

# A cap on emissions from the oil and gas sector

## Backgrounder

March 2022



environmental  
defence

### Context

Over the course of 2022, Canada will develop what could be our most impactful climate policy ever: a cap on oil and gas greenhouse gas emissions.

At the U.N. climate summit in Glasgow in November 2021, Prime Minister Justin Trudeau [committed](#) to “cap oil and gas emissions today, and ensure they decrease tomorrow at a pace and scale needed to reach net-zero by 2050.” This echoed a platform commitment made during the 2021 federal election. Later that month, the Prime Minister’s mandate letters tasked Environment and Climate Change Minister Steven Guilbeault with implementing the emissions cap, with support to come from Natural Resources Minister Jonathan Wilkinson.

The Prime Minister’s credibility on climate change depends on this policy being ambitious and robust. Reducing emissions from oil and gas is the only way Canada can make real progress on its carbon emissions because this sector is the highest emitting source.

### Emissions by Sector

In Canada, while other sectors reduced emissions—most notably electricity, heavy industry, and light manufacturing—greenhouse gas (GHG) emissions from the oil and gas sector have risen 87% since 1990, and is now the biggest carbon polluter in Canada. The decrease in GHGs emitted per barrel made only a small dent in overall emission increases caused by expanded production.

Since the Paris Agreement on climate change was signed in 2015, and when Justin Trudeau became Prime Minister, Canada’s emissions have increased more than any other G7 nation. In large part, that’s due to increased emissions from oil and gas production.

## Implementing a Hard Cap on Emissions

The most straightforward way to place a cap on oil industry emissions would be through passing regulations under the Canadian Environmental Protection Act (CEPA). CEPA was used to put a cap on sulphur dioxide emissions in the late '80s and '90s, and they essentially eliminated the acid rain problem in eastern Canada.

Because CEPA already exists as a law, regulations under the Act can be passed by the federal Cabinet. The Cabinet can therefore implement a cap on oil and gas emissions by publishing draft regulations (in Canada Gazette I), inviting stakeholders to provide written comment, and then finalizing the regulations based on feedback received (published in Canada Gazette II).

According to the U.N., to limit warming to 1.5 degrees, global emissions [have to drop 7.6% every year this decade](#). Given the urgency of the climate crisis and of tackling emissions from fossil fuel sectors including oil and gas, it is essential to avoid delay. The regulations should come into force by 2023.

## Principles of the Emissions Cap

There are many ways to design an emissions cap and getting it right matters since it will determine if oil and gas companies are finally forced to take responsibility for their impact on the climate.

### **1. Reduce emissions immediately on a safe, 1.5-degree pathway**

The Intergovernmental Panel on Climate Change (IPCC) and other global experts make it clear that we are in the critical decade for climate action. That means achieving at least Canada's [fair share by 2030](#): a 60 percent emissions reduction compared to 2005 levels. In the interest of fairness and accountability, the 2030 cap on oil and gas emissions must be in line with a 60 percent reduction from 2005 levels, putting the emissions cap at 64 million tonnes in 2030. A less ambitious target would shift a greater burden for emission reductions to other sectors of the economy and on to individuals.

To accomplish this, a strong 2025 cap is needed so that reductions start immediately. Oil industry executives have already begun [their campaign](#) to ensure that responsibilities are pushed off for many years. The Prime Minister and his Cabinet need to resist this pressure.

Oil and gas companies should not be excused for deciding to increase their emissions over the last 15 years when it has been clear for that entire time that international agreements and the climate science called for reducing pollution from fossil fuels. After years of delay, the petroleum industry has an outsized responsibility to reduce emissions now.

To ensure the federal government's action on climate change matches the dire warnings about dangerous climate impacts this level of reduction is entirely necessary...and possible. The federal government could ensure that the emissions cap is met in 2030 in four main ways:

- **Stop approving new oil and gas projects:** Economic attrition [would shrink Canadian oil and gas production by over 30 percent this decade](#), and reduce carbon emissions commensurate with that.
- **Strengthen methane regulations immediately:** According to Canada's GHG inventory, 20 percent of GHG emissions from oil and gas facilities are in the form of methane (and scientific research shows that's a [significant underestimate](#)). And yet, reducing those 40 million tonnes is very cheap—[88 percent methane reductions are possible right now at less than \\$25/tonne](#). A dozen large oil companies have even [pledged to reach "near zero" methane emissions by 2030](#).
- **Call the industry's bluff on emissions intensity:** The oil and gas industry has touted its record of reducing per-barrel emissions over the last decade, and has [committed to getting to net-zero by 2050](#). If that were achievable, then emissions-intensity should improve considerably this decade.
- **Insist on production cuts:** If the other three measures aren't enough for the oil and gas sector to do its fair share of emission reductions, then companies will have to curtail production. The federal government should not provide safety valves that allow carbon pollution above the cap. The alternative is letting companies escape responsibility, and imposing catastrophic impacts on the rest of us.

## **2. Include all emissions from the production and use of oil and gas**

The carbon emitted when oil and gas is *produced* is a small fraction of the emissions created from petroleum products. The vast majority - 80 per cent - is emitted when the oil and gas is burned. In fact, in 2019, the [emissions from the fossil fuel exported by Canada were 954 million tonnes](#), considerably greater than Canada's entire domestic emissions (730 million tonnes). The Prime Minister should ensure that the biggest chunk of the pie is included in the solution.

All greenhouse gases in Canada's greenhouse gas inventory should be included in the reductions. Besides carbon dioxide, the most important is methane since it is an extremely potent greenhouse gas, having 80 times the greenhouse effect as carbon dioxide over a 20 year timeframe. Including methane would actually make the challenge easier for the industry since methane reductions are very cheap and technologically feasible. The only caveat is that Canada needs to do a better job of tracking methane emissions. Academic research shows that methane emissions are much higher than what is being estimated by governments or industry.

### **3. Avoid loopholes**

Oil and gas companies will be lobbying for both "flexibility" and rules that delay action and even allow emissions to increase. [Experience](#) in the European Union and other emissions trading systems shows that will mean weak and delayed action. For Canada it could come in many forms: setting the cap too high, allowing offsets, giving credit for early action, and/or using intensity-based targets instead of absolute reductions. Emission trading mechanisms should only be allowed if robust rules are in place to avoid these risks.

Critically, the cap needs to lead to immediate reductions on an absolute basis, not just on emissions per barrel. And all emissions need to happen within the Canadian oil and gas sector, rather than allowing companies to buy their way out through offsets or [Article 6 credits](#). The climate science clearly states that we need all the possible emission reductions from everywhere. Oil and gas companies should not be allowed to buy their way out, by cannibalizing carbon reductions from other sectors, domestically or internationally.

### **4. Do not subsidize oil and gas companies for their reductions**

Canadian environmental policy [is founded on the Polluter Pays principle](#). Oil and gas companies need to take responsibility and invest in their own carbon reductions. For too long, federal and provincial governments have generously extended billions of dollars per year to the industry in tax breaks, assistance programs, and direct subsidies. The Big Oil lobby has shamelessly gone to the federal government, cap in hand, asking for a further [\\$50 to \\$60 billion](#) to realize their weak climate plans through carbon capture and storage and fossil-based hydrogen production.

Oil and gas companies collectively made [\\$86 billion in profits in 2021, and are projected to make over \\$100 billion this year](#). Cleaning up their own

mess is a normal cost of doing business. There is no reason that taxpayers should be footing any part of their bill, including for unproven technologies like carbon capture and storage.

## **5. Include strong enforcement measures**

The oil and gas emissions cap must have robust compliance mechanisms that are properly enforced. Penalties or fines should be significant amounts that serve as a strong deterrent rather than allow companies to internalize these as a small cost of doing business. Compliance mechanisms that are not financial should also be considered. If caps are to be amended, there should be a one-way ratcheting mechanism so they can only be strengthened.

## **6. Integrate equity into policy development**

Taking care of people and their communities should be the first priority of the federal government when considering unintended consequences of climate action. The oil and gas emissions cap must be aligned with a full and sincere implementation of Indigenous rights, including securing Indigenous Peoples' free, prior, and informed consent for energy development on their territory.

The federal government must also develop and implement a fair, managed, and supported transition for workers and communities dependent on the oil and gas industry. [Research shows](#) that phasing out oil and gas while taking care of those affected is not only entirely manageable for Canada, successful transitions away from fossil fuels have been undertaken in other jurisdictions.

## Capping Production versus Emissions?

Jurisdiction over the management of natural resources rests with the provinces. Therefore the federal government cannot bring in production caps for the oil and gas sector. But the federal government does have jurisdiction over regulating toxic substances, including greenhouse gas emissions. And we know from [analysis by the International Energy Agency](#) that production must decline in order for Canada and the world to meet the targets of the Paris Agreement.

The federal government has several tools at its disposal that can be used to influence the production and supply of oil and gas:

- Deny export permits for oil and gas projects. Exports are within federal jurisdiction, so just as the federal government has committed to banning the export of thermal coal, the federal government could impose limits on oil and gas exports.
- Cancel the many fossil fuel infrastructure projects currently undergoing federal review under the Impact Assessment Act and implement a meaningful test of the climate impacts of new projects.
- End leasing of crown lands and waters for coal, oil and gas development in the offshore and on federal lands.

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