

Canada needs a robust and ambitious Emissions Cap on the oil & gas sector

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BACKGROUND

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Introduction and Context

The Government of Canada has committed to introduce a new regulation to cap emissions from the oil and gas sector and decrease them at the pace and scale necessary to achieve Canada's climate commitments. This year's historic wildfires are very clearly showing what is in store for us if greenhouse gas (GHG) emissions continue to increase.

The oil and gas sector is Canada's largest source of greenhouse gas emissions, accounting for nearly 30 per cent of Canada's domestic emissions (this does not include the emissions that come from burning the oil and gas).¹ It is also the fastest growing source of greenhouse gas pollution in Canada. While other sectors – such as electricity and heavy industry – have been successful in reducing their own pollution, emissions from the oil and gas sector have increased by 12 per cent since 2005. Canada cannot meet its climate commitments without forcing the oil and gas industry to reduce their emissions at par with the rest of the economy, which means that the emissions cap regulation needs to ensure that oil and gas companies reduce their emissions by at least 40-45 per cent from 2005 levels by 2030.



¹ Government of Canada (2023). National Inventory Report 1990-2021: Greenhouse gasses sources and sinks in Canada. Available: https://publications.gc.ca/collections/collection_2023/eccc/En81-4-2021-1-eng.pdf

The development of the emissions cap is already very delayed. The Minister of the Environment had committed to releasing draft regulations by Spring 2023 and the final regulations before the end of 2023. However, the timeline was recently pushed back, so now the draft regulations are expected by late Fall 2023 and the final regulations by mid-2024.

Fulfilling this commitment would make Canada the first major oil and gas producing country to implement an emissions cap, setting a strong example for the rest of the world. This would both help cement Canada's legacy as a climate leader, and help Canada make real progress on its climate commitments. Until now, Canada has missed every climate target that it has set.

However, this can only happen if the oil and gas emissions cap is strong and ambitious.² Already, we have seen oil and gas companies use their vast resources and influence to generate doubt and perpetuate misinformation in the media, as well as lobby government officials for delays and a weak cap.³

Canada's credibility on climate change depends on whether this policy is – or is not – ambitious and robust. We can't afford any more delays on this key policy, nor can we afford to have a weak approach if we are to reach global climate targets.

Benefits of capping emissions from Canada's oil and gas sector

- It is evident that provincial policies regulating oil and gas sector emissions are not up to the task, because the sector's emissions have continued to rise. This federal policy, if done correctly, is the best shot at tackling Canada's largest growing source of emissions.
- Capping oil and gas emissions is necessary for Canada to reach its domestic and international climate targets, and avoid the worst impacts of the climate crisis. So far this year, we are already witnessing a horrendous wildfire season, with out of control fires raging coast to coast to coast.
- Energy markets are shifting rapidly. The International Energy Agency (IEA) has predicted that global oil demand growth rate will slow markedly in the coming years.⁴ Additionally, the Canada Energy Regulator predicts that oil and gas demand will decline rapidly as well, as countries continue to enact climate action to keep global temperatures below 1.5 degrees.⁵ An emissions cap is an opportunity to steer our economy towards a more competitive direction in a global context that is fast evolving.

² Environmental Defence (2023). We need to limit ever-growing oil and gas emissions. Available: <https://environmentaldefence.ca/2023/02/14/we-need-to-limit-ever-growing-oil-and-gas-emissions/>

³ InfluenceMap (2023). The Canadian Oil and Gas Industry and Climate Policy. Available: <https://influencemap.org/briefing/The-Canadian-Oil-and-Gas-Industry-and-Climate-Policy-14696>

⁴ International Energy Agency (2023). Oil 2023. Available: <https://www.iea.org/reports/oil-2023>

⁵ Canada Energy Regulator (2023). Energy Futures 2023. Available: <https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2023/canada-energy-futures-2023.pdf>

- A well-designed cap with a prescribed trajectory to achieve zero emissions by 2050 would provide predictability to industry, workers, and communities. This in turn will drive innovation and private investments, and will lower the risk of stranded assets and dead end approaches.
- The oil and gas sector experienced record-breaking revenue in 2022, because of rising oil and gas prices due to the crisis in Ukraine and cost-cutting measures implemented by oil and gas companies, which include cutting jobs.⁶ Given these high revenues, the sector is well-placed to invest in emissions reductions to meet targets.
- Without a robust target for reducing oil and gas emissions, a greater burden for emission reductions would shift to other sectors of the economy and onto individuals.

Emissions Cap Regulation Timeline

- **2021:** Prime Minister Trudeau committed to capping oil and gas emissions during the federal election.
- **July 2022:** The federal government released a discussion paper which proposed two options to implement the oil and gas emissions cap – a cap and trade approach and a modified carbon pricing approach.⁷
- **November 2022:** The Minister of Environment and Climate Change committed to having the draft oil and gas emissions cap regulations implemented by the spring of 2023, and final regulations in place by the end of 2023.
- **July 2023:** Minister of Environment and Climate Change extended the timeline so that draft regulations are now expected by late fall, with final regulations in place by mid-2024.

Proposed policy options from the federal government’s discussion paper

The federal government proposed two policy options to cap oil and gas emissions in line with their commitment of achieving net-zero by 2050: an industry-specific cap and trade system and a steeper carbon price that would apply only to the oil and gas sector.

The Government of Canada could have proposed a hard cap on oil and gas industry emissions that declines over time, without allowing companies to trade allowable emissions.

⁶ Environmental Defence (2023). Canada’s five biggest oil and gas companies had \$38.3 billion in combined profits in 2022. Available: <https://environmentaldefence.ca/2023/02/03/big-oil-is-posting-colossal-2022-profits/>

⁷ Government of Canada (2022). Options to cap and cut oil and gas sector greenhouse gas emissions to achieve 2030 goals and net-zero by 2050 – discussion document. Available: <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/oil-gas-emissions-cap/options-discussion-paper.html>

Allowing for trade carries the risk of weak rules that could undermine the effectiveness of the cap. To safeguard against loopholes, strict trading rules must be developed to ensure that the oil and gas industry is finally held accountable for their emissions.

Although both options fall short of what is needed to reach Canada's goals, the cap-and-trade model provides more certainty and is the stronger option of the two. Either of these options would be implemented in addition to existing federal and provincial regulations.

With a cap-and-trade system, the federal government would set a limit for emissions for the oil and gas sector and establish a total quota of allowable emissions, which would decline over time. Oil and gas companies then would have to auction for allowable emissions, within decreasing limits. The cap-and-trade system would be enshrined in regulations under the *Canadian Environmental Protection Act (CEPA)*, which would allow the federal government to enforce the emissions limits under law. Additionally, this is what the Prime Minister originally promised - a regulation that *caps* and cuts oil and gas emissions.

On the other hand, the modified carbon pricing option would solely rely on the market, with the assumption that a higher carbon price will drive down emissions. As seen with the current carbon price, which exempts most emissions from the oil and gas sector, this option would be easy for big polluters to game and would not guarantee that specific emissions limits are met.

Principles of a strong and ambitious cap on oil and gas emissions

There are many ways to design an emissions cap – and getting it right matters. If the federal government is sincere about achieving Canada's national and international climate commitments, and is serious about prioritizing our health and future over profits, it must ensure that it puts forth a strong and ambitious cap on oil and gas emissions. The following principles are key elements that must be included in the upcoming oil and gas emissions cap. Anything less would result in a weak, toothless regulation that fails to accomplish what it sets out to do – holding oil and gas accountable for doing its fair share of emissions reductions.

- **Fair share** - The emissions cap needs to reflect Canada's responsibility to do its fair share of emissions reduction to keep global temperatures below 1.5°C, which would be an emissions reduction of 60 per cent from 2005 levels for the oil and gas sector, by 2030.⁸ At the very least, it should at least enforce a sectoral reduction on par with the whole-of-economy target Canada has pledged to meet: 40 – 45 per cent reduction by 2030, down from 2005 levels.
- **An enforceable, hard cap on absolute levels of emissions, which declines over time** - A hard cap provides more certainty that emissions reduction targets will

⁸ Climate Action Network Canada (2019) Deriving a Canadian Greenhouse Gas reduction target in line with the Paris Agreement's 1.5°C goal and the findings of the IPCC Special Report on 1.5°C. Available: <https://climateactionnetwork.ca/wp-content/uploads/2019/12/CAN-Rac-Fair-Share-%E2%80%94-Methodology-Backgrounder.pdf>

be met, and can be legally enforced under the *Canadian Environmental Protection Act* to ensure that all oil and gas companies either respect the rules, or face strict penalties

- **No delays** - The oil and gas industry must not be allowed to delay meeting the emissions reduction targets. The proposed oil and gas emissions cap must have an enforceable 2030 target that is in line with Canada's targets. This decade is decisive.
- **No offsets** - The oil and gas emissions cap must ensure that the sector is responsible for reducing its own emissions, which means that no offsets should be permitted as this could reduce the effectiveness of the regulation. If offsets are allowed, they must be limited and should not be allowed to exceed 8 per cent of emissions reduction.
- **No free allocations** - Cap-and-trade schemes frequently hand out free emissions allowances to companies. In the past, this has resulted in a very low price of allowances, which has undermined the effectiveness of the cap. The regulation should not offer free allocations, but rather should auction off all emission allowances, with a rising price floor.
- **Comprehensive in scope** - All oil and gas activities and facilities in Canada, including pipelines, refineries and liquefied natural gas (LNG) export facilities, should be covered by the cap.
- **Integrates equity into policy development** - Equity and environmental justice considerations must be integrated into policy design. Proceeds from the auctioning of emissions credits should be used to support affected communities and workers, and communities who have been negatively impacted by the sector historically, specifically low-income, Indigenous, and racialized communities. The proceeds from auctioning of credits must not go back to oil and gas companies. Oil and gas companies in Canada made over \$38 billion in 2022.⁹ They are well positioned to reduce their own emissions without additional financial support.
- **Upholds Indigenous rights** - The policy must uphold the inherent title and rights of Indigenous people and other rights affirmed in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), including securing Indigenous People's free, prior, and informed consent for energy development on their territory.

⁹ Environmental Defence (2023). Canada's five biggest oil and gas companies had \$38.3 billion in combined profits in 2022. Available: <https://environmentaldefence.ca/2023/02/03/big-oil-is-posting-colossal-2022-profits/>

An Ambitious Oil and Gas Emissions Cap is Feasible

Without a strong emissions cap that holds the oil and gas industry accountable for reducing their pollution, Canada can't meet its climate targets.¹⁰ For decades, the oil and gas industry has pushed back against and delayed climate action. This cannot be the case again for the oil and gas emissions cap.

A strong and ambitious oil and gas emissions cap is well within the industry's reach. Oil and gas companies can meet the reduction target by:

- **Reducing methane emissions:** According to Canada's greenhouse gas (GHG) inventory, nearly 20 per cent of GHG emissions from oil and gas facilities are in the form of methane¹¹ (and scientific research shows that's a significant underestimate).¹² Reducing methane emissions are very cheap—75 per cent methane reductions by 2030 are possible right now at \$11/tonne.¹³ A dozen large oil companies have even pledged to reach "near zero" methane emissions by 2030. The Government of Canada has existing regulations in place to decrease methane emissions by 2025, and is currently developing 2030 regulations.
- **Reducing emissions from the production of oil and gas,** for example through electrification, switching to green hydrogen and operational efficiencies.
- **Expected reductions in production due to falling global demand:** The Canada Energy Regulator (CER) has projected, in their Energy Futures 2023 report, that as the world moves full steam ahead to prevent global temperatures rising to above 1.5°C, the global demand for oil and gas will fall sharply, resulting in drastic production declines. Given the significantly lower demand, CER projects that Canada's oil production will peak by 2026 and then fall by 76 per cent by 2050, and gas production will fall by 68 per cent over the same period.¹⁴ These production cuts are necessary to avoid climate catastrophe, especially for a wealthy and economically diversified country like Canada that has the means to transition to renewable energy sources.

The Government of Canada has a responsibility to ensure that everyone in Canada has access to a climate safe-future, healthy environments and thriving communities – not to protect the profits of oil and gas companies. A strong and ambitious oil and gas emissions

¹⁰ Net-Zero Advisory Body (2023). First annual report to the Minister of Environment and Climate Change - Compete and succeed in a net-zero future. Available: <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/net-zero-emissions-2050/advisory-body/first-annual-report-to-minister.html#toc5>

¹¹ Government of Canada (2023). Greenhouse gas sources and sinks in Canada: executive summary 2023. Available: <https://www.canada.ca/en/environment-climate-change/services/climate-change/greenhouse-gas-emissions/sources-sinks-executive-summary-2023.html#figure-es-7>

¹² Environmental Science and Technology (2023). Methane Venting at Cold Heavy Oil Production with Sand (CHOPS) Facilities Is Significantly Underreported and Led by High-Emitting Wells with Low or Negative Value. Available: <https://pubs.acs.org/doi/full/10.1021/acs.est.2c06255>

¹³ Environmental Defence Fund (2023). Analysis: Cutting oil and gas methane is one of Canada's most affordable climate solutions. Available: <https://blogs.edf.org/energyexchange/2023/07/18/analysis-cutting-oil-and-gas-methane-is-one-of-canadas-most-affordable-climate-solutions/>

¹⁴ Canada Energy Regulator (2023). Canada's Energy Futures 2023. Available: <https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2023/canada-energy-futures-2023.pdf>

cap is the best opportunity that Canada has to hold this polluting industry accountable for doing its fair share.

However, if the Government of Canada fails to take advantage of this opportunity, by presenting a weak-toothless emissions cap regulation, it will clearly indicate that this government is not serious about meeting its own climate commitments of reducing emissions. A weak emissions cap will show that despite the horrendous wildfires, droughts, and devastating floods that the people in Canada have experienced, the Government of Canada prioritizes the profits of the oil and gas companies over the people that elected them.

On the other hand, with a strong and ambitious oil and gas emissions cap, Canada can be the climate leader on a global stage by being the first major fossil fuel producing country to implement an emissions cap. It can lead the efforts in keeping global average temperatures to below 1.5°C.



ABOUT ENVIRONMENTAL DEFENCE ([environmentaldefence.ca](https://www.environmentaldefence.ca)): Environmental Defence is a leading Canadian environmental advocacy organization that works with government, industry and individuals to defend clean water, a safe climate and healthy communities.