

**Written Submission for the Pre-Budget
Consultations in Advance of the 2024
Federal Budget**

**Canadian Association of Petroleum
Producers**

Recommendations

- 1) That the Government of Canada does not proceed with the unnecessary proposed cap-and-trade emissions cap on the oil and natural gas sector**
- 2) Support provincial leadership on methane regulation development**
- 3) Work with provincial governments to realize the next generation of LNG development**
- 4) Improve the regulatory system for oil and gas projects to advance environmental, economic, and Indigenous partnerships**
- 5) Create a national Indigenous Loan Guarantee Program**

The Canadian Association of Petroleum Producers (CAPP) is a constructive and solutions-oriented partner in addressing the triple challenge of reducing emissions while assuring domestic and western alliance energy security and affordability for Canadians. In this regard, CAPP and our member companies respectfully submit the following comments for consideration in advance of the 2024 Federal Budget.

1) That the Government of Canada does not proceed with the unnecessary proposed cap-and-trade emissions cap on the oil and natural gas sector.

CAPP is not supportive of the proposed regulatory framework to cap emissions from upstream oil and natural gas and emerging liquefied natural gas (LNG). CAPP is perplexed why the federal government has chosen to advance this framework option, when CAPP has explicitly advised against this policy approach given the consequential negative implications for our sector and Canada's economy. Under the cap-and-trade option presented, some producers will be forced to cut production to achieve the overly aggressive compliance obligation.

CAPP understands that it was the government's intent that the cap is targeted on emissions, not production¹. There are other existing and proposed climate policies that will more effectively contribute to Canada's long-term emissions reductions goals.

As a result, **CAPP requests that the Government of Canada not proceed with the unnecessary proposed cap-and-trade emissions cap on the oil and natural gas sector. Canada should work with industry and provinces on other effective and collaborative solutions that build on existing proven policy measures to deliver emission reductions in the short term and to position Canada and our energy industry for success in the long term.**

Oil and natural gas emissions peaked in 2015² despite significantly growing production. Recent data shows³ that our sector is making significant progress in reducing emissions, and we are taking measures to achieve further reductions. From 2012 to 2021, emissions from Canada's conventional oil and natural gas sector fell by 24% while production grew by 21%. Existing climate policies like the *Greenhouse Gas Pollution Pricing Act*, Clean Fuel Regulations and Methane Regulations, among others, are already enabling an accelerating, downward trajectory for upstream oil and natural gas emissions. The proposed emissions cap legislation is detrimental to the upstream oil and natural gas industry making further progress on emission reductions.

The emissions limits included in the proposed cap-and-trade framework design are directly based on 2019 production volumes with flexibility, in part, based on an uncertain future production scenario; therefore, the proposed framework is directly setting production volumes based on a production scenario. In addition, **the**

¹ <https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/oil-gas-emissions-cap.html>

² National Inventory Report 1990-2021 (scope 1)

³ <https://www.capp.ca/wp-content/uploads/2023/09/Emissions-Performance-Data-Updated-2023.pdf>

latest 2023 production levels for natural gas have already exceeded the volumes used to set the upper legal limit included in the framework.

The additional layering of cost from an emissions cap, coupled with the lack of protections for emissions-intensive trade-exposed (EITE) sectors, lack of realistic production projections and limited flexibility presented in the proposed framework will make further investment into the Canadian oil and natural gas sector more challenging and result in a decline in production. If this policy leads to production shut-ins, the average Canadian consumer will see higher energy prices, in particular home heating costs as there is potential for energy scarcity. As Canadians are experiencing a rising cost of living, government should be cautious that this policy does not further increase costs on the Canadian public.

Additive, duplicative policy weakens the effectiveness of existing policy tools including carbon pricing, methane reduction regulations, clean fuel regulations, offset systems and other provincial measures.

CAPP and the natural gas and oil industry support a more prosperous, balanced, and sustainable future by working together to unlock Canada's full economic potential by maintaining a global perspective with respect to climate outcomes. Policies should drive worldwide emission reductions while also ensuring domestic, continental and western alliance energy security and encouraging investment in low-emissions jurisdictions. A realistic production outlook is needed to inform practical emission progress.

We encourage Canada to establish measures that incent reductions in methane, encourage carbon capture utilization and storage (CCUS), electrification, and energy efficiency, and to stop taking actions that slow investment in projects that contribute to advancement of continued emission reduction progress in these areas and improve energy security in Canada and the world.

2) Support provincial leadership on methane regulation development.

CAPP and its members have reviewed the proposed enhanced methane regulations and will be providing separate written feedback on February 14, 2024. Our preliminary analysis has identified **proposed methane abatement actions that are not supported by modern commercial technologies and are therefore currently technically infeasible**. In addition, currently the methane regulations remain focused on activities in the conventional oil and natural gas industry although the desired reduction targets are inclusive of broader sources.

The draft federal *Regulations Amending the Regulation Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds (Upstream Oil and Gas Sector)* do not represent a clear and efficient path to achieve increased ambition. With their *Regulatory Impact Analysis Statement (RIAS)*, the draft amendments set unclear compliance expectations and propose resource intensive actions that are not associated with clear emission reduction opportunities. We need to clarify the intent of the regulatory requirements, the technologies proposed for compliance, and the data linking proposed requirements to

emissions reductions. In the absence of such clarification, and an open dialogue, there is not sufficient regulatory certainty to support meaningful industry consultation.

The provinces have taken a lead in methane emission abatement with British Columbia, Alberta, and Saskatchewan on track to meet or exceed their 2025 methane reduction targets. We should be building on this success by targeting resources at the largest remaining methane sources and establishing clear requirements for industry that can be achieved with current commercial technologies. As CAPP will detail in our dedicated methane submission, the draft amendments:

- propose prohibitions on venting and flaring that are incompatible with actual operations;
- mandate major resources be dedicated to looking for leaks where data shows they are unlikely to occur (both in frequency and magnitude); and,
- seek to achieve all methane reduction through command-and-control regulations.

B.C., Alberta, and Saskatchewan have all taken different approaches to methane abatement, blending equipment-level regulations with intensity targets, fleet averages, and economic incentives. These approaches have been highly successful and should be supported by federal actions.

We believe the conventional upstream oil and gas industry can achieve increased methane reductions with much greater efficiency and we are prepared to work with ECCC and the provinces to achieve that goal.

3) Work with provincial governments to realize the next generation of LNG development.

With the fourth largest oil reserves⁴ on the planet and being the fifth largest natural gas producer in the world⁵, Canada has great potential to grow its market share and become a preferred global supplier of responsibly produced energy. Exporting LNG from Canada to markets in Asia and Europe would reduce net global emissions⁶ by displacing coal while enhancing Canadian and our allies' energy security and prosperity. The market opportunity to support global natural gas demand with responsibly produced Canadian resources will be net benefit to Canadians and to global GHGs reductions. As countries continue to seek lower emission oil in the coming years, Canada's offshore sector, which is producing some of the lowest emissions intense oil in the world, can also play a bigger role.

4) Improve the regulatory system for oil and gas projects to advance environmental, economic and Indigenous partnerships.

Canada must restore its reputation as a country that works for global scale investments with a focus on transforming the regulatory system to achieve environmental, economic, and Indigenous partnership goals. Transformative spending is required on infrastructure, export capacity and natural resource development to

⁴ <https://www.eia.gov/tools/faqs/faq.php?id=709&t=6>

⁵ <https://yearbook.enerdata.net/natural-gas/world-natural-gas-production-statistics.html>

⁶ Natural gas emits 50% fewer CO2 emissions per unit of energy than coal. (Source US. EIA)

leverage Canada's natural advantages, build a strong economy and meet our environmental objectives at home. A strong Canada is also instrumental in helping our allies achieve their economic and environmental goals and raises Canada's stature in multi-lateral settings.

5) Create a national Indigenous Loan Guarantee Program.

Advancing major resource projects, including oil and natural gas initiatives, is crucial for a successful energy transition and economic growth that benefits all Canadians. To enable swift progress and ensure meaningful Indigenous participation, the government should provide regulatory certainty and prioritize reconciliation while facilitating Indigenous engagement. The *Indian Act* and other barriers hinder Indigenous access to capital, impeding their ability to become asset owners and participate fully in the economy. A national Indigenous loan guarantee program with reasonable interest rates can alleviate these challenges and empower Indigenous communities to engage as equity owners in major projects, generating own-source revenues and fostering prosperity for future generations.