additional Industrial Activity to be Recognized

The application must be made by the person responsible for a covered facility or accompany a request made by the person responsible for a facility that the facility be designated as a covered facility under section 172 of the GGPPA. The person responsible for a facility that is making an application for an

additional industrial activity to be recognized must provide the information on the production processes at the facility to support the determination of the additional industrial activities.

If the person responsible for a facility is requesting the recognition of an additional industrial activity from a sector that is not listed in Table 1 of Appendix A, the request must also include a request for the sector to be added to Table 1 of Appendix A, by demonstrating that the sector faces significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing. The factors that will be taken into consideration when determining whether to add a sector to Table 1 of Appendix A are listed in Appendix A.

Timing

Requests for additional industrial activities to be recognized by the Minister must be made by February 15 of a calendar year. A complete application must be submitted in the form and manner determined by the Minister. Any new additional industrial activity recognized by the Minister is to be taken into account in the emissions limit of covered facilities beginning with the compliance period following the year in which the additional industrial activity was recognized by the Minister.

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 sector or additional industrial activity added.

Appendix A - Sectors at significant risk of carbon leakage and competitiveness impacts

Sectors at significant risk of adverse competitiveness impacts and carbon leakage from carbon pollution pricing are the sectors and subsectors listed in Table 1.

Table 1 includes sectors and subsectors that have facilities that:

- have or may have greenhouse gas (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 Output-Based Pricing System Regulations (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.

Additional sectors may be added to Table 1 in the following circumstances:

- a. The applicant demonstrates that using credible data, the sector or subsector is in a high or very high Emissions Intensive and Trade Exposed (EITE) risk category¹, 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 80% trade exposed or more.
- 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.

¹ 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)

Where factor a) or b) (i) is met, this will be considered a sufficient condition for the sector to be added to Table 1 of the policy. 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 Table 1.

Table 1: Sectors where the application of carbon pollution pricing may create a significant competitiveness and carbon leakage risk

NAICS Code	Sector Name
2122	Metal 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

33591	Battery 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

Environment and Climate Change Canada may update the list in the table from time to time.

This Policy may be amended from time to time.