

September 29, 2022

The Honourable Steven Guilbeault  
Minister of Environment and Climate Change  
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(via email: [steven.guilbeault5@ec.gc.ca](mailto:steven.guilbeault5@ec.gc.ca))

The Honourable Jonathan Wilkinson  
Minister of Natural Resources  
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(via email: [HonJonathan.Wilkinson@nrcan-rncan.gc.ca](mailto:HonJonathan.Wilkinson@nrcan-rncan.gc.ca))

Dear Minister Guilbeault and Minister Wilkinson:

**Re: CAPP Response - Proposed Federal Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050**

The Canadian Association of Petroleum Producers (CAPP) is committed to environmental leadership and working to be a constructive and solution-oriented partner in addressing the triple challenge of emission reduction, energy security and affordability.

It is in this spirit that we provide our enclosed submission regarding the federal Government's recent discussion paper on options to cap and cut oil and gas sector greenhouse gas emissions.

CAPP is continuing efforts and working in earnest to further our understanding and consider enhancements to the Government proposals related to both the policy levers and the trajectory of the emission cap to deliver our shared principles. We request a process for further engagement with your departments as this policy development process continues.

Sincerely,



Lisa A. Baiton, MBA, ICD.D  
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## **Submission**

Discussion Paper - Proposed Federal Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050

**September 2022**

The Canadian Association of Petroleum Producers (CAPP) is the trusted voice for companies, large and small, that explore for, develop and produce natural gas and oil throughout Canada. CAPP's member companies produce about 80 per cent of Canada's natural gas and oil. CAPP's associate members provide a wide range of services that support the upstream oil and natural gas industry. Together CAPP's members and associate members are a solution-oriented partner to Canada and the world's needs for safe, secure, reliable, affordable and responsibly produced energy, and an important part of a national industry with revenues from oil and natural gas production of about \$116 billion a year. CAPP supports industry efforts to continue to reduce upstream GHG emissions and play a role in support of Indigenous participation and prosperity. As a non-partisan organization, CAPP works with all governments and all parties to ensure that our industry is long-standing.

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## Executive Summary

Canada's oil and natural gas industry is a constructive and solution-oriented partner, committed to leadership in emission reduction, energy security and affordability. Canadian producers have been an important part of Canada's global leadership in emissions-reducing innovations and technologies. At this time of global uncertainty over energy security, our sector has a major role as secure suppliers of sustainable energy and as global leaders in emissions reduction.

Canada's climate policies need to concurrently support effective environmental outcomes, prosperity, economic reconciliation, and global energy security. Producing lower-emission natural gas and oil will give Canada's industry a global competitive advantage.

We share the objectives as outlined in the federal government's discussion paper.

In addition, the industry also supports these additional goals for policy development:

- Advance improved **energy supply** for countries in need, including energy security for Canadians.
- Advance **regional prosperity**. Many regions of Canada depend on the sector, and the government's policy approach must consider this critical regional role.
- Ensure the policy provides **flexibility to retain investment** while working to decarbonize the industry.
- Advance reconciliation, economic prosperity and partnership with **Indigenous peoples**.
- Policy must support **creation of jobs and business opportunities** related to energy and climate solutions.
- Advance **carbon capture, utilization and storage (CCUS) technology** as a major emission reduction opportunity in several sectors, including improved incentives similar to those in the U.S.

Although we share the stated goals, it is the industry's opinion the two proposed emission cap options on Canadian oil and natural gas emissions are **unlikely to reduce global emissions**. Emissions reductions in Canada may result from production limitations if not well designed. Neither option as proposed will be able to achieve the desired goals.

Canada has already introduced many regulations that are world-leading and are already having an impact on emissions in Canada. Carbon pricing was brought into Canada to help encourage reductions; limiting our sector's ability to invest and support in reductions across the economy will be detrimental. A differentiated price of carbon for our sector alone could sacrifice the lowest-cost reductions across the economy.

The design of an emissions cap needs to strongly consider the impacts and unintended consequences that may result, including:

- **Production curtailment and energy security** – under both proposed options, producers will be forced to cut production to achieve compliance. An emission cap done improperly will limit Canada's ability to support our allies and invest in decarbonization.
- **Weakens existing policy tools** – these tools include carbon pricing, methane emissions reduction, clean fuel regulations and provincial government policies. The proposed emission cap separates the oil and natural gas sector from existing carbon pricing programs and thus will impact both the price and overall demand of offset credits. The industry does not support a differentiated price of carbon

for oil and natural gas alone and believes that any new climate policy should encourage lowest-cost reductions across the economy.

- **Competitiveness and the economy** – the industry must be able to operate and attract investment capital or risk a likely decline in production, a loss of GDP and government revenues, and job losses.
- **Public impacts and affordability** – an emissions cap must consider impacts on Canadian energy supply, or risk increased energy costs on the public and potentially limited energy supply.
- **Indigenous impacts** – an emissions cap must consider direct impacts to Indigenous communities currently partnered with energy developments and may prevent new partnerships.
- **Sectoral impacts** – this complex industry has different economics and emission profiles. A uniform emission cap would have differing impacts within the sector and jurisdictions where they operate.

### A Forward Path

Government and industry must meaningfully collaborate to craft a pragmatic path:

- **Reconsider adding another layer of regulation.** The current regulatory framework has already driven substantial emission reductions and should be afforded the proper time to demonstrate further effectiveness before layering additional regulatory requirements that may impact the effectiveness of existing policy measures.
- **Realistic trajectories** - a balanced trajectory is required to pragmatically map pathways to increase certainty for large-scale investments in energy and decarbonization projects. Targets must reflect what can be realistically achieved. Industry will work with governments to develop a trajectory supporting the goals of climate, energy security and affordability.
- **Enable markets** and ensure that cost effective opportunities are available for all. Emissions reduction projects compete with other investments and are global in nature. Canada's framework for decarbonization needs to keep pace with the global markets in which Canada competes, including improved incentives for CCUS projects.
- **Leverage efficiencies across the economy.** Delivering emission reductions is a focus for the entire Canadian economy. Frameworks that encourage cost-effective reductions enable quicker emission reductions for all when a whole-of-economy approach is advanced. The government should avoid a sector-by-sector approach.
- **Consider policy alternatives** - the industry proposes an alternative policy framework focused on enabling the following objectives:
  - Do not compromise **existing carbon pricing** effectiveness - credit market maintained, Emission Intensive Trade Exposed protection, carbon price level consistent, economy-wide.
  - Provide assurance that industry is providing **adequate investment in emission reduction** initiatives and emission reductions are occurring.
  - Ensure **resources can flow quickly and directly** to projects that reduce emissions and support innovation, eliminating red tape from government grant programs.
  - Ensure emission reduction trajectory is based on what is **technically feasible**.

## 1 Introduction

The Canadian Association of Petroleum Producers (CAPP) is committed to environmental leadership and working to be a constructive and solution-oriented partner in addressing the triple challenge of emission reduction, energy security and affordability. Our members share the vision that lower emission energy systems are good for society.

Today, Canada is a global leader in emissions-reducing innovations and technologies and Canadian oil and natural gas producers have been an important part of this leadership. Our sector provides three-quarters of all spending on clean technology development in the country, which amounted to over \$3 billion in 2019.<sup>1</sup> At this time of global uncertainty over energy security, our sector is playing a major role both as secure suppliers of sustainable energy and as global leaders in upstream greenhouse gas (GHG) emissions reduction.

It is in this spirit that we provide initial comments on the federal government's recent discussion paper on options to cap and cut oil and natural gas sector GHG emissions. As well, it is in this context that we request additional time to complete the fulsome analysis on both the policy alternatives and the emissions reduction trajectory in unison as to ensure unnecessary uncertainty is not introduced into the system at a time when Canada has an opportunity to advance emission reduction projects and support desired oil and natural gas production levels.

Canada's climate policies need to concurrently support effective environmental outcomes, Canadian prosperity, economic reconciliation, and support to our global allies on energy security. There is a definitive consensus that producing lower emission natural gas and oil will give Canada's industry a competitive advantage in lucrative global markets – our sector has been focused on making the investments that position Canada for this opportunity. Government and industry must continue to meaningfully collaborate to craft a pragmatic path that is workable to deliver it.

## 2 Principles of Review

CAPP sees important shared goals in the guiding principles articulated in the paper:

- We take **accountability** for our upstream emissions and our performance. We have been tracking our emission intensity performance and investing in innovation to further advance the development and deployment of emission reduction technologies.
- We support **ambitious** approaches to Canada's position that addresses climate change alongside its energy and economic goals.
- We see **effectiveness and achievability** as important criteria in policy development – both in achieving environmental outcomes and in minimizing unintended negative impacts.
- Ensuring competitiveness to **enable and attract global capital and promote low emissions growth in Canada**, including providing **certainty** to companies that are intending on lowering emissions quickly as a high priority.

Beyond the principles identified in the discussion paper, we also believe that we share goals around:

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<sup>1</sup> Statistics Canada, Capital and operating expenditures:  
<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3810013001>

- The advancement of improved **energy supply** for countries in need, including potentially providing energy security for Canadians, coast to coast.
- The advancement of **regional prosperity** and adapted approaches. The upstream oil and natural gas sector is vital to Canada's economy and many regions of the country are dependent on the sector, directly and indirectly. It will be vital that the government's policy approach consider the critical regional role and global competition faced by the industry. Poor policy design can inadvertently drive premature shut-in of resources and lost economic benefits such as jobs and tax revenue. It will be important to consider flexibility in the policy design to account for unique regional considerations. In Newfoundland and Labrador's offshore, for example, it will be important to leverage that sector's world-leading low emissions and access to international markets, by ensuring that the policy provides appropriate flexibility to retain investment while working to decarbonize the industry.
- The advancement of **reconciliation** with Indigenous peoples in Canada. Many Indigenous communities are active in the oil and natural gas sector as a pathway to prosperity and self-determination. Communities are included as upstream oil and gas producers and as owners in major new liquified natural gas projects – these Indigenous assets will be impacted by an emissions cap.
- The creation of **new jobs and more opportunities to start businesses** related to energy and climate solutions, as our industry's current and emerging supply chain reaches across every province.
- The advancement of **CCUS technology** that is paving the way for other sectors to decarbonize. The experience in the subsurface, surface facilities and with operations will prove critical in Canada utilizing CCUS as a major emission reduction opportunity in several sectors. We have the knowledge and experience to support getting these projects off the ground.

### 3 Decarbonization Competitiveness - Slowing Progress to Decarbonization Objectives – Potential Impacts from an Improperly Designed Emissions Cap

#### Energy Security

The emission cap runs the risk of production limitations for existing projects and elevating uncertainty to unmanageable levels for companies contemplating new projects. This is the exact opposite of what Canada needs right now. This is problematic when coupled with the need for Canada to continue to be a trusted supplier of energy to the world and our allies. As recent events in Ukraine have shown, the world needs a stable and secure supply of energy; and Canada can provide it. Our allies are asking for our energy and the government of Canada has committed to helping this by promising 200,000 new barrels per day of oil and 100,000 barrels of oil equivalent per day of natural gas continuing to support our vision to supply our allies with low carbon LNG.<sup>2</sup>

#### Weakening of Existing Policy Tools to Support Emission Reductions

Canada has already introduced many regulations that are world-leading and are already having an impact on emissions in Canada. We believe these policies must be given time to be implemented and be tested before layering on new regulations. Canada already has introduced one of the highest carbon prices in the world and is proposing a 75 per cent methane reduction target for our sector, clean

<sup>2</sup> <https://www.politico.com/news/2022/08/22/canada-lng-germany-trudeau-00053144>

electricity regulations, and forthcoming clean fuel regulations. These policies will lead to significant emissions reductions. In addition, provincial governments have been advancing policy tools to drive emissions reductions in the sector. By layering on new regulations before existing measures have a chance to become effective, these proposed policy options create uncertainty for the industry and are likely to degrade the effectiveness of both the existing and planned provincial and federal measures.

Of key concern is how the proposed options for implementing an emission cap require the removal or separation of the oil and natural gas sector from existing carbon pricing programs. By “ring fencing” the sector, operators will not be permitted to participate in existing programs. As a result, the proposed policy options risk negatively impacting the sector. This impact includes other stakeholders. Preventing oil and natural gas facilities from generating offset credits under existing programs (e.g., TIER in Alberta) could have a large impact on both the price and overall demand of offset credits. Our industry is one of the largest purchasers of credits across the country and if we are no longer eligible to buy offsets, there is likely to be a downward impact on the overall price of credits and number of credits generated. It is difficult to imagine how this would not directly lead to a weaker incentive for non-regulated participants to reduce emissions. This could limit the ability for other areas of society to contribute to emissions reductions as the largest domestic credit/offset users are now out of the market. Carbon pricing was brought into Canada to help encourage reductions; limiting our sector’s ability to invest and support in reductions across the economy will be detrimental.

In Alberta, offsets submitted for emissions compliance for 2017 and 2018 were 9.164 and 7.590 MT respectively. Industry has used offsets to enable lower- cost reductions for decades.

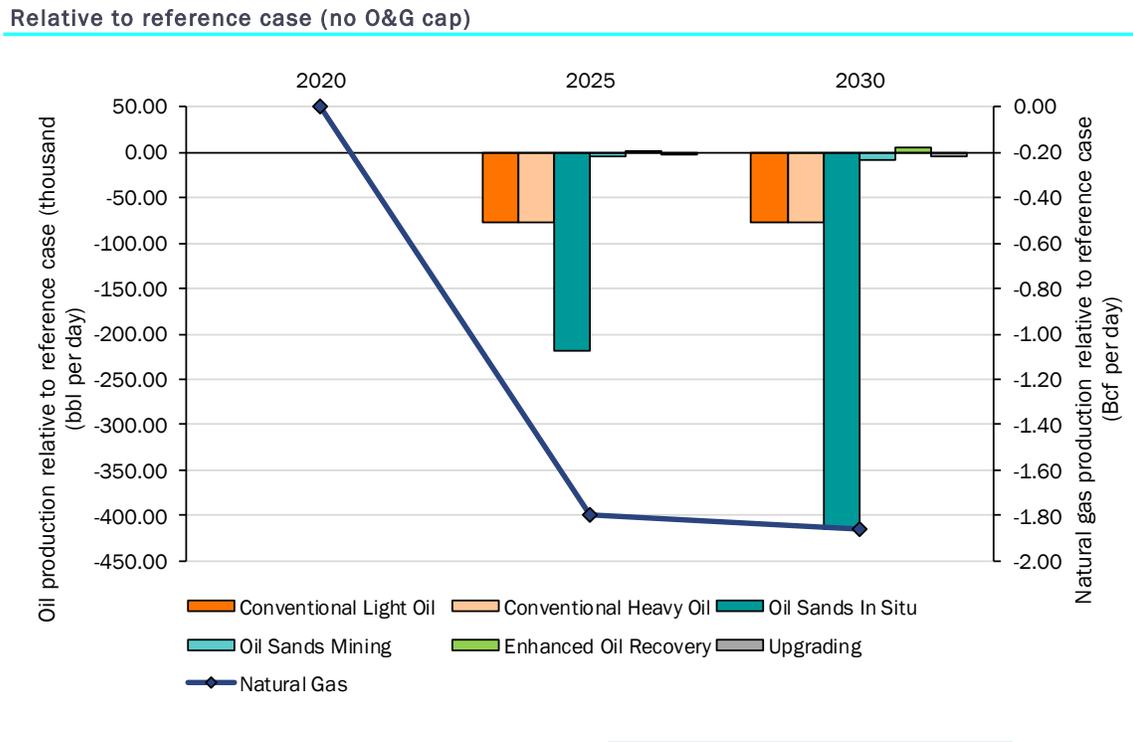
Our industry does not support a differentiated price of carbon for our sector alone and believes that any new climate policy should be economy-wide and encourage the lowest-cost reductions across the economy. Modelling analysis conducted by Navius Research Inc. shows that an economy-wide cap and trade system would be more efficient by over \$100/tonne CO<sub>2</sub>e 2025 and over \$50/tonne CO<sub>2</sub>e less in 2030 when compared to a cap specific on the oil and natural gas sector.

#### Impacts on Competitiveness and the Economy

Canada is well positioned to continue to be a world supplier of energy, but our industry must continue to be able to operate and attract investment capital. Canada has introduced carbon pricing programs that create an incentive for industry to reduce emissions while managing competitiveness impacts and allowing for new investment. The proposed emission cap would erode these protection mechanisms. The additional layering of cost from an emission cap as proposed, coupled with the lack of protections for EITE sectors and lack of flexibility presented in proposed options 1 and 2 will make further investment into the Canadian oil and natural gas sector more challenging, resulting in a likely decline in production, a loss of GDP for the sector and job losses. The Canadian oil and natural gas sector provided \$105 billion to Canada’s gross domestic product (GDP) and supported almost 400,000 jobs across the country in 2020. With the cap as currently proposed, as much as 10 per cent of this economic contribution could disappear. A loss of this magnitude would be extremely detrimental to both our sector and to the Canadian economy, as a 10 per cent decrease from our sector would lead to job losses both within the sector, in other related sectors, impact government revenues and have follow-on effects on Bay Street and the Canadian stock market. As such, the emission cap must be designed in a way that does not negatively impact investment and does not negatively impact the Canadian economy.

The application of an emissions cap as proposed is expected to have significant impact on production. An analysis conducted by Navius Research Inc. demonstrates significant impact to the ability of the

sector to deliver on the production goals of Canada. An emission cap scenario, when compared with a reference scenario, results in reduction of over 600,000 barrels per day (b/d) of oil and over 2 billion cubic feet per day (bcf/d) of natural gas. See figure below.



The recent uplift in oil and natural gas prices has impacted Canada greatly. For example, Alberta’s recent projected 2022-2023 fiscal surplus of \$13.2 billion is directly related to a recovery in the sector<sup>3</sup>, and we anticipate other producing provinces to experience similar benefits.

The competitiveness gap for our industry to support major decarbonization projects has only become more pronounced with the introduction of the 45 Q tax credit in the United States. The U.S. government has chosen to incentivize CCUS projects to reduce emissions by creating a strong and certain investment environment that encourages emission reductions. Now, compared to our counterparts to the south, it will become even more challenging to attract capital to Canada. For example, the 45 Q credit is equivalent to an 85 per cent ITC credit in Canada, which is currently set at a 50 per cent level. The layering on of costly policies including the emission cap while competing jurisdictions continue to support their industries only further makes low-carbon investment in Canada challenging.

To that end, **CAPP recommends:**

- Re-assess the current CCUS policy in the context of international competitiveness and attaining climate goals.

<sup>3</sup> Alberta Treasury Board

- Consider a flexible policy approach in attaining a competitive effective policy that achieves parity with the U.S. such as a production tax credit, contracts for differences, inclusion of operating costs, or other policy levers.
- Given the minimum six-to-eight-year timeframes from permit to construction, extend the 2022-2030 ITC rates for post 2030 expenditures for projects that begin construction before 2033 and the reduced ITC rates remain applicable for projects that begin construction after 2032. If undue regulatory delays hamper the ability for projects to commence construction, then this extension provision should be revisited to accommodate projects that have made best efforts to meet the 2032 deadline.

If this cap does not consider the effects on the industry's ability to invest in decarbonization, then it will cede Canada's CCUS global leadership and economic opportunity to other countries like the U.S.A., who are moving quickly to seize the first mover competitive advantage in CCUS and EOR like was done with Liquefied natural gas (LNG). This outcome would negatively impact our economy without contributing to global emissions reductions in the production of increasingly lower-carbon energy and maintaining investment is a key enabler.

#### Public Impacts and Affordability

Canada, and the rest of the world, are currently going through a sustained period of inflation and economic instability and a key driver of increased costs on consumers is rising energy prices. Governments must be cautious as we move toward 2050 recognizing the need to balance the triple challenge of emission reduction, energy security and affordability. There will continue to be a need for hydrocarbon-powered vehicles and natural gas used for home heating well into the future. If the emission cap does not consider the potential impacts on Canadian energy supply, then this could lead to increased energy costs on the public or ultimately a limited supply of energy.

In a letter from Nova Scotia Premier Houston to Minister Guilbeault, the Council of Atlantic Premiers highlighted their deep concern regarding the "affordability impacts of carbon pricing on households in our region, especially as almost 40 percent of Atlantic Canadians experience energy poverty..."<sup>4</sup>

Emissions reductions can be done in a way that does not put undue economic pressure on everyday Canadians. It will be essential for industry and government to work together to ensure no impact on Canadians.

#### Indigenous Impacts

Our sector is a major partner with many Indigenous peoples across the country and a key economic driver for many Indigenous communities. A survey by CAPP of oil sands producers shows the increasing role of Indigenous suppliers to the industry. In 2019, about \$2.4 billion was spent on procurement from Indigenous businesses, 16 per cent higher than in 2018 and 53 per cent higher than in 2017.<sup>5</sup>

In the oil and natural gas sector, Indigenous people make up 7.4 per cent of the workforce, more than twice the national average.

- Of that workforce, Indigenous people make up about 8.1 per cent of pipeline workers and 8.2 per cent of oil and gas service workers.

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<sup>4</sup> <https://cap-cpma.ca/letter-to-the-honourable-steven-guilbeault-minister-of-environment-and-climate-change-canada-on-carbon-pricing-in-atlantic-canada/>

<sup>5</sup> <https://www.capp.ca/news-releases/oil-sands-procurement-from-indigenous-suppliers-increases-to-2-4-billion/>

- Indigenous workers account for about 6.5 per cent of employees in exploration and production.

An emissions cap as proposed will have a direct impact on the Indigenous communities that are currently partnered with us and may prevent new partnerships from being created. This policy has the potential to impact Indigenous peoples and their interests as upstream producers, LNG proponents, service providers to the sector, emission reduction project developers and in many other capacities. A key example is the potential for offset credit partnerships. There is a great opportunity for our sector to partner with local communities that have local traditional knowledge to create offset credit generation opportunities. If the cap is introduced as proposed, our sector will no longer be able to use these projects to deliver reductions and these partnerships will likely suffer. The oil and natural gas sector is looking to enhance our partnerships with Indigenous peoples and we hope that the emission cap policy won't prevent significant projects from advancing.

### Sectoral Impacts

The Canadian oil and natural gas sector is a complex industry. From natural gas to oil sands, conventional oil to offshore, our industry has many different types of resources with different economics and emission profiles. Any uniform emission cap would have differing impacts on the different production types within the sector and the jurisdictions in which they operate. Below are highlights specific to each sector and how the proposed emission cap may impact it.

### Natural Gas

There is a large opportunity for natural gas in Canada to help global emission reductions and play a role in global energy security. LNG can help displace more carbon-intensive fuels, such as coal, being used in other parts of the world. LNG would be the most immediate and effective way for Canada to supply Europe with the secure energy they are asking for. Natural gas wells have shorter project life spans, which can make large-scale emission reductions at existing sites more economically challenging but more easily enabled at new sites.

Canadian natural gas already has a competitive low-carbon intensity and enabling Canadian natural gas can help reduce global emissions by replacing other more energy-intensive fuels or other natural gas produced from less efficient sources. Canadian natural gas improved emissions intensity performance by over 33 from 2011 to 2019.

Canada has a critical role to play in addressing global climate change through displacing coal, for example in Asia, in the global energy mix with lower-carbon Canadian natural gas exported as LNG. Natural gas emits 50 per cent less CO<sub>2</sub> emissions per unit of energy than coal.<sup>6</sup> Exporting LNG from Canada to markets in Asia and Europe would reduce net global emissions by displacing coal and would enhance both Canadian and our allies' energy security and prosperity and help address energy poverty in developing areas. This has only become more important considering the events in Ukraine, as the world is now looking more than ever for secure energy.

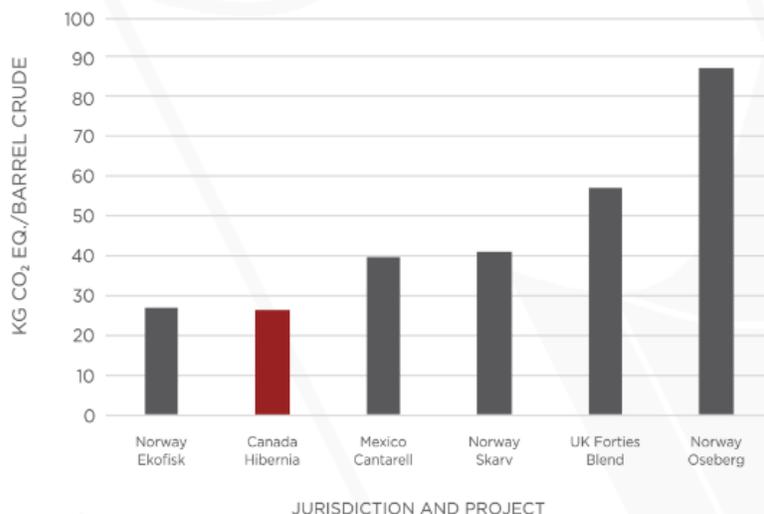
Natural gas has a significant role to play in a lower-carbon future and policy should encourage the production and utilization of natural gas for electricity generation, petrochemicals, and low carbon-intensity fuels like hydrogen either domestically or globally.

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<sup>6</sup> US. EIA

## Offshore

### Offshore Project Upstream Emissions Intensity



Source: Oil Climate Index

The offshore sector is already producing some of the lowest emitting oil production in the world. Proposed projects in Newfoundland and Labrador's offshore will also include new technology, further reducing the environmental footprint of future projects.

Offshore operations, due to their distance from land, health and safety requirements and limited platform space to accommodate additional equipment, have a limited

ability to reduce emissions in the short term. Electricity generation accounts for 40-60% of emissions on offshore production facilities. The offshore sector is currently looking at major step change technology to manage emissions, but this will require time.

The emission cap, as proposed, would increase costs on the offshore sector. With limited short-term emission reduction opportunities, the increased costs or absolute reduction metrics could impact production and future investment, resulting in unintended economic impacts.

The offshore sector is a vital part of the Newfoundland and Labrador economy, and the proposed emission cap has the potential to dramatically impact the province's economic health. Government must work with industry and the provincial government to ensure the design of the emission cap doesn't unduly punish the offshore sector.

## Oil Sands

Oil sands operations, due to their size and emissions profile, have a need for the deployment of large-scale projects to reduce emissions, which have long lead times and investments to provide the proper mitigations. As there is limited ability to reduce operations in the short term, Pathways Alliance, Canada's six largest oil sands producers, has mapped the long-term pathway to reduce emissions from its members. If implemented as proposed, it is expected that the emission cap would increase costs on the oil sands sector and harm the potential project investments that are sought to contribute toward Canada's climate emission reduction ambitions. Lack of an investable framework could result in operators not advancing emission reduction projects at all sites.

Plans to advance emissions reductions from the sector should be informed by the policies and timing necessary to enable advancement of this level of ambition and scale.

### Onshore Oil

By the nature of the developments, onshore oil production has shorter investment cycles than either offshore or oil sands production. Onshore oil wells are shorter-duration developments that will not be producing in 2050, which makes the economics challenging for retrofitting facilities that will be decommissioned. At the same time, new well sites and facilities can be built using the most efficient technologies possible. For example, many new sites are being built with solar for energy needs, using instrument air or other alternatives to gas-driven pneumatics, and have largely eliminated any routine flaring and venting. Onshore oil production can be brought online quickly and, therefore, plays a critical role to help Canada increase production to supply to our allies in their time of need at a quick pace. The emission cap policy must look to account for potential production increases coming from non-oil sands onshore oil in the short term.

## 4 A Detailed Review of Proposed Policy Options

The proposed partitioning of the oil and natural gas sector from the rest of the economy, either through the creation of a new cap and trade system or a differentiated carbon price on our sector, is not consistent with other emission reduction policy that typically allows for flexibility and encourage the lowest-cost reductions first.

As a result, CAPP cannot support options 1 and 2 as currently suggested in the discussion paper.

Option 1 is problematic for industry and as presented it does not seem to be a viable policy solution to implement a proposed emission cap. The generation of a regulation under the *Canadian Environmental Protection Act* (CEPA) removes flexibility for industry. There are concerns that, as proposed, a cap and trade system under CEPA will not encourage decarbonization of the production mix but will result in operators having to scale back investment or shut-in production to meet reduction targets. As we understand that production limitations are not among the stated goals of the proposed policy, option 1 as presented cannot be considered.

Option 2 is less problematic than option 1, but as currently presented it cannot be supported, as it contains many areas of concern.

Overall, we believe the options as presented are unlikely to reduce global GHG emissions and may be harmful to attracting investment to support continued responsible resource delivery and decarbonization for the reasons outlined below.

### Considerations for Both Proposed Options

**Regulatory Approval Process:** As our industry takes action toward Canada's net zero targets, we anticipate there will be a backlog of regulatory approvals for emission reduction projects. The emission cap discussion document has no reference to this issue. Industry believes that any new policy should have mechanisms to expedite approval for emission reduction projects.

**Interaction with Provincial Policy:** Many provinces have created strong provincial carbon pricing programs that include provisions that account for the uniqueness of their economies. It is unclear how

either proposed option would interact with provincial policies and uncertain what changes will be required to provincial programs as a result. Changes will be required to provincial programs to accommodate the proposed allocations.

Engagement with the provinces and affected stakeholders will be required.

**Lack of Certainty on Price:** Certainty is something our sector requires to be able to invest in any projects, including emission reduction projects. The current carbon price is economy-wide and has stated price increases, providing more certainty to industry with the proposed price schedule.

**Lack of Trajectory Understanding:** The overall trajectory and emissions forecast for the sector is as important as the policy tool. The emissions reduction trajectory needs to reflect a realistic timeline and the limitations of advancing emission reductions projects given the stated intent to cap emissions and not production. CAPP is advancing modelling that will inform trajectory discussions. It will be important to consider these results and the implications to emission forecasting of our sector prior to finalizing the policy mechanisms planned to implement them.

#### Specific Concerns Regarding the Proposed Cap and Trade System

**Penalties under CEPA:** CEPA, as outlined in section 272 (2),<sup>7</sup> has strong penalties for facilities that do not meet the regulations. Inability to meet reduction trajectories could result in severe financial penalties, criminal charges and ultimately shut-ins occurring.

**Regulatory Uncertainty:** Uncertainty around federal and provincial constitutional jurisdiction layers on additional regulatory uncertainty for our sector, which in turn will impact investment and competitiveness.

**New Entrants:** As a new emission trading system would require a decreasing number of tradeable credits, it is unclear how new entrants, such as the Bay Du Nord offshore project which recently received environmental approval, would be able to access credits at an economic level that would not impact operational costs and overall project economics. The European Union manages this by having a supply of credits in a new entrant reserve that allows for new projects to be introduced if needed. Mechanisms to allow for new entrants would have to be addressed.<sup>8</sup> There is also a concern with both options presented that the proposed policy will not encourage or support the ability of new entrants to incorporate best available technology which will leave them with limited opportunity for further reductions in the short term as they will already be producing at low emissions-intensity levels.

**Regulatory Duplication:** The creation of an entirely new federally administered system on top of the existing carbon pricing programs is excessive, specifically when it will degrade the efficiency and effectiveness of the programs in place. The creation of a new emissions trading system would require significant work by both industry and government and will take years to complete, resulting in more uncertainty for our industry.

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<sup>7</sup> <https://laws-lois.justice.gc.ca/eng/acts/c-15.31/FullText.html>

<sup>8</sup> [https://www.emissions-euets.com/carbon-market-glossary/959-new-entrant-reserve-ner#:~:text=New%20Entrants%20Reserve%20\(NER\)%20constitutes,of%20the%20European%20Union%20Emissions](https://www.emissions-euets.com/carbon-market-glossary/959-new-entrant-reserve-ner#:~:text=New%20Entrants%20Reserve%20(NER)%20constitutes,of%20the%20European%20Union%20Emissions)

**Boundaries:** The inclusion of a cap and trade system specific to the sector is a method of isolation that is not consistent with the CAPP policy principles of climate policy<sup>9</sup> and as such any application of a cap and trade system would need to expand across the full economy. An effective carbon price of \$269-323/tonne CO<sub>2</sub>e in 2025 and 2030 respectively on our sector alone as predicted by Navius Research Inc. does not fit with CAPP's principles.

## 5 A Path Forward

### Reconsider Adding Another Layer of Regulation

The proposed cap comes at a time when the industry requires investment in both emission reduction projects and expansion projects to support energy security. Progress has been made by industry to deliver on both objectives. The current regulatory framework should be afforded the proper time to demonstrate its effectiveness before laying on additional regulatory requirements.

A regulated cap on Canadian oil and natural gas emissions is unlikely to reduce global GHG emissions.

Under both proposed options presented by the federal government, producers will be forced to cut production to achieve compliance. We understand this is not the government's intention given current global energy security challenges. Oil and natural gas production helps fund society's social structure and will continue to support a stable, affordable Canadian energy system through the transition to a lower-carbon economy. A healthy sector will help fund the energy transition through existing royalties, corporate taxes and income taxes from workers in the industry.

At this critical time when the world is in an energy crisis and our allies are asking for assistance from Canada's energy sector, the proposed options to implement an emissions cap discourage investment in Canada.

Another layer may impact the effectiveness of the existing policy measures as there are elements within those programs that will lose their value as soon as emission reductions are required via regulation. These programs have driven substantial emission reductions over the past decade and continue to deliver cost effective reductions across different areas of the economy.

### A Realistic Trajectory

Trajectories are required to pragmatically map pathways for the high performing energy assets that exist and those that are still to come in Canada. CAPP is advancing additional modelling that will inform emission reduction trajectories with the expected completion in the coming weeks following the submission deadline. We expect this work will be vital to the development of the right policy pathway forward and will support better outcomes for all Canadians, including Indigenous peoples. In order to increase certainty for large-scale investments in energy and decarbonization projects, a balanced trajectory is necessary and if realized will help advance GHG emissions reduction innovation and technology deployment.

Targets need to reflect what can be realistically achieved.

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<sup>9</sup> <https://www.capp.ca/explore/industrys-climate-commitment/>

The oil and natural gas industry's contribution to the 2030 Emissions Reduction Plan (ERP 2030), which reflects a 42 per cent reduction by 2030 from 2019 levels is not a realistic projection of the industry's potential reduction even in absence of our ability to play a large role in improving energy security and affordability both globally and domestically. The input assumptions that have been included in ERP 2030 are highly dependant on availability of technology, regulatory and implementation timelines and both capital and human resources to deploy them.

Engagement on the path to 2030 that can both meet energy security commitments and emission reduction commitments needs to occur.

### Enable Markets and Ensure Availability of Cost-effective Opportunities

Emissions reduction projects compete with other investments and are global in nature. Canada's framework for decarbonization needs to keep pace with the global markets in which Canada competes.

Canada has taken great steps to improve attractiveness of major projects, including the announced CCUS Investment Tax Credit. However, other countries (including the U.S. with the recent Inflation Reduction Act) continue to take action to seize a global leadership position in decarbonization and energy investment. Canada will need to remain highly attuned to the international landscape to ensure Canada remains an attractive market for large-scale GHG emission reduction innovation and technology investments.

An additional layer of regulation may present too great a risk for many investors and would restrict investment in the very clean technology advances the Government of Canada is trying to encourage. We are also cognizant that the CCUS Investment Tax Credit is not yet available in all provinces, including Newfoundland and Labrador, due to a lack of regulation governing CCUS.

### Leverage Efficiencies Across the Economy

Delivering emission reductions is a focus for the entire Canadian economy. Different industries have unique opportunities to reduce emissions that allow them to move faster or slower depending on cost and technology readiness. Frameworks that encourage cost-effective reductions enable leadership and quicker emission reductions for all when a whole-of-economy approach is advanced. All of Canada benefits when climate leadership can be monetized – it incentivizes leadership and creates compliance flexibility for other sectors where direct decarbonization is more costly or not technically feasible at the present time. The government should avoid a sector-by-sector approach to policy tools for decarbonization as they will slow emission reduction progress overall.

### Consider Policy Alternatives

When government is considering the development of a policy mechanism, the key items to be considered are:

- Existing carbon pricing effectiveness is not compromised (i.e. credit market maintained, emission intensive trade exposed protection, carbon price level consistent, economy wide).
- Provide assurance that industry is providing adequate investment in emission reduction initiatives and emission reductions are occurring.

- Ensure that resources can flow quickly and directly to projects that reduce emissions and support innovation eliminating red tape from government grant programs.
- Ensure emission reduction trajectory is based on what is technically feasible.

CAPP looks forward to working with government to share our modelling data and is encouraged by the willingness to have additional discussions of ECCC model assumptions in the consideration of alternatives to the proposed policy options included in the discussion paper given it is quite evident there will be unintended consequences of such proposals.

CAPP is continuing efforts and working in earnest to further our understanding and consider enhancements to the government proposals related to both the policy levers and the trajectory of the emission cap to deliver our shared principles. We request a process for further engagement with your departments as this policy development process continues. CAPP will be advancing the necessary work to inform the implications on the triple priorities of emission reductions, energy security and affordability.