

February 2, 2024

The Honourable Steven Guilbeault
Minister of Environment and Climate Change
Government of Canada
200, boul. Sacré-Coeur
Gatineau, Quebec K1A 0H3
(via email: ministre-minister@ec.gc.ca)

Re: CAPP Comments on the Government of Canada's Proposed Regulatory Framework to Cap Oil and Gas Sector Greenhouse Gas Emissions

Dear Minister Guilbeault:

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 regarding the proposed regulatory framework to cap the oil and natural gas sector greenhouse gas emissions.

As we stated in our previous submission dated September 2022, 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.**

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

Upstream Emissions Reduction Progress to Date

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.

Potential Impact of Emissions Cap on Different Hydrocarbon Streams

CAPP's members produce nearly three quarters of Canada's annual oil and natural gas production and provide more than **400,000 direct and indirect jobs in nearly all regions of Canada**. In 2022 across Canada, our industry **contributed \$111 billion to the gross domestic product (GDP)** in addition to **paying \$45 billion in taxes and royalty payments**. With five oil and natural gas producing provinces, each with different hydrocarbon streams and local economies, impacts of the emissions cap policy on regional production may vary, with potentially disproportionate negative implications for national energy security and affordability. Compromising production over the next decade before consumers have the ability to switch to alternative sources of energy, may render millions of Canadians and the companies that power our economy vulnerable to scarcity at a time when global geopolitical tensions remain high.

LNG and Global Emission Reductions Recognition

The proposed emissions cap policy should recognize global greenhouse gas (GHG) reductions resulting from higher carbon fuel displacement with Canadian natural gas and LNG. While it is a positive step that Internationally Transferable Mitigations Outcomes (ITMOs) are included in the proposed emissions cap framework, the mechanism design will be inadequate to provide the certainty needed by proponents to advance investments in these global building projects.

Proposed Emissions Cap Limits

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

To this end, CAPP believes the emission reduction pathways to achieve government's proposed sectoral cap do not exist within the proposed time frame nor do the proposed alternative compliance mechanisms contemplated provide the needed flexibility. As a result, **the proposed emissions cap will result in curtailment of existing production and foregone future production**.

² National Inventory Report 1990-2021 (scope 1)

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

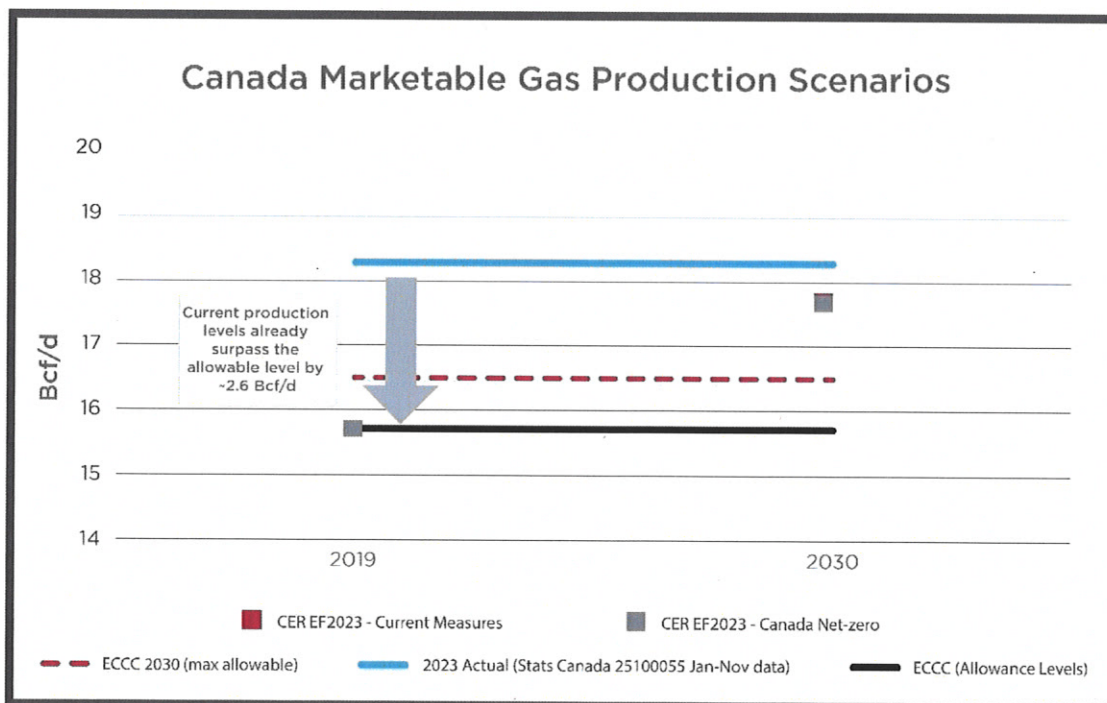
Methane

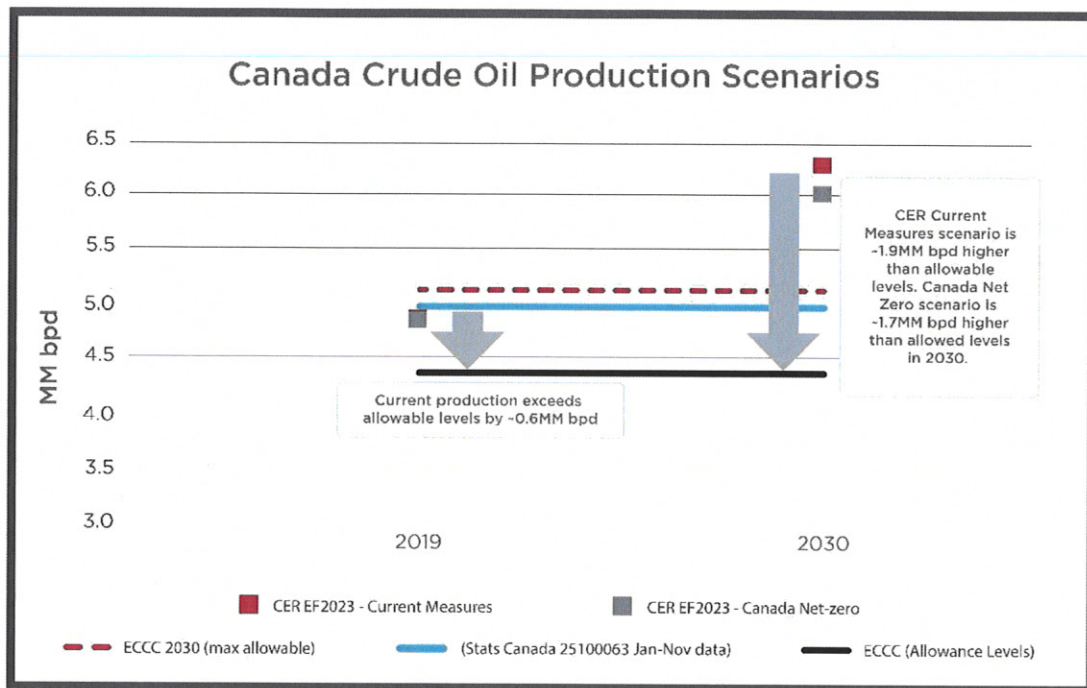
By ECCC's own account, the achievability of the proposed emissions cap reduction targets is heavily contingent upon the proposed enhanced methane regulations and estimates 33 to 37 megatonnes of carbon dioxide equivalent (Mt CO₂e) reduction in methane emissions by 2030. CAPP and its members have reviewed 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.

Implications of an Emissions Cap

A one-sized-fits-all emissions cap will have differing impacts within the sector and regions where operations occur. Industry must be able to operate and attract investment capital or risk a decline in production, a loss of GDP, a loss in government revenues, and ultimately a loss in jobs.

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. This proposal isolates 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 carbon price for the oil and natural gas industry alone. Any new climate policy should encourage lowest-cost reductions across the full economy.

A Path Forward

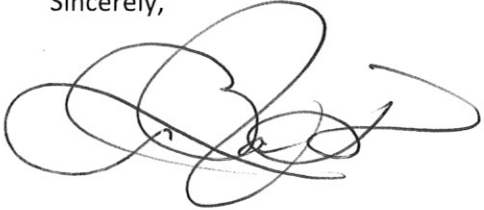
CAPP and the natural gas and oil industry support a more prosperous, balanced and sustainable future by working together to unlock Canada's full economic potential by maintaining a global perspective with respect to climate outcomes. Policies should drive worldwide emission reductions while also ensuring 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.

Canada needs to focus efforts on policies that can help reduce emissions, not shut in production, starting with how to best meet its climate ambitions and contribute to the global emissions reduction effort, all while maintaining good jobs and economic opportunities across Canada. **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.**

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.

In consideration of the above CAPP provides the following appendices highlighting key elements that need to be addressed and questions that must be considered should the Government of Canada continue to advance.

Sincerely,

A handwritten signature in black ink, appearing to be 'Lisa A. Baiton', with a large, stylized initial 'L' and 'B'.

Lisa A. Baiton, MBA, ICD.D
President & Chief Executive Officer

Cc: Hon. Jonathan Wilkinson, Minister of Energy and Natural Resources
Hon. Chrystia Freeland, Deputy Prime Minister and Minister of Finance
Hon. Seamus O'Regan, Minister of Labour and Seniors
Hon. François-Philippe Champagne, Minister of Innovation, Science and Industry
John Hannaford, Office of the Clerk of the Privy Council

Appendix 1

Additional Comments Regarding Emissions Cap Regulatory Framework

Use of Production Numbers

This whole policy, including the emission trajectory, is based on production forecasts/scenarios completed by ECCC and the Canada Energy Regulatory (CER). The volumes included in these estimates are scenarios and should not be considered as forecasts as these volumes can change based on a number of variables, which leads to a strong chance that the volumes used in the creation of the emissions limit will be wrong. The CER's description of why the scenario analysis is completed states *"We do scenario analysis to explore uncertainties facing the future of the energy system. The results in EF2023 are not predictions about the future. Rather, they are the product of scenarios based on a premise and a certain set of assumptions. Relying on just one scenario to understand the energy outlook implies too much certainty about what could happen in the future."*¹ As legal compliance obligations will be created from these stated production volumes, the use of them is not consistent with their intended use and is directly against the spirit of the policy, which intends to cap GHG emissions, not production.

CAPP has significant concerns and questions around the use of the production scenario to create the "upper legal bound." The framework claims that the legal upper bound is based on "The production levels based on ECCC's estimates of oil, natural gas, and LNG production for 2019, along with ECCC's estimates of the CER's Canada Net-Zero scenario." CAPP notes that upon review, the production volumes included in the emissions cap framework differ from the CER's net-zero scenario, which includes higher production growth for our sector. For example, the CER's net-zero scenario forecasted close to 900,000 additional barrels per day of oil coming from our sector in 2030 than was included in the framework. The production scenario used under the proposed emissions cap framework is problematic as it does not provide sufficient room for growth. In addition, the proposed 2019 baseline was a low production year that experienced production curtailments in Alberta and should not be considered representative of the sector. In 2022, Canada's total oil and natural gas production reached a record high of 7.7 million barrels of oil equivalent per day (MMBOE/d) and accounts for 6% of the world supply of oil and 4.6% of the world's natural gas supply.² Canada's production is expected to reach an all-time high in 2023 at 8.5 MMBOE/d (including natural gas liquids - NGLs)³ and yet the emissions cap levels are based on 2019 emission rates. Government must use newer and more appropriate data in the modelling, otherwise there will be large unintended consequences for our sector and the Canadian economy. Figures 1 and 2 included below demonstrate the differences of several scenarios compared to those presented in the policy framework as well as current estimates of 2023 actual production.

¹ [CER – Energy Future 2023: Scenarios and Assumptions \(cer-rec.gc.ca\)](https://cer-rec.gc.ca)

² [CAPP Data Centre](#)

³ [CAPP Data Centre](#)

Figure 1: Canada Marketable Gas Production Scenarios

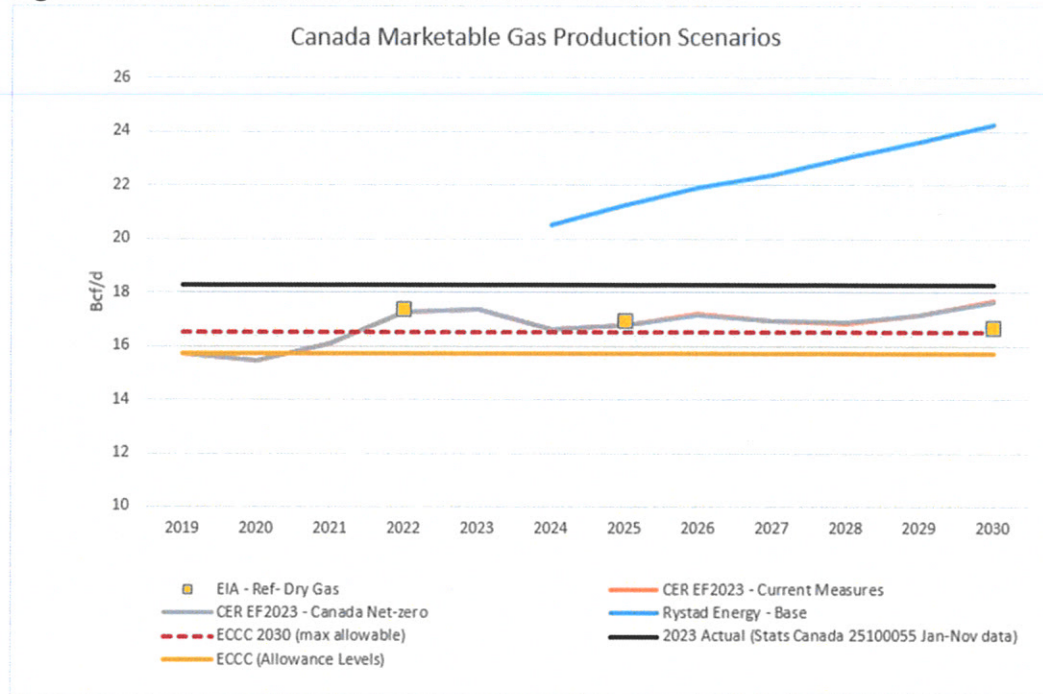
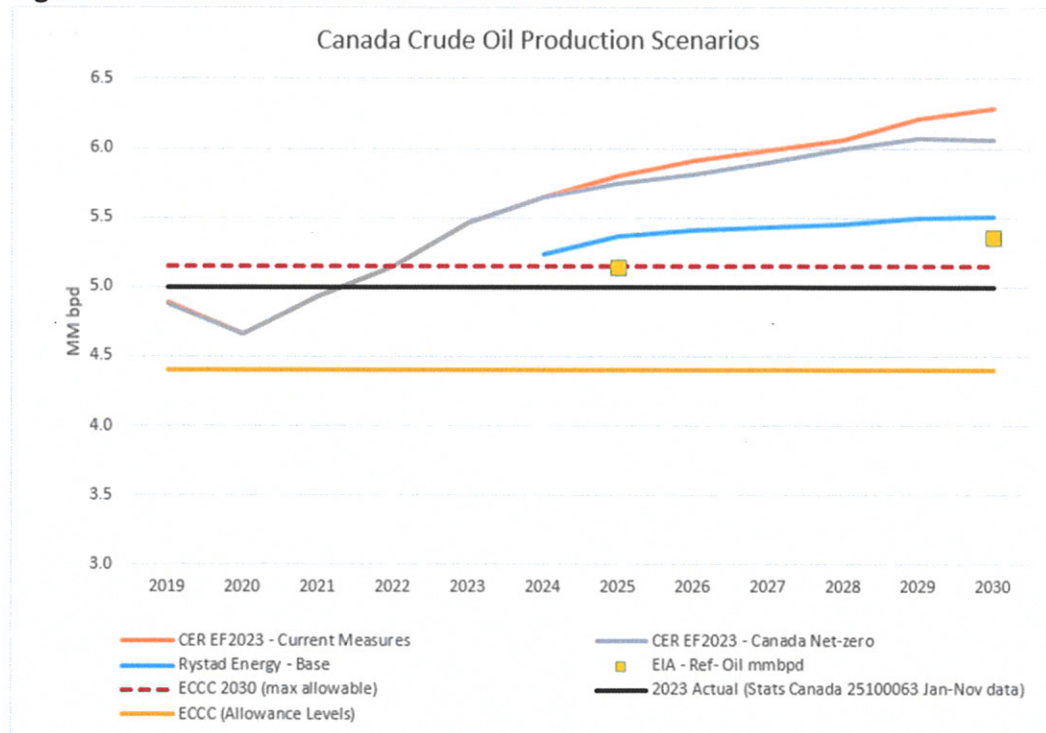


Figure 2: Canada Crude Oil Production Scenarios



Upper Legal Limits

One of the key elements of the proposed emission cap framework is the creation of a “buffer zone” to enable compliance flexibility. CAPP does not believe that the buffer provides adequate flexibility to protect from carbon leakage and to protect competitiveness. Additional to the concerns raised above regarding the data used to calculate the buffer, the proposed trajectory is already too steep and quick. The 25 megatonnes (Mt) compliance flexibility will not be enough to accommodate for growth and will lead to production shut-ins. This risk is only further compounded by the fact that compliance options are limited to 20% of a facility’s obligation.

Emission/Credit Allocation Allowances

One of the key aspects of the emission cap policy is how credits will be allocated and compliance obligations will be determined. Many other cap-and-trade systems are based around auctions where companies can purchase emissions allowances and these systems tend to carefully model the removal of allowances and impacts on prices over time to not overburden their economy. It is unclear how allowances may be allocated to facilities under this policy.

CAPP requires more information on how emissions will be allocated prior to being able to evaluate and properly comment on this policy.

Technical/Regulatory Feasibility

In the framework, the emission limits were informed by reductions assumed to be technically feasible by 2030. CAPP cautions that just because technology exists does not infer the technology is feasible economically or on short timelines. Our sector is committed to reducing emissions and technology plays a large role, but the levels of technology deployment assumed in the framework are too aggressive by 2030. CCUS and electrification deployment within the conventional oil and natural gas sector will require large amounts of capital, regulatory efficiency and time to construct; the current timelines are challenging and will make a number of the assumed emissions reductions by government under the framework unfeasible.

CCUS

CCUS requires large amounts of capital and currently many of the intended programs to support CCUS, such as the investment tax credit, are either not yet in place (Alberta ACCIP) or not sufficient (federal ITC). Solving the economic issues will be required before large-scale adoption could even begin. Additional to the economic challenges facing CCUS, it will also require significant timelines for completion due to planning, internal approval processes, potential material, and labour issues. The overall 2030 target for CCUS is overly ambitious due to the short timeline. Our industry is committed to being a world leader in CCUS, but this will not all occur by 2030. The government must ensure that the framework truly evaluates the realities for CCUS when determining potential 2030 contributions to emission reductions.

Electrification

Some of our operations in northeast British Columbia are already electrified and among some of the lowest carbon intensive producers in the world. They were able to do this because they are in proximity to already existing transmission lines being powered by renewable electricity. This is not true for many other operations in B.C. where there are no transmission lines but also in Alberta where the grid is powered primarily by natural gas. For our sector to electrify operations will require third parties, both Crown corporations and private companies, to build out the necessary green electricity and the needed corresponding transmission lines. As our facilities operate 24/7 and need guaranteed power to ensure that we meet health and safety standards, our sector cannot truly move until that reliable electricity is readily

accessible to us. As has been shown by Site C dam in B.C. and the Muskrat Falls dam in Newfoundland and Labrador, these new sources of electricity can take decades to be completed. CAPP analysis shows that to reduce 3 to 4 Mt CO₂e of emissions would require approximately a gigawatt of new energy coming online based on the estimated average grid emission intensity of western provinces by 2030. For reference, the new site C dam in B.C. will provide 1.1 gigawatts.

Methane

By ECCC's own account, the achievability of the proposed emissions cap reduction targets is heavily contingent upon the proposed enhanced methane regulations, and estimates 33 Mt to 37 Mt CO₂e reduction in methane emissions by 2030. Our preliminary analysis has identified proposed methane abatement actions that are not supported by modern commercial technologies and that 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. If methane remains under the cap, it will be critical to ensure that any methane targets from known sources are achievable in order for the cap itself to be achievable.

LNG

CAPP also requests clarity on what technological assumptions were used in the CER net-zero scenario that led to the LNG sector having -1 Mt of emissions in 2030. As LNG is coming online as efficiently as possible and there will be a limited number of facilities, CAPP requests clarity on what assumptions were made to deliver negative emissions.

Benchmarking/Groupings

The oil and natural gas sector is complex, with many different types of products such as natural gas, condensates, natural gas liquids, heavy and light oil, bitumen and synthetic crude oil, which are spread across the country. Each of these different products and production types have different emission profiles, and a one-size-fits-all approach to benchmarking could create significant negative impacts. How the policy benchmarks and groups the many different resource types within our sector will require careful thought and evaluation. If done improperly, this policy could lead to negative impacts on certain types of production in certain jurisdictions resulting in disproportionate impacts across the sector and the country.

Beyond 2030

For businesses looking to invest in decarbonization projects, policy certainty up to and beyond 2030 is key. Many of our sector's operations have long operating timelines that extend decades. Currently, this policy does not provide any clarity on what may occur after 2030, what compliance obligations will be incurred or the ability to operate facilities given the upper legal limits. This lack of post-2030 details create uncertainty and will make Canada a less attractive place to invest.

New Entrants

The management of new operations and the associated new production coming online is integral to any new policy. New entrants will leverage technology; however, they will also come online with both production and emissions. To provide investment certainty the policy will require a new entrant approach and understanding of requirements post-2030 within the framework to provide certainty to those making significant investment in long-term projects. New projects are key in deploying modern technologies in the industry that contribute to decarbonization and improved performance of the sector over time.

Greenhouse Gas Emission Reporting Program (GHGRP) Gaps

CAPP has concerns with reporting gaps from many of the sources proposed for inclusion in the program and the evaluation of the oil and natural gas sector's emission profiles. Currently, the data set used by the government does not represent a complete view of emissions from our sector because the GHGRP does not include emissions from sources under 10,000 tonnes of CO₂e annually. These smaller volumes are characteristic of most emissions from conventional oil and natural gas, which includes hundreds of thousands of well sites, thousands of facilities/processing and hundreds of operating companies.

Additionally, many methane emissions included in the proposed system are currently determined by estimation and modelling. While this approach has worked for the methane regulations to guide activities that would support reductions where flexibility was included in the program, now with this data being used to set trajectory and legal limits, the use of estimates determined through modelling will create large issues when allocating compliance units to facilities within the cap-and-trade system.

Scope 2 Inclusion

For many oil and natural gas operations, Scope 2 emissions come from purchased electricity and in most instances are outside of the operator's control. Crown corporations or third-party utility companies are responsible for the emissions associated with electricity generation and the oil and natural gas sector has little ability to influence this. Electrification of combustion sources requires significant capital investment from both our sector and generators and will require timelines that could span decades to build the required energy infrastructure and supply. Electrical transmission lines are particularly challenging as the average time to plan, permit, construct and energize is now 8 to 15 years.⁴ Achieving a reduction of 3 Mt year from electrification in our sector would require a significant increase of generation capacity in addition to accessible sources. Currently additional wind and solar generation capacity is under a temporary pause in Alberta. Our sector depends on reliable energy sources to support production operations to ensure they can operate in a consistent and stable manner 24 hours a day, 7 days a week delivering the energy that both Canada and the world needs, so ensuring the policy does not create any more impediments to uptake is vital. Any potential inclusion of Scope 2 emissions under the proposed emissions cap may prevent electrification or create the inverse incentive for operators not to electrify and reduce Scope 1 emissions.

Canadian Environmental Protection Act (CEPA) Legal Aspects

CAPP and our members have concerns with the emission cap being legislated under CEPA as it includes legal provisions. As outlined in section 272 (2),⁷ significant monetary penalties would be introduced or even potential criminal penalties for non-compliance. As our sector does not believe the reduction targets in the proposed policy are achievable, we are concerned that emission targets may not be met as a result of factors outside the control of facilities and could have detrimental impacts on our sector due to the legal aspects under CEPA.

Additionally, the generation of a regulation under CEPA removes flexibility for both industry and government. 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 a result of the lack of flexibility under CEPA. Compliance mechanisms are limited to 20% of total compliance obligation, which is inadequate and will lead to shut-ins if the trajectory is not appropriate. The Government of Canada should reconsider the decision to have this policy under CEPA and consider other approaches to support emission reduction.

⁴ S&P Global 2023

Administrative Burden

The proposed system will be cumbersome and costly to manage for both industry and government.

For example, the current data sets available to the Government of Canada will not be sufficient to support this policy framework. The government must consider how to obtain this data without creating undue cost and administrative burden.

Given the proposed emission cap option is a complete and separate policy from the output-based pricing system (OBPS), this policy will require a completely new system separate from the OBPS. This new system will require significant development and administration by the government as well as new monitoring reporting and verification requirements for industry.

The proposed cap-and-trade system will require tremendous resources from both government and industry. The resources used on this new complicated system could be better spent on additional emission reductions activities that are already incentivized by other programs such as methane reduction and carbon pricing. Overall, the complexity and administrative burden that will come from this policy will only impede and slow down overall progress in other areas.

Cap-and-Trade/Dual System Complications

Currently, all oil and natural gas facility emissions are covered by provincial carbon pricing programs. A new cap-and-trade system will double-regulate all these emissions, limiting new incentives to reduce emissions. Companies will now be expected to keep track of two similar but separate data sets and two compliance management plans.

Companies will now be under two different carbon pricing regimes; the overlap and crossover will create complications not efficiency, which will only impede and slow down progress that is already underway.

Impacts to Other Environmental Programs

CAPP is concerned that the proposed emission cap will have a negative impact on other already existing policies in the country that have already led to significant emission reductions. The proposed cap weakens existing policy tools including carbon pricing, methane reduction regulations, clean fuel regulations, offset systems and other provincial policies, and separates the oil and natural gas sector from existing carbon pricing programs which thus may impact both the price and overall demand of offset credits. The industry does not support a differentiated carbon price for oil and natural gas alone. Any new climate policy should encourage lowest-cost reductions across the economy.

Competitiveness/Capital Leakage

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 proposed for cap-and-trade compliance, will make further investment into the Canadian oil and natural gas sector more challenging, resulting in a likely decline in production, a reduction of GDP and job losses. The oil and natural gas extraction industries account for 5.4% of Canada's GDP or \$110.5 billion in 2022.⁵ As such, the emission cap must be designed in a way that does not negatively impact investment and

⁵ [CAPP Data Centre](#)

does not negatively impact the Canadian economy. Investors in other sectors may also factor this increasing regulatory complexity into decisions.

The OBPS system used by the majority of jurisdictions in the country contemplated competitiveness impacts and the potential for carbon leakage. The federal OBPS test looked at a sector's overall economic competitiveness and determined EITE provisions to help protect against carbon leakage. The federal government identified the oil and natural gas sector as one that faces high foreign competition and at risk of carbon leakage. This new emission cap makes that previous work and the protections under the OBPS ineffective, as the increased costs from the cap erodes any protection under the OBPS system. CAPP requests further engagement on the modelling done by ECCC to show that our industry is not EITE and at risk of carbon leakage.

It will be essential that any revenue created from the policy is returned to industry to help with decarbonization projects, otherwise the policy has risk of stranding capital and making it more difficult for companies to invest in their operations.

Differential Price Across the Economy/ Ring Fencing

Of key concern is how the proposed options for implementing an emission cap may require the removal or separation of the oil and natural gas sector from existing carbon pricing programs. By "ring fencing" the sector, operators' participation in existing programs will be limited. As a result, the proposed policy options risk negatively impacting the sector. This impact includes other stakeholders; isolating oil and natural gas facilities from generating offset credits under existing programs (e.g., TIER in Alberta) and 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 limiting our ability to exchange credits from outside our sector could cause 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 generated in 2021 and 2022 were 7.8 and 6.7 Mt CO₂e respectively.⁶ 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 policies should not isolate one sector from an economy-wide approach.

Aggregate Emissions

The framework mentions plans to utilize aggregate systems to manage smaller emission sources similar to provincial carbon pricing programs. This will be challenging under the emission cap as the existing aggregates systems are designed for carbon pricing programs and would not be fully applicable under the emission cap. Currently, the aggregates of emissions under carbon pricing do not include methane emissions as they are covered by the methane regulations, so new forms of aggregates will need to be created. Additionally, activities in the aggregate may not always be production based such as small compressor stations, and determining their potential compliance obligation will be challenging.

⁶ AB Offset Registry https://alberta.csaregistries.ca/GHGR_Listing/AEOR_Listing.aspx

Regional/ Product Differences

Oil sands, conventional, offshore oil and processing are completely different resources that operate in very different fashions, have different emission profiles and different opportunities for reductions. The same is true for natural gas where sweet and sour operations differ drastically in terms of how the gas is processed and have different emission profiles. This is why the OBPS system has differentiated benchmarks for each of the different resource types within the oil and natural gas sector. Appropriate sub-sector benchmarks have been created to manage the complexity of the sector and provide flexible approaches to treatment under carbon pricing to ensure no unintended consequences. For example, in offshore operations, due to their distance from land, health and safety requirements and limited platform space to accommodate additional equipment, have limited ability to reduce emissions in the short term and the offshore industry will require its own unique considerations to ensure no shut-ins occur. An emission cap policy must address any product type differences; a one-size-fits-all approach will be problematic and if not managed under the emission cap could lead to dramatic consequences for certain production types.

As there is tendency for some of these production types to be grouped in geographical areas, there is a risk that if the emission cap is not done in a way that recognizes the unique operational types across the country, it could have significant impacts on certain regional groups. For example, all of the offshore oil is currently located in Newfoundland and Labrador.

Trajectory

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 reduction projects given the stated intent to cap emissions and not production. Targets must reflect what can be realistically achieved technically, economically and within reasonable timelines. Technical possibility does not automatically infer economic or practical feasibility within a given timeline. The government must work with industry to ensure any trajectory that is introduced is based on real data and reflects what is possible. The current proposed emissions reduction trajectory remains overly aggressive (35% to 38% reduction from 2019) timeline given the many decarbonization constraints, the limited time to 2030 and the fact that 2019 was not a representative production year.

This target does not provide sufficient time for the sector to execute the many large-scale emissions reduction projects that will be required. CCUS, electrification and other large-scale technologies that will be needed by our sector are complex, expensive and depend on government or other third parties to implement. For example, permitting and environmental approvals are lengthy processes in Canada and are likely to impede short-term reductions from our sector. The two main long-term emission reduction opportunities – CCUS and electrification – both require significant leadership and execution by government at federal and provincial levels. Key to this will be permitting and policy creation that encourages uptake of emission reductions. Recent modelling has shown that electrical transmission lines are particularly challenging as the average time to plan, permit, construct and energize is now 8 to 15 years.⁷ This does not align with such a steep trajectory under the emissions cap. Additional items will also need to be created before our sector can move forward with large-scale investments such as a federal CCUS framework that enables our sector, a CCUS investment tax credit (ITC) that does not reduce after 2030 and includes enhanced oil recovery (EOR), carbon contracts for difference, Internationally Transferred Mitigation Outcomes (ITMOs) other accompanying policies will also need to be created and as 2030 is fast approaching it leaves little time. S&P Global found that on average CCUS projects take 6 to 10 years for projects to move

⁷ S&P Global 2023

from planning to the start of storage operations⁸ and possible electrification could not occur until the 2040s. The government must be aware of realistic timelines for our sector and create realistic targets and trajectories that won't force production shut-ins.

2026-2030 Interim Period

In the framework, the government mentioned that there will be consideration of how to manage the interim period of 2026-2030. As 2030 is quickly approaching, the government should not introduce any more uncertainty by implementing any measures prior to 2030 that will only further complicate an already complex and unnecessary policy.

Internationally Transferred Mitigation Outcomes (ITMOs)

CAPP notes the reference to the potential Inclusion of ITMOs for compliance and is supportive of their inclusion in all environmental policies in Canada. We believe Canada, through low carbon intensity natural gas, LNG and oil, can help lower global emissions by displacing higher-emitting energy sources such as coal. By acting globally, Canada can make an outsized contribution to addressing climate change. The International Energy Agency (IEA) World Energy Outlook states that switching to natural gas has already helped to limit the rise in global emissions since 2010, alongside the deployment of renewables and nuclear energy, and improvements in energy efficiency. On average, coal-to-gas switching reduces emissions by 50% when producing electricity and 33% when providing heat.⁹ We recognize that maximizing the climate benefits of switching to natural gas requires best practices to reduce methane leaks, and as noted previously, Canada has a proven track record in this regard. Analysis by the B.C. government and the B.C. Business Council demonstrates that LNG produced in B.C. has a lower emissions intensity than LNG from competing suppliers.¹⁰ LNG exports from B.C. can help to reduce global emissions by displacing more carbon-intensive fuel. To realize this LNG opportunity, all emissions-reduction initiatives need to be structured in a way that avoids inhibiting the growth of LNG production.

We believe this is a leadership role Canada can take in the global fight against climate change. A limit of 20% on the use of offset credits including ITMO for compliance does not offer adequate flexibility and will make the uptake of ITMOs more challenging. The government of Canada should advance the ITMO market and begin contributing to improved global emission reduction outcomes.

Foreign Trade

The Canadian oil and natural gas sector is important not only to Canada but to many of our allies and trade partners around the world. The Canadian oil and natural gas sector is often covered under many different trade agreements and can be vital to the success of our partners' economies. For example, the United States relies heavily on specific types of Canadian crude for the refineries to make asphalt and other essential products. The emission cap could also have an impact on the production of certain Canadian products, which in turn could impact our economic partners. The emission cap must not interfere with Canadian production so that we can continue to provide the needed resources to our allies and partners.

Imports

CAPP has concerns around provisions for oil, natural gas and other derived products that are imported into Canada. As currently proposed, the emission cap framework neither considers nor mentions any reference to how imports would be managed. If the emission cap were to be introduced without some treatment for

⁸ S&P Global 2023

⁹ IEA. *The Role of Gas in Today's Energy Transitions* <https://www.iea.org/reports/the-role-of-gas-in-todays-energy-transitions>

¹⁰ <https://bcbc.com/dist/assets/images/photo-gallery/lowcarbonadvantage/MNP-LCIS-Sector-Results.pdf>

imports, it would create an uneven playing field for Canadian resources when the imports are not priced, nor subject to an emissions cap. It will advantage other nations who likely do not have the same commitment for environmental stewardship as Canada. By not addressing imports and carbon leakage to other jurisdictions, this policy will hurt local economies, increase production in jurisdictions without strong environmental regulations and will weaken Canada's energy security by making Canada more reliant on imports. Imports and the impact to Canada must be fully thought through before any introduction of an emission cap.

Emission Cap Coverage

It will be key to the design of the policy to clearly define the "ring fence" of participation in the cap-and-trade system. A significant amount of conventional oil and natural gas emissions come from facilities that process hydrocarbons and are not wholly owned by oil and natural gas producers, instead they are owned by midstream companies. Ensuring that the appropriate "ring fence" is created and the correct stakeholders are included in the emission cap policy will be vital to its design.

Appendix 2

Questions for the Federal Government Regarding the Potential Consequences of the Proposed Emissions Cap on Oil and Gas

1. How will the proposed emissions cap legislation define the “ring fence” of participation in the cap-and-trade system? In other words, how will the oil and gas industry be defined? A significant amount of conventional oil and natural gas emissions come from facilities that process hydrocarbons and are not owned by oil and natural gas producers, but they are owned by midstream companies. Oil and natural gas producers do not have any control over how third-party facility operators spend their capital on decarbonization.
2. How will the legislation interact with the *Greenhouse Gas Pollution Pricing Act* (GGPPA), and its provincial equivalents in major hydrocarbon producing jurisdictions? Will the OBPS benchmarks and targets in the GGPPA be synchronized with the emissions cap levels over time? Have the impacts of double carbon taxation on future hydrocarbon production been modelled by ECCC?
3. The proposed cap-and-trade system will only allow trading with the oil and natural gas industry. The business of oil and gas supplies a multitude of hydrocarbon production streams (e.g. bitumen; a range of oils from heavy to light; condensates; natural gas and Natural gas liquids), each with distinct carbon characteristics. Have the effects of intra-industry competition for carbon credits, especially the effects on vital production such as natural gas streams to Canadians, been considered and modelled? How will allowances be calculated and offered to ensure intra-industry competition doesn't impede the supply of vital petroleum products?
4. In 2023, Alberta's Technology Innovation and Emissions Reduction (TIER) Fund was forecasted to receive \$637 million¹ with a significant amount being contributed from the oil and natural gas industry. In addition, the total compliance obligation in Alberta included the use of credits through carbon markets under the provincial equivalent TIER industrial pricing program. The largest offset generation project type in Alberta historically is wind electricity generation. The level of wealth transfer from emitters to clean energy companies is expected to grow with the increase of carbon price from \$65/tonne in 2023 to \$170/tonne in 2030 (in the absence of the proposed cap-and-trade system). Have the consequences of adding a competitive layer of intra-industry carbon levy, on top of the existing carbon markets that serve clean energy companies, been considered and quantified? There is a potential that if a ringfence is created for the oil and natural gas sector it could lead to decreased credits and transfers to clean energy companies, has government modelled the impact of a potential cap on green energy companies?
5. A substantial portion of Canada's oil and natural gas production is exported to the United States. The proposed emissions cap has the potential to seriously reduce Canadian supply of hydrocarbon streams into vital North American supply chains established over the past century. Has the response of customers and the State Department in the United States been considered?
6. The proposed emissions cap legislation layers on top of existing carbon policies (GGPPA or provincial equivalent, methane, etc.) for upstream producers. The proposed cap also chains and interacts with federal downstream legislations like the Clean Fuel Regulations and the proposed Clean Electricity

¹ [2023-26 Fiscal Plan \(Alberta Budget 2023\) – February 28, 2023](#)

Regulations. What is the impact of introducing yet another piece of carbon legislation on the top of existing policies, and ultimately what is the expected impact on energy affordability and security to Canadians?

7. In 2023, government revenues (federal and provincial) from the upstream oil and natural gas industry was almost \$40 billion: \$17 billion in income taxes and \$22 billion in royalties. Has the potential impact of the proposed emissions cap legislation on government revenues been calculated?
8. Investors pull capital away from industries in the presence of complex and burdensome policy, perceived or real. Has the impact of the proposed legislation on investment been estimated? Access to private capital will be paramount to decarbonizing upstream operations with processes like carbon capture use and storage (CCUS). In this regard, the emissions cap may result in a difficult-to-understand policy that theoretically encourages decarbonization but turns away private capital to finance the reduction of carbon emissions. What is the estimated impact on major investments in CCUS projects, electrification, and other major reduction opportunities as a result of the increasing costs.
9. The oil sands and conventional oil and natural gas businesses are distinctly different across many dimensions including carbon intensity, concentration of operations, geography, geology, availability of decarbonization options, and so on. Have the differential impacts on each business sector been modelled as well as corresponding impacts to the communities in which they operate across the full Western Canadian Sedimentary Basin all the way to the offshore?
10. How will emission reporting under the proposed cap reconcile to the National Inventory Report (NIR)? Will all emission sources currently within NIR be included in the emissions regulated by the cap?
11. As cost-containment measures are a standard feature in cap-and-trade design, what options are being considered?