

**GOVERNMENT OF CANADA RESPONSE TO  
THE STANDING COMMITTEE ON NATURAL RESOURCES' INTERIM REPORT:  
*"THE FUTURE OF CANADA'S OIL AND GAS SECTOR: INNOVATION, SUSTAINABLE SOLUTIONS  
AND ECONOMIC OPPORTUNITIES"***

**January 19, 2017**

## INTRODUCTION

The Government of Canada has reviewed the report of the Standing Committee and thanks its members for their efforts in developing this report. The Government also wishes to extend its thanks to the numerous witnesses who provided expert testimony to the Committee, providing the members with a diversity of perspectives on the oil and gas sector.

For Canadians, the oil and gas sector has long been a driver of economic growth, innovation, and prosperity. In 2015, Canada's oil and gas sector employed more than 190,000 and accounted for 5.3 percent of Canada's total GDP. Capital investment in the oil and gas sector totalled \$65 billion, representing 26 percent of total capital investment in Canada.

However, as the Standing Committee's report indicated, the Canadian oil and gas sector now faces considerable challenges. The Standing Committee's expert witnesses drew attention to a number of economic headwinds for the sector, including persistently low commodity prices; the emergence of low-cost competitors; potential constraints on export capacity; and significant declines in investment. Witnesses also called attention to social and environmental concerns affecting development in the sector. The Standing Committee cited a lack of confidence in regulatory approvals among Canadians which stemmed from among other things, insufficient recognition of Indigenous concerns and engagement; broad concerns around the environmental impacts of resource development, and doubts surrounding the need for oil and gas development as technology looks to reduce our reliance on fossil fuels.

Yet, according to the International Energy Agency (IEA), the world will depend on oil and gas as a significant source of energy for years to come. The 2015 IEA World Energy Outlook forecast that global demand for natural gas could increase by 47 percent from 2014 to 2040, while demand for oil could increase by 14 percent over the same period. In time, Canada has risen to become the world's third largest exporter of oil, and fourth largest exporter of gas. While Canadian energy powers the world, we can make investments in clean technology and renewable energy that will position Canada's energy sector for the future.

It is clear to our Government that in order for the energy sector to continue to be a driver of prosperity and play a part in meeting global demand for energy, resource development must go hand in hand with the environmental and social demands of Canadians.

The Government's Response to the specific recommendations made by the Committee follow. Given the linkages between the committee's recommendations, we have grouped the recommendations thematically in order to provide comprehensive responses. We outline our collaboration with governments at home and abroad to establish policies that will help us to meet our energy needs and address the challenges of climate change; the steps being taken to rebuild public trust through transparency, engagement, and improved environmental and regulatory review processes; our efforts to engage with Indigenous communities in a meaningful way; and investments in innovation and clean technologies that will position Canada for a more innovative and sustainable economy.

## **THEME 1: ESTABLISHING POLICY FRAMEWORKS THROUGH INTERGOVERNMENTAL COLLABORATION AND CO-OPERATION**

***RECOMMENDATION 5: The committee recommends that the Government of Canada continue to work on a National Energy Strategy in collaboration with Indigenous, provincial, territorial, and international partners to ensure that carbon accounting standards and credit transfer practices are considerate of neighbouring jurisdictions and that all carbon accounting standards are transparent and science-based.***

The Government recognizes the importance of collaborating with Indigenous peoples, provinces, territories, and international partners to ensure Canada's energy resources are developed sustainably as we transition to a lower-carbon future. To this end, the Government is actively working with provinces and territories to advance the Canadian Energy Strategy, which provinces and territories see as a critical tool to coordinate climate change-related actions across jurisdictions.

Our Government is building on momentum from the recent ratification of the Paris Agreement, and the commitments and actions already taken by provinces and territories. Through the Vancouver Declaration of 2016, Canada's First Ministers committed to work together under the Pan-Canadian Framework on Clean Growth and Climate Change to meet or exceed Canada's international emissions targets, and transition our country to a stronger, more resilient, low-carbon economy – while also improving our quality of life. We will transition to a low carbon economy by adopting a broad range of domestic measures, including carbon pricing mechanisms, adapted to each province's and territory's specific circumstances, in particular the realities of Canada's Indigenous peoples and Arctic and sub-Arctic regions.

Through collaboration, we are creating the conditions for collective prosperity, competitiveness, health, and security. The Government is committed to continuing to work with provinces and territories towards the development of a Pan-Canadian Framework, and will also continue to work and meet regularly with national Indigenous organizations. The Government has already committed to:

- support climate change mitigation and adaptation through investments in green infrastructure, public transit infrastructure and energy efficient social infrastructure;
- work together with the provinces and territories on how best to lever federal investments in the Low Carbon Economy Fund to realize incremental emission reductions;
- advance the electrification of vehicle transportation, in collaboration with provinces and territories;
- foster dialogue and the development of regional plans for clean electricity transmission to reduce emissions;
- advance efforts to eliminate the dependence on diesel in Indigenous, remote, and Northern communities – and use renewable, clean energy as a replacement; and

- as part of Canada's participation in “Mission Innovation”, double investments in clean energy, research and development over five years, and work with global partners to promote cleaner energy and better environmental outcomes.

With regards to the Government’s perspective on carbon accounting, standard methods of accounting for greenhouse gas emissions have already been established via the 2006 Intergovernmental Panel on Climate Change Guidelines for National Greenhouse Gas Inventories that were prepared in response to an invitation by the Parties to the United Nations Framework Convention on Climate Change (UNFCCC). As signatory to the 2015 Paris Agreement under the UNFCCC, in any potential participation in international credit transfers, Canada would comply with the robust accounting guidance for the use of international transferred mitigation outcomes that is prescribed by the Agreement.

***RECOMMENDATION 9: The Committee recommends that the Government of Canada continue to strengthen our North American Energy Strategy and intergovernmental cooperation on energy policies by taking into account federal, provincial, territorial and Indigenous interests, and take measures to improve the quality and availability of national energy data.***

The Government of Canada recognizes the importance of cooperation at various levels in relation to energy policies and energy data. Natural Resources Canada is engaged with the United States and Mexico in a variety of bilateral and trilateral collaborative projects which address a range of technology and policy issues pertaining to climate change and energy.

At the 2014 North American Leaders’ Summit, Leaders agreed to have their respective Energy Ministers meet annually to hold a North American Energy Ministerial (NAEM). The first NAEM was held in December, 2014, at which time a Memorandum of Understanding (MOU) Concerning Cooperation on Energy Information was signed.

Over the course of 2015, the three countries collaborated on energy information as well as a number of technical energy projects which included the launch of a web platform featuring new energy maps, which for the first time depict North American energy resources, production and infrastructure in a single place.

At the 2016 NAEM held in Winnipeg, a revised MOU Concerning Collaboration on Climate Change and Energy Collaboration was signed. This agreement will see Canada, Mexico and the United States collaborate and share information on key areas such as low-carbon electricity; clean energy technologies; energy efficiency; carbon capture, use and storage; climate change adaptation; and reducing emissions from the oil and gas sector, including from methane. The three countries will work together to increase alignment and ensure that the North American energy sector is developed responsibly, effectively and efficiently.

With respect to national energy data, Natural Resources Canada and Statistics Canada have worked to establish a framework for Canadian energy statistics, the Canadian Energy Statistics Framework (ESF), published in February 2016. The ESF is based on the United Nations’ International Recommendations on Energy Statistics. Initiatives are already underway to

implement changes to improve the quality of energy data, ensuring it is reflective of Canada's modern energy system.

## **THEME 2: REBUILDING PUBLIC TRUST IN RESOURCE DEVELOPMENT THROUGH TRANSPARENCY, ENGAGEMENT, AND MODERNIZATION**

***RECOMMENDATIONS 2 and 4: The Committee recommends that the Government of Canada work in collaboration with industry and the Indigenous, provincial, territorial, and municipal governments to develop the supporting infrastructure needed to create a favourable environment for natural resource development and transportation, and to deliver oil and gas products to strategic domestic and international markets;***

***And,***

***The Committee recommends that the Government of Canada address the broader issue of public trust in the energy sector, by fostering more transparency and public engagement in resource development decisions, and recognizing Canada's strong environmental regulations and the work of the national regulators.***

The Government agrees with the recommendations. Resource industries have, and must continue to make vital contributions to the prosperity of Canadians. Today, Canada is among the world's largest oil and gas producers and exporters and we expect to continue to play a significant role in meeting global demand for energy. Accessing strategic markets ensures Canadians receive full value for our resources; resources which can fund the next generation of renewable energy.

The Government believes that resource development and environmental protections must go hand in hand, and that collaboration with stakeholders is essential to developing resources in a manner that maintains public trust.

Consultation will be at the core of the review of environmental and regulatory processes and is an essential part of ongoing project reviews. The Government is undertaking a review of environmental and regulatory processes so that Canadians may be certain that decisions on major projects will promote a clean environment and drive economic prosperity. The review focuses on: reviewing federal environmental assessment processes; modernizing the National Energy Board (NEB); and restoring lost protections and introducing modern safeguards to the *Fisheries Act* and the *Navigation Protection Act*.

The Government established a 5-member NEB Modernization expert panel to strengthen the organization to better respond to future needs. The panel will examine issues beyond environmental assessment, including the NEB's governance structure, role and mandate, with a focus on enhancing the participation of the public and Indigenous peoples in regulatory reviews. The expert panel has expertise in policy, energy, business, environment, scientific, regional and Indigenous knowledge, and will provide its recommendations on modernizing the

NEB by March 31, 2017.

The Government understands the crucial role the NEB plays. We will continue to rely on the NEB to support critical decisions on key projects while the modernization review is underway, and have put in place interim principles to guide our decisions on major resource project assessments that are already in-progress. These interim principles strengthen the consultation process and instill greater public confidence by ensuring that decisions are based on science, traditional knowledge of Indigenous peoples and other relevant evidence; views of the public and affected communities are considered; Indigenous peoples are meaningfully consulted, and greenhouse gas emissions are fully assessed.

Specific measures have been put in place to foster more transparency and public engagement in NEB reviews. This includes appointment of a Ministerial Panel that engaged people from potentially affected communities close to the proposed Trans Mountain Expansion pipeline and shipping corridors, as well as appointment of temporary members to the NEB, with the expectation that the NEB Chair would direct them to engage communities and Indigenous groups along the Energy East Pipeline route. Consultations with Indigenous people along proposed pipeline routes have been deepened and the views of Canadians on pipeline projects have been sought through online questionnaires.

The issue of broad public confidence was a key issue discussed at the 2016 Energy and Mines Ministers' Conference (EMMC), an annual gathering of federal, provincial and territorial (FPT) ministers responsible for energy and mining portfolios. The 2016 EMMC concluded with FPT ministers agreeing to endorse four common principles: to foster relationships, improve communications, balance community interests with environmental and health impacts, and support science and innovation. Work is underway to develop a joint action plan that proposes concrete actions to strengthen public confidence in each of these areas.

The review of environmental assessment processes builds on Canada's strong environmental regulations; regulations that are important for creating a culture of safety. For example, the *Pipeline Safety Act*, which came into force in June, 2016, enshrines the polluter-pays principle in legislation. Operators' liability will remain unlimited in cases of fault or negligence and increases to \$1 billion regardless of fault. The Government is working to establish regulations on financial requirements, to ensure that federally-regulated pipeline companies are prepared to cover response, remediation costs, and liability claims.

The recently announced Oceans Protection Plan ensures that our coasts are maintained in a modern and efficient way that marries commercial use, environmental sustainability and security. It does so by creating a world-leading marine safety system, including new rescue stations; preserving and restoring the marine ecosystem using new environmental assessments and research, as well as taking measures to address abandoned boats and wrecks; enhancing partnerships with Indigenous communities, including emergency response training; and investing in both wildlife research and oil spill response technology to ensure that decisions taken in emergencies are evidence based.

In addition, in June 2016, Environment and Climate Change Canada (ECCC) introduced regulations which include performance standards for certain types of equipment that operate in oil and gas facilities. In early 2017, ECCC plans to propose federal methane regulations for the oil and gas sector, which will reduce emissions of methane – a potent greenhouse gas – by 40 to 45 percent from 2012 levels by 2025. These regulations are designed to deliver on commitments made at the North American Leaders Summit and through the Canada-United States Joint Statement on Climate, Energy and Arctic Leadership.

Taken together, these actions demonstrate that the federal government is actively working to strengthen public confidence.

### **THEME 3: EARLY AND EFFECTIVE ENGAGEMENT WITH INDIGENOUS PEOPLES IN RESOURCE DEVELOPMENT DECISIONS**

**RECOMMENDATION 3: *The Committee recommends that the Government of Canada work to encourage the early engagement of Indigenous peoples in resource development decisions, in full compliance with existing treaty and Indigenous rights to land and resources. Furthermore, the Committee recommends that the government ensure that consultation processes consider the multidimensional impacts of resource development projects on Indigenous peoples, including issues concerning education, health, economic development, infrastructure and the environment.***

The Government agrees that meaningful Aboriginal consultation and Indigenous engagement in resource development decisions is essential for sustainable natural resource development in Canada. The Government also agrees that the multidimensional impacts of resource projects on Indigenous peoples are important considerations in resource development decisions. Accordingly, federal efforts to enhance both Indigenous engagement and Crown consultation have been increasing since the fall of 2015.

With respect to Canada's legal duty to consult, an approach to consultation and accommodation is in place under the *Consultation and Accommodation Guidelines for Federal Officials*, administered by Indigenous and Northern Affairs Canada (INAC). These Guidelines are built on case law and best practices, to enable federal officials to undertake their responsibilities in an effective and meaningful manner. These guidelines were last updated in 2011 and could be subject to further revision to reflect external reports, feedback from Indigenous peoples and other parties, and case law.

The government has advanced efforts to surpass legal requirements and deepen engagement with Indigenous peoples. Key elements of a whole-of-government approach to Indigenous consultation are in place under the Major Projects Management Office (MPMO) Initiative, which integrates consultation into the major project review process, to the extent possible, the provision of dedicated Indigenous participant funding for major project reviews, and consistency to consider and address Indigenous groups' multidimensional concerns.

Building on this initiative, the Major Projects Management Office-West (MPMO-West) was established at Natural Resources Canada to support early engagement on energy infrastructure development on the West Coast. Dedicated to developing trusting relationships with Indigenous communities and serving as a federal single window on energy infrastructure development, MPMO-West has sponsored and participated in multiple community-led events to discuss concerns.

Indigenous peoples are also being engaged regarding reviews of federal regulatory processes like the Environmental Assessment Review and NEB Modernization. Supporting NEB Modernization, officials from Natural Resources Canada are enhancing engagement with Indigenous peoples on other matters related to resource development. For example, officials from Natural Resources Canada are actively engaging on non-major pipeline projects to share information on provisions for pipeline safety and understand Indigenous groups' interests and concerns.

Interim principles that were introduced for major resource projects currently under review ensure that Indigenous peoples are meaningfully consulted, and that traditional knowledge of Indigenous peoples and other relevant evidence are considered. Consultations are being enhanced through the use of extended timelines as needed, more direct consultation on pipeline projects and additional participant funding. For example, the September 2016 decision on the Pacific NorthWest LNG Project involved meaningful consultation with Indigenous peoples, and where appropriate, impacts were accommodated. Consultations with Indigenous communities were extensive, and included funding to support participation. Indigenous groups near the project site will also participate with federal and provincial governments in environmental monitoring, a new approach that is consistent with the Government's reconciliation agenda and its commitment to enhance the capacity of Indigenous groups in reviewing and monitoring major resource development projects.

Each of the above noted activities and priorities are being advanced in a manner that seeks to build and strengthen relationships between Canada and Indigenous peoples. This is being done in a manner that is based on recognition of rights, respect, co-operation, and partnership. This relationship is vitally important – not just to the shared interests between Canada and Indigenous peoples, but to our respective identities as nations.

#### **THEME 4: SUPPORTING INNOVATION AND GLOBAL LEADERSHIP IN CANADIAN OIL AND GAS**

***RECOMMENDATION 1: The Committee recommends that the Government of Canada continue to promote the benefits of investing in Canada's Natural Resources sectors, including oil and gas, which shall include the continued encouragement of innovation, research and development.***

The Government believes that protecting the environment and growing the economy are not incompatible goals; in fact, our future success demands we do both. The Government is taking



action on a number of fronts to reduce GHG emissions by advancing clean energy. For example, Budget 2016 provides \$2 billion in funding for a Low Carbon Economy Fund which will support provincial and territorial initiatives aimed at reducing greenhouse gas emissions. Moreover, Budget 2016 provides \$1 billion to support clean technology.

The Government, through its policy work and funding of research, development and demonstration (RD&D) of innovative technologies, has made significant investments to reduce greenhouse gas emission and other environmental impacts in Canada's natural resources sectors, including oil and gas. A "Strategy for Advancing Clean Technology in the Natural Resource Sectors" is being advanced; in addition, through "Mission Innovation", Canada has joined 20 other nations in pledging to double spending on clean energy R&D by 2021. This commitment to fund energy R&D will help improve Canada's oil and gas sector, making it more environmentally responsible and economically competitive.

The Government also recently launched initiatives under Budget 2016 targeting innovation in the natural resources sectors, including Natural Resources Canada's \$50 million Oil & Gas Clean Tech Program to reduce greenhouse gas emissions in the oil and gas sector; along with the \$25 million Clean Energy Innovation Program, which funds projects in areas including the reduction of methane and volatile organic compound emissions in the oil & gas sector.

***RECOMMENDATIONS 6, 7 and 8: The Committee recommends that the Government of Canada, through Natural Resources Canada, enhance opportunities to connect inventors, researchers and entrepreneurs with the segments of the oil and gas industry that are most applicable to their areas of expertise;***

***the Committee recommends that the Government of Canada encourage collaboration through clusters and councils among governments, industry, academia, and international experts, with the aim of maximizing the innovative potential of Canada's oil and gas sector; and,***

***the Committee recommends that the Government of Canada encourage Canadian companies and entrepreneurs to become global leaders in their respective innovations and/or technologies.***

The Government recognizes the importance of connecting innovators with industry, and encouraging Canadian companies to become global leaders. Natural Resources Canada is an associate member of the Canada's Oil Sands Innovation Alliance (COSIA), an alliance of leading oil sands companies focused on bringing together leading thinkers from industry, government, academia and the wider public to improve measurement, accountability and environmental performance in the oil sands.

The Government supports the aim of maximizing the innovative potential of Canada's oil and gas sector, and encourages collaboration through many of Natural Resources Canada's undertakings. Natural Resources Canada's Oil & Gas Clean Tech Program and the Clean Energy

Innovation Program both look to support collaborative projects between clean technology producers and industrial end users of technologies, including the oil and gas industry. In addition to its collaborative efforts through COSIA, Natural Resources Canada's CanmetENERGY lab engages with various levels of governments to maximize the innovative potential of Canada's oil and gas sector. Through collaborations such as the Alberta-Canada "*Collaboratory in Cleaner Oil Sands Development*", the Government is able to encourage strategic alignment between jurisdictions, and identify common projects for collaboration related to oil sands innovation areas.

The Government also actively pursues collaborations with the US Department of Energy, and over the years, has worked on harmonizing energy efficiency regulations, RD&D projects targeting the oil and gas sector, and carbon capture and storage.

Finally, the Government of Canada has actively supported Canada businesses in their efforts to access global markets. This has been achieved through various fora including international trade missions, most recently to India where 20 Canadian Companies met with Indian industry to explore opportunities for Canadian products and know-how. In addition, the Government continues to be an active contributor to international development partnerships, such as the Canada-US Clean Energy Dialogue, the Canada-Israel Industrial Research and Development Foundation, and "Mission Innovation".