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CANADA

A STUDY INTO THE GOVERNMENT OF CANADA'S PROMISE TO CAP GREENHOUSE GAS EMISSIONS OF THE OIL AND GAS SECTOR

Report of the Standing Committee on Natural Resources

John Aldag, Chair

**DECEMBER 2022
44th PARLIAMENT, 1st SESSION**

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Chair**

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NOTICE TO READER

Reports from committees presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON NATURAL RESOURCES

has the honour to present its

SEVENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the committee has studied the greenhouse gas emissions cap for the oil and gas sector and has agreed to report the following:

TABLE OF CONTENTS

LIST OF RECOMMENDATIONS	1
A STUDY OF THE GOVERNMENT OF CANADA'S PROMISE TO CAP GREENHOUSE GAS EMISSIONS OF THE OIL AND GAS SECTOR.....	3
Introduction.....	3
The Study.....	3
The Challenge.....	3
Greenhouse Gas Emissions and the Oil and Gas Sector	5
An Emissions Cap for the Oil and Gas Sector	6
The Scope of an Emissions Cap	8
The Question of Production.....	9
The Bay du Nord Project	12
Capping Oil and Gas Production	12
Emissions Intensity	14
Lifecycle Emissions.....	16
Natural Gas Exports.....	18
Differential Treatment of Economic Sectors.....	18
Compliance and Offsets.....	20
Implementing an Emissions Cap	20
Is an Emissions Cap Necessary?	20
Providing Certainty.....	21
Carbon Pricing.....	22
Encouraging Innovation	25
Carbon Capture, Utilization and Storage.....	27
Regulations	30
Avoiding Carbon Leakage.....	32
Border Carbon Adjustments	33

The Oil and Gas Sector in a Low-Carbon Transition	34
Risks and Opportunities	34
Impacts on Indigenous Peoples and Indigenous Rights.....	36
Managing the Transition	38
Environmental Impacts.....	40
Conclusion	41
APPENDIX A LIST OF WITNESSES	43
APPENDIX B LIST OF BRIEFS.....	47
REQUEST FOR GOVERNMENT RESPONSE	49
DISSENTING OPINION OF THE CONSERVATIVE PARTY OF CANADA.....	51
OPINION DISSIDENTE DU NOUVEAU PARTI DÉMOCRATIQUE DU CANADA.....	59

LIST OF RECOMMENDATIONS

As a result of their deliberations committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. Recommendations related to this study are listed below.

Recommendation 1

That the Government of Canada cap emissions from the oil and gas sector to align with the long-term Paris Agreement goal of limiting global warming to 1.5 degrees Celsius..... 14

Recommendation 2

That the Government of Canada increase the stringency of the federal industrial carbon pricing system and the federal benchmark, by:

- **establishing a tightening rate;**
- **examining opportunities to require sector-wide standards rather than facility-level standards where possible; and**
- **increasing the scope of emissions covered by output-based standards. 23**

Recommendation 3

That the Government of Canada ensure that an emissions cap for the oil and gas sector incentivizes innovation while remaining technology neutral. 30

Recommendation 4

That the Government of Canada analyse how existing provincial and federal measures for the oil and gas sector interact, with a view to developing an emissions cap that minimizes regulatory duplication, and that the government publish this analysis. 31

Recommendation 5

That the Government of Canada ensure that an emissions cap for the oil and gas sector minimizes the risk of carbon leakage. 32

Recommendation 6

That the Government of Canada collaborate through international trade negotiations to establish a level playing field that ensures that fossil fuel producers and exporters meet a global standard for environmental, labour and human rights obligations. 34

Recommendation 7

That the Government of Canada consult with Indigenous governments and communities to ensure that an emissions cap does not have disproportionately negative impacts on Indigenous peoples..... 37

Recommendation 8

That the Government of Canada consider the impact that an emissions cap will have on employment. 39

Recommendation 9

That, to minimize the harms and maximize the benefits of low-carbon transition, the Government of Canada should:

- **establish ongoing consultative processes with workers, unions, industry, Indigenous governments and communities who are likely to be affected by transition;**
- **identify the sectors, communities, and regions most likely to be negatively or positively affected by a low-carbon transition;**
- **develop indicators for measuring these effects; and**
- **consider establishing new federal supports to help workers, industry, Indigenous governments and communities, and regions manage the impacts of a low-carbon transition. 40**

Recommendation 10

That the Government of Canada account for the environmental impacts of the oil and gas sector, and the financial costs of these impacts, within the design of an emissions cap. 41



A STUDY OF THE GOVERNMENT OF CANADA'S PROMISE TO CAP GREENHOUSE GAS EMISSIONS OF THE OIL AND GAS SECTOR

INTRODUCTION

The Study

Between 7 February and 6 April 2022, the House of Commons Standing Committee on Natural Resources (the Committee) studied the Government of Canada's proposal to establish a greenhouse gas emissions cap for the oil and gas sector. The Committee had agreed that the study would include

the ability of Canada to meet its climate commitments articulated at the UN Climate Change Conference of the Parties (COP26) in Glasgow; the government's plans and targets for funding renewable energy; [and] the role of carbon capture, utilisation, and sequestration...

As part of its wide-ranging study, the Committee heard testimony from a diverse group of witnesses that included academic experts, business leaders, environmental and research organizations, Indigenous peoples and the federal ministers of Natural Resources and Environment and Climate Change. The Committee thanks all the witnesses for their contributions. This report presents the testimony that the Committee heard and makes recommendations for the Government of Canada as it develops a greenhouse gas emissions cap for the oil and gas sector.

The Challenge

Canada faces a challenging context. In response to the threat of climate change, the country is working to reduce its emissions, including those from the oil and gas sector. At the same time, Canada is also working to provide a reliable supply of energy for itself and its allies while there is still significant demand for oil and natural gas.¹

1 RNNR, Evidence, 9 February 2022, 1550 (Mark A. Scholz, President and Chief Executive Officer, Canadian Association of Energy Contractors); and RNNR, Evidence, 6 April 2022, 1550 (Jonathan Wilkinson, Minister of Natural Resources).



Societies must reduce their emissions of greenhouse gases (GHGs) to slow global warming and forestall the more destructive impacts of climate change. [Kevin Anderson](#), Professor of Energy and Climate Change at Manchester University explained that “[e]very fraction of a degree matters,” with each increment of global warming raising the risk of more damaging effects. Some of these effects—including shrinking habitats, decreasing biodiversity, and more frequent and severe weather events—are already visible in Canada, and they are particularly strongly felt by northern communities and Indigenous peoples.²

“First nations are on the front lines of climate change. Diminished habitat availability, species extinction, poor air quality, infrastructure loss and extreme weather events are all having a direct impact on first nation communities. They have serious financial, health, economical and emotional impacts on our communities, and the first nations have been sounding the alarms for decades.”

[Chief Sharleen Gale](#),
[First Nations Major Projects Coalition](#)

At the same time, witnesses noted that Russia’s aggression in Ukraine—and the resulting disruption to global energy markets—have brought the issue of energy security to the fore.³ The Committee heard diverging points of view about how to address this issue.

For some, including the [Canadian Association of Energy Contractors](#) and the [Canadian Association of Petroleum Producers](#) (CAPP), Canada’s oil and gas resources can enhance domestic and global energy security. Others disagreed, arguing that energy security is best served by a transition away from fossil fuels.⁴ [Francesco La Camera](#), Director-

2 RNNR, [Evidence](#), 28 March 2022, 1540 (Laurie Adkin, Professor, University of Alberta).

3 RNNR, [Evidence](#), 28 February 2022, 1615 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation); RNNR, [Evidence](#), 21 March 2022, 1540 (Martin Olszynski, Associate Professor, Faculty of Law, University of Calgary); and RNNR, [Evidence](#), 6 April 2022, 1550 (Jonathan Wilkinson, Minister of Natural Resources).

4 RNNR, [Evidence](#), 21 March 2022, 1545 (Louis-César Pasquier, Associate Professor, Institut National de la Recherche Scientifique); and RNNR, [Evidence](#), 23 March 2022, 1635 (Kevin Anderson, Professor of Energy and Climate Change, Tyndall Centre for Climate Change Research, University of Manchester).

General of the International Renewable Energy Agency, went further, stating that this transition must accelerate “not only for climate and economic reasons, but to give rights, independence and security around the world.”

For their part, the federal ministers of Natural Resources and Environment and Climate Change took the position that climate change and energy security are complementary challenges, and that Canada can meet them both. The [Minister of Environment and Climate Change](#) stated that “[b]oth of these realities speak of change, the end of business as usual, and ultimately they point in the same direction.” The [Minister of Natural Resources](#) agreed, telling the Committee that the government is “supporting global energy markets while taking aggressive and ambitious action to lower emissions.”

The remainder of this report continues to explore these questions, while examining how Canada can reduce the emissions from its oil and gas sector and maximize the benefits of the coming energy transition.

Greenhouse Gas Emissions and the Oil and Gas Sector

As part of its plan to mitigate and adapt to climate change, Canada has committed to reducing its greenhouse gas emissions by 40% to 45% below 2005 levels by 2030, and to net-zero by 2050. In this context, according to the [Minister of Environment and Climate Change](#), the oil and gas sector cannot be ignored.

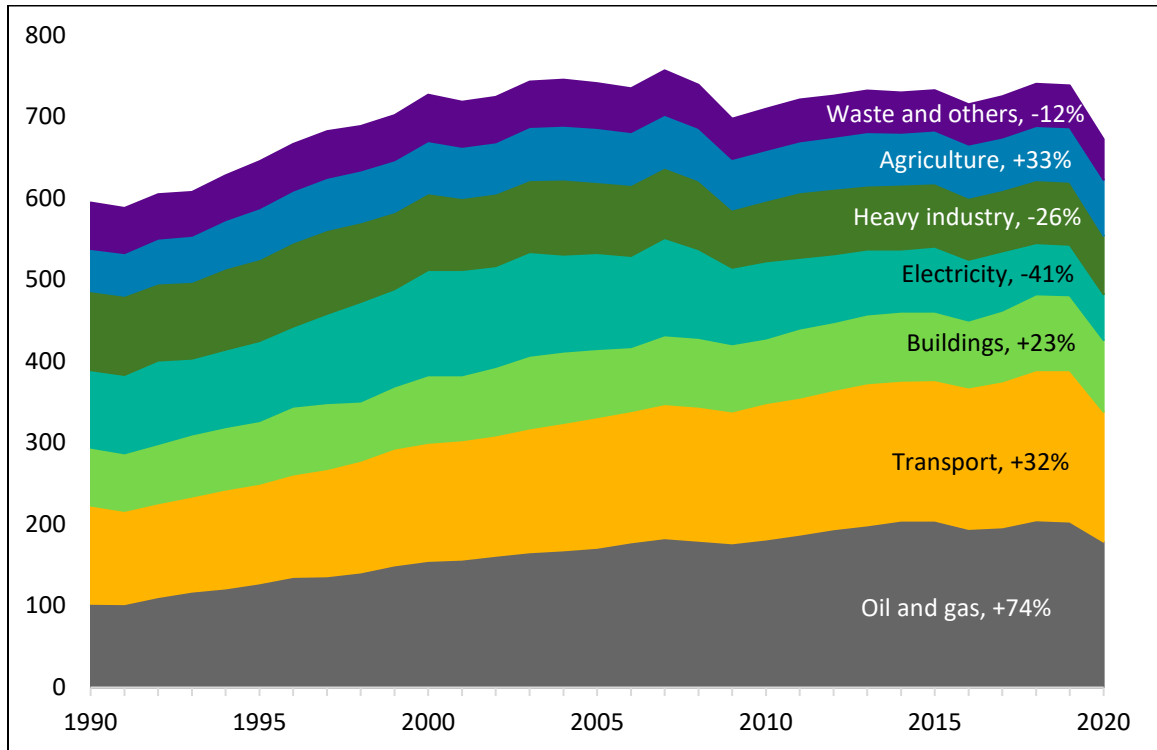
Canada allocates its GHG emissions to seven economic sectors, of which oil and gas is the largest emitter. According to the [latest data](#), the oil and gas sector was responsible for 27% of the country’s emissions in 2020. Emissions from oil and gas have also grown more than those of other sectors, rising by 74% between 1990 and 2020. However, as the [Government of Canada](#) notes:

The latest year reported (2020) coincides with the 1st year of the COVID-19 pandemic which strongly affected a wide range of economic sectors, including the energy and transport sectors. The long-term trends presented must be interpreted with caution as the economic slowdown influenced results from 2019 to 2020.

During the committee’s study, emissions data were only available for the period from 1990 to 2019, and witnesses noted that emissions from the oil and gas sector had increased even more significantly in that period. From 1990 to 2019, the sector’s emissions rose by 98%. Figure 1 shows a breakdown of Canada’s emissions between 1990 and 2020.



Figure 1—Greenhouse Gas Emissions in Canada by Economic Sector, 1990 to 2020 (Mt CO₂e)



Note: The [Government of Canada](#) notes that “the general decline in the GHG intensity of electricity generation of public electric utilities can be attributed partly to a reduction in the use of coal and increases in other power plant types.”

Source: Figure created by the Committee based on data obtained from Government of Canada, [Greenhouse gas emissions](#).

An Emissions Cap for the Oil and Gas Sector

On 1 November 2021, at the 2021 United Nations Climate Change Conference—known as COP26—the prime minister [announced](#) that Canada was

moving to capping and reducing pollution from the oil and gas sector to net zero by 2050. To help do this at a pace and scale needed to achieve the shared goal of net zero by 2050, the government will set 5-year targets, and will also ensure that the sector makes a meaningful contribution to meeting Canada’s 2030 climate goals.

Witnesses agreed that the oil and gas sector should contribute to meeting Canada's climate goals, but some also pointed out that Canada has failed to achieve its past targets.⁵ In fact, as [Dale Marshall](#)—manager of the National Climate Program at Environmental Defence—explained, Canada's emissions have increased more than those of any other G7 country. These increases, witnesses said, were partly driven by rising emissions from the oil and gas sector.⁶ That is why, according to [Simon Langlois-Bertrand](#), a research associate at the Trottier Energy Institute, “the 2030 target cannot be achieved without a deep transformation in the oil and gas sector.”

After announcing its intention to establish an emissions cap for the oil and gas sector, the federal government [sought advice](#) from the Net-Zero Advisory Body (NZAB) to develop the cap. The NZAB is an independent group appointed by the government to provide advice on federal climate change planning.⁷ It was asked to provide “key guiding principles to inform the development of the Government of Canada's quantitative five-year targets for emissions reductions in the oil and gas sector.” The body presented its advice in its [Submission to the Government of Canada's 2030 Emissions Reduction Plan](#).

The federal government released its [2030 Emissions Reduction Plan](#) on 29 March 2022, which outlines that the emissions cap is “under development.” The [Minister of Environment and Climate Change](#) told the Committee that “[w]e haven't made any firm decisions on the design and scope of the oil and gas emissions cap. All this will be established in the coming months.”

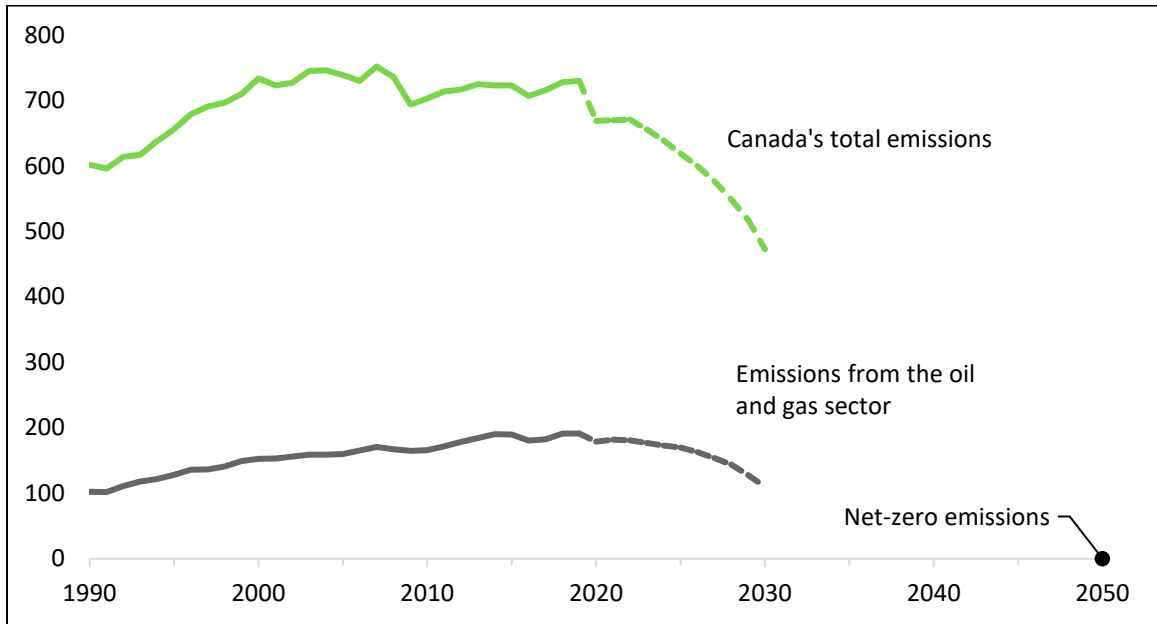
5 RNNR; [Evidence](#), 21 March 2022, 1600 (Andrew Weaver, Professor, University of Victoria); and RNNR, [Evidence](#), 28 March 2022, 1555 (Andrew Gage, Staff Lawyer, West Coast Environmental Law Association).

6 RNNR; [Evidence](#), 14 February 2022, 1605 (Chris Severson-Baker, Regional Director, Alberta, The Pembina Institute); RNNR; [Evidence](#), 21 March 2022, 1600 (Andrew Weaver, Professor, University of Victoria); and RNNR, [Evidence](#), 28 March 2022, 1555 (Andrew Gage, Staff Lawyer, West Coast Environmental Law Association).

7 The mandate and structure of the Net-Zero Advisory Body (NZAB) are laid out in the *Canadian Net-Zero Emissions Accountability Act*, although the federal government established the NZAB before that Act was adopted by Parliament.



Figure 2—Canada’s Greenhouse Gas Emissions and Projected Reductions from the 2030 Emissions Reduction Plan (Mt CO₂e)



Notes: The solid lines show actual emissions while the dotted lines show projected emissions.

This figure excludes emissions and removals from land use, land use change, and forestry, or LULUCF.

Sources: Figure prepared by the Committee using data obtained from Government of Canada, [Greenhouse gas emissions](#); and Government of Canada, [2030 Emissions Reduction Plan—Canada’s Next Steps for Clean Air and a Strong Economy](#).

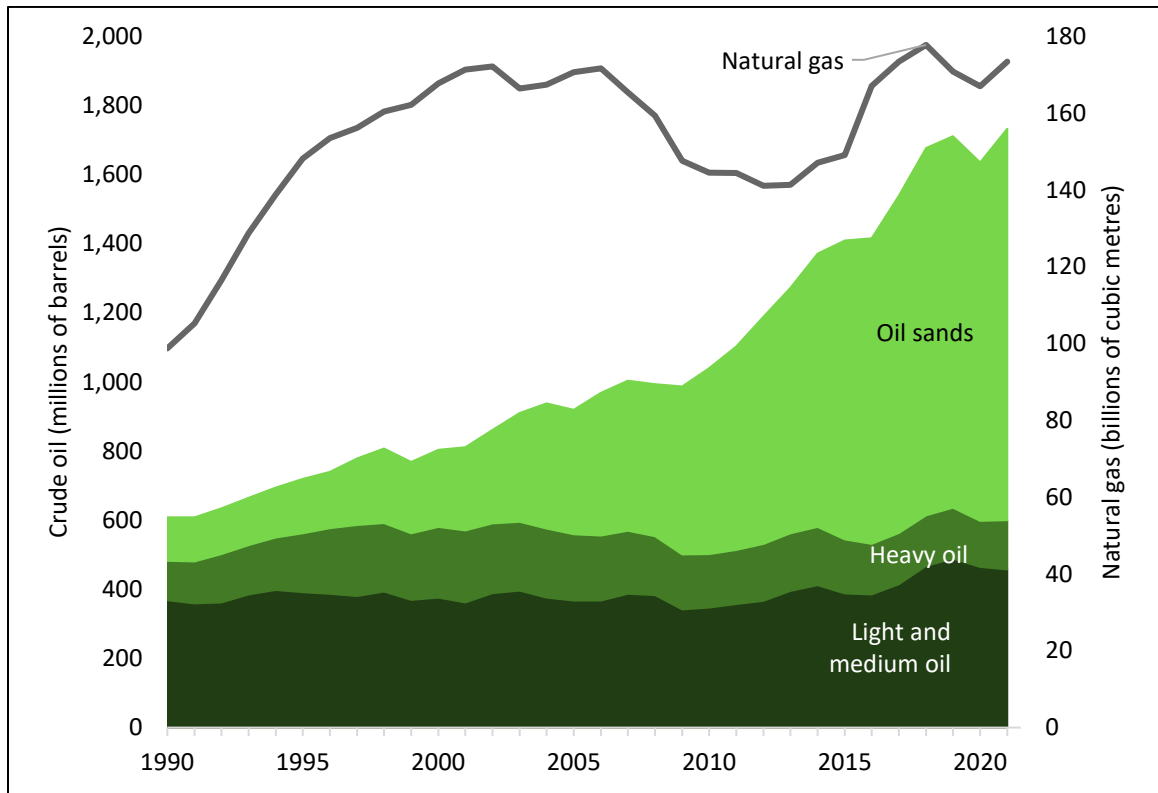
THE SCOPE OF AN EMISSIONS CAP

Witnesses outlined their views on the scope, or coverage, of the emissions cap, including whether it should address production, if it should include scope 3 emissions and whether sectors other than oil and gas should be subject to emissions caps.

The Question of Production

The main driver of Canada's rising oil and gas emissions is increased production, particularly from the oil sands.⁸ Figure 3 shows how Canadian oil and gas production has grown since 1990.

Figure 3—Canadian Crude Oil and Natural Gas Production, 1990–2021



Note: In 2020, Canada's oil and gas production was strongly affected by the COVID-19 pandemic.

Sources: Figure prepared by the Committee based on data obtained from Statistics Canada, *Crude oil and equivalent, monthly supply and disposition (x 1,000)*, Table 25-10-0014-01; Statistics Canada, *Supply and disposition of crude oil and equivalent*, Table 25-10-0063-01; Statistics Canada, *Natural gas, monthly supply and disposition (x 1,000,000)*, Table 25-10-0047-01; and Statistics Canada, *Supply and disposition of natural gas, monthly (data in thousands) (x 1,000)*, Table 25-10-0055-01.

8 RNNR, *Evidence*, 28 February 2022, 1540 (Andrew Leach, Associate Professor, University of Alberta). See also: Environment and Climate Change Canada (ECCC), *National Inventory Report 1990–2020: Greenhouse Gas Sources and Sinks in Canada: Canada's Submission to the United Nations Framework Convention on Climate Change*, Part 1, p. 65.



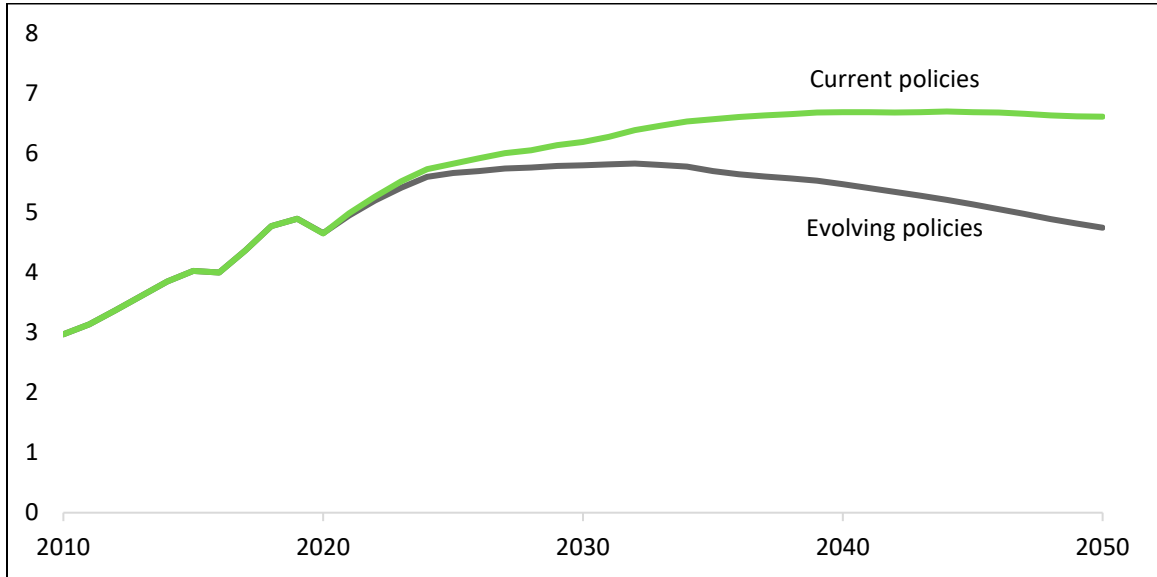
Witnesses presented varying analyses of the future demand for oil and gas products, and whether Canada's production would rise or fall.

Some witnesses pointed to projections from the International Energy Agency (IEA) and the Canada Energy Regulator (CER) indicating that there would be an increase in oil and gas production under certain scenarios. [CAPP](#) referenced the IEA's "stated policies" scenario for oil production. The stated policies scenario in the IEA [World Energy Outlook 2021](#) projects that oil production will increase by 4.5% between 2019 and 2050 and natural gas production will increase by 24.3% during the same time period. [CAPP's representative](#) said that

Meeting these substantial growing needs will not be easy, and doing it in an environmentally responsible way will take ongoing technology development, smart policy from government and hard work in every nation on earth.

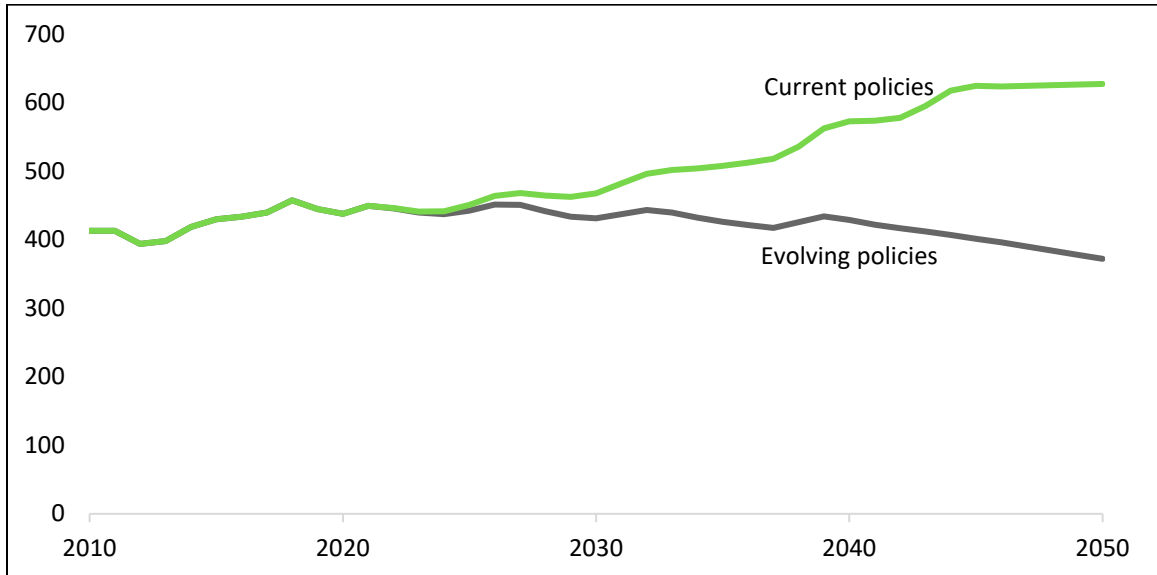
The CER has projected some increases in oil and gas production. Its Chief Economist, [Jean-Denis Charlebois](#), told the Committee that the regulator modeled various scenarios in its latest [Energy Future report](#), released in December 2021. In its "existing policies" scenario, crude oil and natural gas production rise for most of the forecast period. In the CER's "evolving policies" scenario, which models a lower-emitting future, [oil production](#) peaks in 2032 and then falls, but still rises by 2% overall between 2020 and 2050. In the same scenario, [natural gas production](#) falls by approximately 13% between 2015 and 2050. Figures 4 and 5 show projected oil and gas production from both CER scenarios.

Figure 4—Crude Oil Production in Canada as Projected by the Canada Energy Regulator, 2010–2050 (millions of barrels per day)



Source: Figure prepared by the Committee using data obtained from Government of Canada, [Canada's Energy Future 2021: Energy Supply and Demand Projections to 2050](#).

Figure 5—Natural Gas Production in Canada as Projected by the Canada Energy Regulator, 2010–2050 (millions of cubic metres per day)



Source: Figure prepared by the Committee using data obtained from Government of Canada, [Canada's Energy Future 2021: Energy Supply and Demand Projections to 2050](#).



However, these are not the only projections. [Dale Beugin](#), Vice-President of Research and Analysis at the Canadian Climate Institute,⁹ referred to other scenarios produced by the IEA and analysis from the Network for Greening the Financial System that shows “significant decline in demand for oil and gas.” In addition to the IEA’s “stated policies” scenario described above, the IEA’s [World Energy Outlook 2021](#) outlines two other scenarios—called “announced pledges” and “sustainable development,”—in which global oil production declines by 24.8% and 70.7% respectively, and natural gas production declines by 6.4% and 40.4% respectively, between 2019 and 2050.

For its part, the [CER](#) acknowledged that it does not have an energy model that is consistent with Canada’s goal of achieving net-zero emissions by 2050. The regulator will include net-zero-compliant analysis in the next version of the Canada’s Energy Future report, which it expects to publish in spring 2023.¹⁰

The Bay du Nord Project

On 6 April 2022, the Government of Canada announced its approval of the Bay du Nord project, which will produce oil offshore of Newfoundland and Labrador. The Minister of Environment and Climate Change issued a [decision statement](#) outlining 137 conditions required for the project to go ahead, including that by 2050 the project would produce net-zero emissions.

[The Minister of Environment and Climate Change](#) noted that the proponent has indicated that the project will produce between 300 million and 1 billion barrels of oil. [He](#) emphasized that any emissions from the project would also be subject to an emissions cap for the oil and gas sector.

Capping Oil and Gas Production

Given that rising production has contributed to increased emissions from the oil and gas sector, some witnesses called for the government to cap or otherwise limit oil and gas production. A brief from the [Climate Action Network and six other organizations](#)¹¹ supported such a cap, arguing that rising production was incompatible with Canada’s climate targets. Noting that Canadian producers are “on track by 2030 to increase oil and

9 The Canadian Climate Institute was formerly known as the Canadian Institute for Climate Choices.

10 Canada Energy Regulator, Written Response to Questions, 25 April 2022.

11 These other organizations are the David Suzuki Foundation, Environmental Defence Canada, Équiterre, the International Institute for Sustainable Development, Shift Action for Pension Wealth and Planet Health, and the West Coast Environmental Law Association.

gas production in Canada by nearly 30% above 2020 levels," the [organizations](#) projected that this "would result in a 25% increase in associated annual carbon emissions."

Likewise, underscoring that Canada has missed its emissions targets for 2000, 2012 and 2020, [Andrew Gage](#) of the West Coast Environmental Law Association described how "[t]he countries that are emitting less now than they did in 1990 made different choices and constrained the production of oil and gas and fossil fuels." [Simon Langlois-Bertrand](#), [Angela Carter](#), an associate professor at the University of Waterloo, and [Bruno Detuncq](#), a retired professor at the École Polytechnique de Montréal, joined these witnesses in recommending that oil and gas production be included in an emissions cap.

Others called for Canada to go even further. [Laurie Adkin](#), an associate professor at the University of Alberta, offered her view that "[t]he planned phasing out of unconventional oil and gas production... [would offer] real security and well-being [for Canadians], and real potential for reconciliation with Indigenous people." [Kevin Anderson](#) pointed to a report he had co-authored that called for all developed countries to phase out fossil fuel production by 2034, adding that "Canada is financially in a very favourable position, compared with the other oil and gas producers, to shift away from oil and gas production." [He further](#) argued that "Canada is demonstrating no meaningful leadership. It has one of the highest levels of emissions per capita, at around 16 tonnes per person."

The Committee also heard strong opposition to a production cap. The [Canadian Climate Institute](#), [Sara Hastings-Simon](#), [Mark Jaccard](#), the [Canada West Foundation](#), the [Canadian Association of Energy Contractors](#), [Tourmaline Oil Corporation](#), [TC Energy](#) and the [Canadian Association of Petroleum Producers](#) agreed that a cap should apply only to emissions from oil and gas production. [Dale Swampy](#), the President of the National Coalition of Chiefs declared that he, along with member chiefs, is "very concerned... that a cap on emissions will be, in effect, a cap on production in the oil and gas industry." He contended that a production cap would "basically ruin a lot of economies in the west."

Witnesses also disagreed whether the federal government could restrict oil and gas production. [Mark Jaccard](#), a professor at Simon Fraser University, contended that a cap on oil and gas production "would be unnecessarily harmful to fossil fuel-endowed regions in our country and probably would be unconstitutional as a federal policy anyway." In contrast, [Seth Klein](#) argued that the federal government has tools to limit some aspects of production, noting that

Exports are under federal jurisdiction, and if the federal government can ban coal exports, so, too, can it begin to limit oil and gas exports. Interprovincial transport, like the pipelines I just mentioned, is under federal jurisdiction. Offshore production comes under federal jurisdiction.



On these points, the federal government emphasized that it would act within its powers. The [Minister of Environment and Climate Change](#) noted that the federal government’s approach “respects jurisdictional boundaries,” asserting that “the federal government cannot impose reductions in natural resource production on the provinces. However, we can certainly address pollution, and we are doing so.” In his appearance, the [Minister of Natural Resources](#) stated that “[t]he cap is on emissions, it's not necessarily on production. The focus there is driving people to increasingly improve the emissions performance.”

Recommendation 1

That the Government of Canada cap emissions from the oil and gas sector to align with the long-term Paris Agreement goal of limiting global warming to 1.5 degrees Celsius.

Emissions Intensity

Emissions performance, or emissions intensity, will also be an important factor in meeting Canada’s climate targets. [Francis Fong](#), a Managing Director at TD Bank Group, explained that

there are two ways to go about adjusting emissions in the sector: reduce our overall dependence on fossil fuels by decarbonizing end-use services, or reduce the emissions intensity of production. We likely need to pursue both pathways aggressively if we are to reach our target.

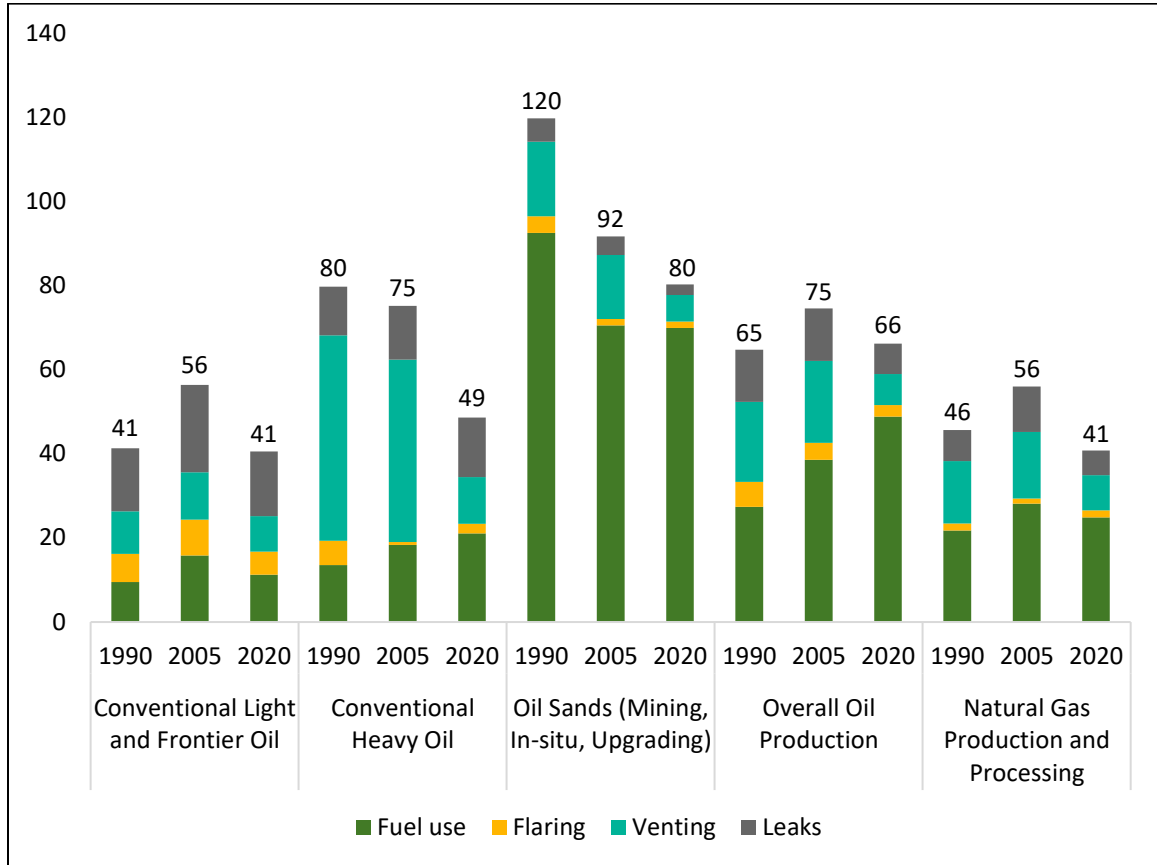
“Emissions intensity” refers to the quantity of emissions produced per unit, such as emissions per barrel of oil. [Shell Canada](#) and [TC Energy](#) offered examples of how firms in the oil and gas sector have made significant investments to reduce the emissions intensity of their operations, and have committed to further reductions to meet their climate targets. Per barrel emissions from the oil sands, for example, declined by approximately 33% between 1990 and 2020.¹²

However, [Dale Marshall](#) and [Andrew Leach](#), an associate professor at the University of Alberta, noted that the average barrel of Canadian oil has become more emissions intense over the past 30 years, driven by the growing role of the oil sands, which is more emissions intense than conventional oil. According to the latest data, the overall per

12 [ECCC, *National Inventory Report 1990–2020: Greenhouse Gas Sources and Sinks in Canada: Canada’s Submission to the United Nations Framework Convention on Climate Change*, Part 1, p. 65.](#)

barrel emissions of Canadian oil production increased by 2% between 1990 and 2020.¹³ A breakdown of these emissions is shown in Figure 6.

Figure 6—Upstream Emissions Intensity of Canadian Oil and Gas Products in 1990, 2005 and 2020 (kg CO₂e/barrel of oil equivalent)



Source: Figure prepared by the Committee based on data obtained from Environment and Climate Change Canada.

[Mark Jaccard](#) and [Martin Olszynski](#), an associate professor at the University of Calgary, testified that it was possible to improve the emissions intensity of Canadian oil and gas using current technology, and that emissions intensities could decline further with emerging technologies. [Chris Severson-Baker](#), the Alberta Regional Director of the Pembina Institute, added that the sector “is well placed to make investments to reduce emissions” thanks to record revenues expected for 2021 and 2022. [Robert Tarvydas](#), the Vice-President of Regulatory Strategy at TC Energy Corporation, suggested that

13 Ibid.



emissions intensity improvements could allow the sector to maintain or even increase production while meeting emissions goals.

Others expressed scepticism that per barrel emissions will decrease sufficiently to allow for production increases. “Like many of the witnesses who have preceded me,” [Laurie Adkin](#) said, “I accept the extensive research showing that a schedule of caps on emissions from the oil and gas sector that will allow Canada to meet its 2030 and 2050 greenhouse gas reduction commitments will entail a contraction in oil sands production.” Ultimately, [Jennifer Winter](#), an associate professor at the University of Calgary, noted that the key is whether “emissions intensity improv[es] by more than production increases.”

Lifecycle Emissions

Witnesses also discussed which emissions from the lifecycle of oil and gas products should be included in the cap. As outlined in the [Greenhouse Gas Protocol](#)—a global standard for measuring emissions—GHG emissions are commonly divided into scope 1, scope 2 and scope 3 emissions.¹⁴

When calculating the oil and gas sector’s emissions, Canada counts the emissions produced during the extraction, distribution, refining and upgrading of oil and gas products in Canada,¹⁵ which are broadly scope 1 and 2 emissions. Scope 3 emissions from the end use of oil and gas products are attributed to the sector or the country where oil and gas products are used, and not to the oil and gas sector.

[Bora Plumptre](#), of the Clean Fuel Standard Advocates Coalition, pointed out that according to this accounting method, most “[i]ndustry firms’ pledges to achieve net-zero emissions will not reduce emissions from the use of the fuels they sell.” He characterized these emissions as “the elephant in the room.” According to [the representative of Climate Action Network Canada](#), “[t]he total emissions from [Canada’s] exported fuels are actually larger than all of the emissions happening on the territory of what is currently called Canada.”

14 Scope 1 emissions refer to direct emissions from owned or controlled sources, including fuel combustion, fugitive emissions and vehicles. Scope 2 emissions refer to indirect emissions from the generation of purchased electricity, steam, heating and cooling. Scope 3 emissions refer to all other indirect emissions that occur in a company’s value chain, including combustion and end use of the sold product.

15 ECC, [National Inventory Report 1990–2019: Greenhouse Gas Sources and Sinks in Canada: Canada’s Submission to the United Nations Framework Convention on Climate Change](#), Part 1, p. 54.

Accordingly, some witnesses expressed the view that scope 3 emissions should be included under an emissions cap for the oil and gas sector. [Seth Klein](#), Team Lead of the Climate Emergency Unit at the David Suzuki Institute contended that “[t]o ignore these scope 3 emissions is a moral abdication.” [David Keith](#), Professor of Public Policy at the Harvard Kennedy School, noted that

most emissions come when the product is burned. The problem is the product, not the process of making it. That is the essential reason why Alberta and Canada must look beyond the oil and gas sector.

Similarly, [Environmental Defence Canada](#) stated that “[a]ddressing only production emissions means ignoring 80% of the problem.”

[Olaf Merk](#) of the International Transport Forum proposed that the “[t]ransport of oil and gas might be included in the definition of the oil and gas sector when designing the cap on oil and gas emissions.” However, he acknowledged that “emissions from international shipping are usually outside the scope of national government policies.”

However, [Robert Tarvydas](#) reasoned that an emissions cap on the oil and gas sector should apply only to the emissions that are currently accounted for in the oil and gas sector. He explained that

[f]ocusing on scope 1 emissions adheres to the principle of environmental responsibility and liability, which forms the foundation of environmental regimes in Canada and internationally. Moreover, focusing solely on scope 1 emissions will help avoid double counting, regulatory and decarbonization inefficiencies, negative energy security and economic impacts, and implications to cross-jurisdictional collaboration, both interprovincially and internationally.

Offering a similar perspective, a written brief submitted by the [Canadian Gas Association](#) recommended that scope 3 emissions from natural gas be excluded from the proposed emissions cap, stating that this would “avoid the additional price increases and market uncertainty that will come with a cap,” and reduce the “threat of product shortages for downstream customers—a growing concern given the range of factors affecting energy markets today.” They suggested an alternative to including scope 3 emissions within the emissions cap on the oil and gas sector and recommended that,

the Government of Canada work with industry, provincial and territorial governments, and economic regulators to pursue cooperatively a range of initiatives building on current efforts to reduce emissions in an effort by companies to meet the 2050 targets.



Natural Gas Exports

Certain witnesses offered a different perspective on the question of scope 3 emissions, suggesting that Canadian natural gas exports could contribute to low-carbon transition in other countries.

[Robert Tarvydas](#), of TC Energy, and [Tim McMillan](#), President and CEO of CAPP, related examples of countries—including Canada—that have reduced some of their emissions from electricity generation by replacing coal-fired power with natural gas. [Mr. McMillan](#) called for Canada to export natural gas to displace coal-powered electricity abroad, saying any new legislation for the oil and gas sector should recognize the potential for such “global reductions.”

The [Minister of Natural Resources](#) expressed some doubt about this argument:

In fact, people have to be very careful that they say all of a sudden that natural gas naturally displaces coal. You actually have to tie it to what's being displaced. If you're shipping it to Asia, it's not necessarily displacing coal. You have to follow it to ensure that it's actually doing that.

In any case, [Mark Jaccard](#) said that Canada would not get credit for emissions reductions abroad: “The IPCC rightly determined 30 years ago that the emissions should be counted where they happen, because that creates the incentive for people to possibly take petroleum and convert it to hydrogen and bury the CO₂.”

Differential Treatment of Economic Sectors

Witnesses also discussed how emissions from the oil and gas sector should be treated compared to emissions from other economic sectors. Several witnesses, like [Jennifer Winter](#), suggested that the government should avoid treating the oil and gas sector differently from others. She contended that

differential treatment of a specific sector reallocates capital and labour throughout the economy, moving these production inputs away from their most productive use. This artificially expands some sectors, shrinks others and lowers Canada’s productivity.

Sharing a similar view, [Andrew Leach](#) suggested that more stringent policies should not be applied on some sectors more than others. [Nicholas Rivers](#), an associate professor at the University of Ottawa, agreed that

we should not single out a particular sector for more ambitious emission reductions, which is a costly way to achieve our environmental goals, but instead seek to generate more emission reductions from across all sectors.

[Mark Jaccard](#) observed that the oil and gas industry, as a trade exposed sector, is more vulnerable than domestic sectors such as electricity, buildings and transport. He outlined that the government should “aim for a cap where the incremental costs of additional greenhouse gas reduction in the oil and gas sector in, say, 2030, 2040 or 2050 should approximate the incremental costs of reductions in other sectors.” He agreed that a simultaneous sector by sector approach on the emissions cap could help to avoid leakage of emissions in the oil and gas sector to another sector. The [Alberta Federation of Labour](#) agreed that “[e]very industry has to do its part.”

Also emphasizing that the oil and gas sector is trade exposed, [Susannah Pierce](#), the President and Country Chair of Shell Canada, stressed that

net-zero targets must be supported by strategies and plans to accelerate decarbonization of each sector of the economy while actively managing the relationship and dependencies among the sectors. We are not alone in this view, given the role that energy and land-use change plays in driving greenhouse gas emissions within all sectors.

The [Explorers and Producers Association of Canada](#) provided the view that

an emissions cap should be technology neutral and support all subsectors. Climate policy programs should support technologies based on their carbon reduction results. Likewise, no one subsector of the industry should be disadvantaged through policy decisions. All companies, regardless of product or size, should be able to participate in the energy transition.

While noting that the cap should “equitably share the decarbonization burden across Canadian economic sectors,” [Climate Action Network Canada](#) pointed out that the oil and gas sector accounts for the largest share of Canada’s emissions and that “the cap must avoid unfairly shifting the burden of mitigation from oil and gas to other sectors, other workers and other consumers.”

Echoing this view, [Simon Langlois-Bertrand](#), stated that the most substantial reductions to achieve Canada’s 2030 emissions target “should come from the oil and gas sector.” He cited modelling from his organization, the Trottier Energy Institute, which estimated that the sector would require a reduction of “more than 60%” from today’s levels, and that is assuming that other sectors would be able to also reduce emissions to meet the target.

Speaking on the legality of placing an emissions cap on a specific economic sector, a brief submitted by [Martin Olszynski](#) referenced the *Canadian Environmental Protection Act, 1999*, stating that “[t]here would also appear to be no problem with prioritizing a given sector or sectors, e.g., on the basis that they represent the highest proportion of emissions.”



[Chief Sharleen Gale](#) noted that “the First Nations Major Projects Coalition doesn't take a position on whether caps should be applied to other sectors, but we often offer the best advice that first nations need to be a part of the process in all sectors.”

Compliance and Offsets

Witnesses discussed the question of compliance with an emissions cap, and touched on whether carbon offsets should be included as a means to comply with the emissions cap. [Climate Action Network Canada](#) remarked that an oil and gas emissions cap “should avoid any relief valves for industry that could reduce the policy’s stringency,” rejecting the use of offsets or “hypothetical emissions reductions” from technological solutions. [Environmental Defence Canada](#) recommended stiff penalties for non-compliance. Similarly, [Angela Carter](#) noted that enforcement should be “significant enough to deter non-compliance and without financial support or subsidies.”

IMPLEMENTING AN EMISSIONS CAP

Is an Emissions Cap Necessary?

While witnesses generally agreed that Canada should work to reduce emissions from oil and gas, not all felt that it was necessary to establish an emissions cap for the sector.

[Andrew Leach](#) was one of a few witnesses who felt that a cap was unnecessary, saying it would “represent a financial, technical and constitutional challenge, and lead to less cost-effective emissions reductions attributable to Canadian policies.” Others agreed and suggested that it would be more effective to increase the stringency of Canada’s existing emissions-reducing policies than to create a new measure. They cautioned that a cap would take time to establish and could be expensive, as it would create a new system for the government to administer and generate additional compliance costs for firms.¹⁶

Furthermore, [Colleen Collins](#), the Vice-President of the Canada West Foundation, [Professor Leach](#) and [Nicholas Rivers](#) expressed concern that an emissions cap would be politically divisive and might create disputes between provinces and the federal government.

16 RNNR, [Evidence](#), 28 February 2022, 1545 (Jennifer Winter, Associate Professor, University of Calgary); RNNR, [Evidence](#), 21 March 2022, 1555 (Nicholas Rivers, Associate Professor, University of Ottawa); and Canadian Association of Petroleum Producers (CAPP), [Re: Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector](#) (Brief submitted to RNNR, 5 April 2022).

While witnesses may not have supported an emissions cap, nor did they necessarily feel that the status quo was appropriate. In the words of [Andrew Leach](#), “I think everybody seems to be saying that our existing set of policies is not turned to the appropriate level to meet our new goals.”

More witnesses offered support for an emissions cap, depending on how it was designed. Some, like [Simon Langlois-Bertrand](#), said that a cap could provide certainty to the industry;¹⁷ while certain witnesses said it would create an incentive to innovate;¹⁸ and others agreed with [Climate Action Network Canada](#) that the country’s existing policies do not provide enough incentive to reach its targets.¹⁹

Providing Certainty

Throughout its study, the Committee heard repeatedly that investors and industry need certainty about the direction of government policy to make the investments needed to reduce emissions.²⁰ [Simon Langlois-Bertrand](#) suggested that a cap could help provide that certainty. Describing uncertainty about climate policy as “one of the key barriers to transformation across all industries,” [he](#) continued:

To initiate the investments and encourage the innovation needed to achieve our climate targets, industry actors need a stable investment environment, and a stringent cap on emissions from the most emissions-intensive sector would certainly be an important stepping stone in doing this.

17 RNNR, [Evidence](#), 28 March 2022, 1620 (Andrew Gage, Staff Lawyer, West Coast Environmental Law Association).

18 RNNR, [Evidence](#), 28 February 2022, 1605 (Simon Langlois-Bertrand, Research Associate, Trottier Energy Institute); and RNNR, [Evidence](#), 6 April 2022, 1650 (Jonathan Wilkinson, Minister of Natural Resources).

19 RNNR, [Evidence](#), 28 February 2022, 1535 (David Keith, Professor of Public Policy, Harvard Kennedy School); and RNNR, [Evidence](#), 21 March 2022, 1545 (Louis-César Pasquier, Associate Professor, Institut National de la Recherche Scientifique).

20 RNNR, [Evidence](#), 7 February 2022, 1645 (Dr. Sara Hastings-Simon, Assistant Professor, University of Calgary); RNNR, [Evidence](#), 7 February 2022, 1650 (Dr. Mark Jaccard, Professor, Simon Fraser University); RNNR, [Evidence](#), 9 February 2022, 1345 (Dan Wicklum, Co-Chair, Net-Zero Advisory Body); RNNR, [Evidence](#), 9 February 2022, 1610 (Tristan Goodman, President and Chief Executive Officer, Explorers and Producers Association of Canada); RNNR, [Evidence](#), 14 February 2022, 1620 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute); RNNR, [Evidence](#), 28 February 2022, 1605 (Simon Langlois-Bertrand, Research Associate, Trottier Energy Institute); RNNR, [Evidence](#), 28 February 2022, 1635 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation); RNNR, [Evidence](#), 28 March 2022, 1620 (Andrew Gage, Staff Lawyer, West Coast Environmental Law Association); and RNNR, [Evidence](#), 6 April 2022, 1550 (Jonathan Wilkinson, Minister of Natural Resources).



The President of the Alberta Federation of Labour, [Gil McGowan](#), expressed a similar view, reminding the Committee that “we here in Alberta, have experience with emissions caps and that experience tells us that they can actually be helpful to the oil and gas industry,” by producing incentives for companies to reduce their emissions and giving investors more confidence.

However, a cap will not necessarily provide certainty on its own. [Colleen Collins](#) suggested that “battles over measurement and the validity of the policy itself” could create uncertainty and deter investment. [She](#) agreed that a cap should not be announced without details, as this might disincentivize innovation.

Carbon Pricing

The [Minister of Natural Resources](#) told the Committee that the government intends to set an emissions cap with “ambitious and achievable emission reduction targets in a way that will provide certainty and predictability.” An effective cap, [he](#) said, would set “a long-term price signal” that incentivizes the sector to reduce its emissions. According to [Clean Energy Canada](#) and [Charles Séguin](#), carbon pricing can help send this signal.

A range of witnesses expressed their support for using carbon pricing to reduce emissions, describing it as a flexible policy that encourages emissions reductions at a comparatively low cost.²¹ Witnesses observed that carbon pricing also has the advantage of neutrality: it is economy-wide, encouraging emissions reductions across all sectors, and can incentivize innovation without picking winning or losing technologies.²²

Witnesses told the Committee that the current carbon pricing regimes, both federal and provincial, need to be stricter for the sector to reach Canada’s targets. Many of their comments focused on the federal government’s Output-based Pricing System (OBPS), which applies to emissions from industrial facilities and sets a minimum standard for

21 RNNR, [Evidence](#), 9 February 2022, 1610 (Tristan Goodman, President and Chief Executive Officer, Explorers and Producers Association of Canada); RNNR, [Evidence](#), 28 February 2022, 1540 (Andrew Leach, Associate Professor, University of Alberta); RNNR, [Evidence](#), 21 March 2022, 1625 (Charles Séguin, Associate Professor, Université du Québec à Montréal); Tourmaline Oil Corp., [Submission for study on Greenhouse Gas Emissions Cap for the Oil and Gas Sector: Recommendation that current policy tools to incentivize reduction in methane emissions be maintained](#), (Brief submitted to RNNR, 23 March 2022); and CAPP, [Re: Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector](#) (Brief submitted to RNNR, 24 March 2022).

22 RNNR, [Evidence](#), 14 February 2022, 1700 (Merran Smith, Executive Director, Clean Energy Canada); RNNR, [Evidence](#), 14 February 2022, 1655 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute); RNNR, [Evidence](#), 14 February 2022, 1705 (Michael Bernstein, Executive Director, Clean Prosperity); and RNNR, [Evidence](#), 21 March 2022, 1625 (Charles Séguin, Associate Professor, Université du Québec à Montréal).

provinces that have their own industrial carbon pricing. Several witnesses suggested that the federal government increase the stringency of the OBPS, and recommended the following:²³

- The [Pembina Institute](#) proposed that the intensity benchmarks in the OBPS should decline by 4% per year.²⁴
- [Sara Hastings-Simon](#), an associate professor at the University of Calgary, encouraged governments to address inefficiencies in existing output-based pricing systems, saying that provincial policies that use facility-level benchmarks can incentivize relative emissions reductions instead of absolute reductions, which is less effective at reducing overall emissions.
- [Clean Prosperity](#) made three recommendations for the federal government: to consider using emerging tools known as “carbon contracts for difference” to give investors more certainty about carbon pricing;²⁵ to increase the share of emissions that are subject to the OBPS; and to raise the carbon price if reductions do not occur fast enough.

Recommendation 2

That the Government of Canada increase the stringency of the federal industrial carbon pricing system and the federal benchmark, by:

- **establishing a tightening rate;**
- **examining opportunities to require sector-wide standards rather than facility-level standards where possible; and**
- **increasing the scope of emissions covered by output-based standards.**

23 In addition to the testimony cited, below, see also: RNNR, [Evidence](#), 28 February 2022, 1700 (Jennifer Winter, Associate Professor, University of Calgary); RNNR, [Evidence](#), 21 March 2022, 1545 (Louis-César Pasquier, Associate Professor, Institut National de la Recherche Scientifique); and RNNR, [Evidence](#), 21 March 2022, 1550 (Nicholas Rivers, Associate Professor, University of Ottawa).

24 Increasing the stringency of a standard in this way is known as a “tightening rate.” At the time of the study, the federal government was considering establishing a 2% tightening rate. For more information, see: Government of Canada, [Review of the OBPS Regulations: Consultation paper](#).

25 Carbon contracts for difference are agreements that set a fixed carbon price over time. If the actual carbon price falls below the agreed price, the government would pay the difference to the other party. If the price rises, the government would receive the difference. See: Institut du développement durable et des relations internationales (IDDRI), [Decarbonising basic materials in Europe](#), October 2019.



On its own, carbon pricing is not necessarily a sufficient incentive to reduce emissions. Describing the modelling undertaken by the Trottier Energy Institute, [Simon Langlois-Bertrand](#) said that “industry is not responsive enough to the levels of pricing we’re talking about...[it] is not enough to take us anywhere near what’s needed in terms of reductions here.”

Other witnesses agreed that Canada’s carbon price is not high enough to achieve the necessary reductions on its own.²⁶ Elaborating on this point, [David Keith](#) argued that carbon pricing is not necessarily as effective an incentive as economic modelling might suggest because there is more uncertainty and technological change in the real world than in those models.

Alternatively, some witnesses suggested that the federal government could set an emissions cap using a different carbon pricing system known as cap-and-trade. A cap-and-trade system limits the quantity of emissions that are allowed in a sector—or across the economy—and allows firms to buy and sell permits for generating these emissions. The limit, or cap, usually declines over time. Some witnesses explained that a cap-and-trade system gives investors and industry certainty by creating a schedule for emissions reductions and contended that it provides some clarity about future increases in the price of carbon. Like a direct price on carbon, cap-and-trade provides a price signal for firms to follow but gives them the flexibility to respond differently.²⁷

Cap-and-trade systems also have their drawbacks. Trading systems allow carbon prices to fluctuate, creating more uncertainty than direct pricing,²⁸ although [Charles Séguin](#), associate professor at the Université du Québec à Montreal, suggested that this problem might be remedied by establishing price floors and ceilings. Even the “cap” in a cap-and-trade system can vary, as the Executive Director of Clean Prosperity, [Michael Bernstein](#), explained:

26 RNNR, [Evidence](#), 28 February 2022, 1700 (Jennifer Winter, Associate Professor, University of Calgary); and Climate Action Network Canada et al., *Re: Submission related to principles guiding the elaboration of oil and gas emission cap* (Brief submitted to RNNR, 24 March 2022), pp. 5–6.

27 RNNR, [Evidence](#), 7 February 2022, 1600 (Dr. Sara Hastings-Simon, Assistant Professor, University of Calgary); RNNR, [Evidence](#), 7 February 2022, 1605 (Dr. Mark Jaccard, Professor, Simon Fraser University); RNNR, [Evidence](#), 14 February 2022, 1620 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute); RNNR, [Evidence](#), 16 February 2022, 1725 (Gil McGowan, President, Alberta Federation of Labour); and RNNR, [Evidence](#), 28 February 2022, 1605 (Simon Langlois-Bertrand, Research Associate, Trottier Energy Institute).

28 RNNR, [Evidence](#), 7 February 2022, 1650 (Dr. Mark Jaccard, Professor, Simon Fraser University); and RNNR, [Evidence](#), 21 March 2022, 1550 (Nicholas Rivers, Associate Professor, University of Ottawa).

[A] cap-and-trade system doesn't necessarily have a true, hard cap, because they're almost always designed with price controls. If you look at the California and Quebec system, the EU system, or really any system around the globe, what you're going to see is if the price gets too high too quickly, the government will inject more credits into the market to reduce price pressure. Once they do that, a cap-and-trade system becomes functionally very similar to a direct carbon pricing system.

Establishing the system would also take time, although as [Dale Beugin](#) noted, Canada “wouldn't be starting from scratch.” [Mr. Beugin](#) and [Sara Hastings-Simon](#) suggested that cap-and-trade might be relatively easy to integrate into the federal OBPS and provincial systems like Alberta's [Technology Innovation and Emissions Reduction \(TIER\) Regulation](#).

Three witnesses, [Environmental Defence Canada](#), [Angela Carter](#) and the [Pembina Institute](#), recommended that emissions be capped at 2019 levels. [Environmental Defence Canada](#) proposed that these emissions should decline by 60% below 2005 levels by 2030, whereas the [Pembina Institute](#) recommended that emissions should decline by 45% below 2005 levels by 2030.

Encouraging Innovation

“There's no silver bullet. It's going to take carbon capture, energy efficiency, process improvements, fuel switching, electrification, renewables, nuclear, hydro, and new technologies on the horizon.”

[Colleen Collins](#),
[Canada West Foundation](#)

The oil and gas sector will need to develop new processes and technologies to reduce its emissions. Witnesses emphasized that an emissions cap for the oil and gas sector must encourage such innovation,²⁹ and the [Minister of Natural Resources](#) agreed, telling the Committee that “we need to ensure that this cap will actually drive technology deployment that will reduce emissions.”

Witnesses emphasized that Canada has a well-developed capacity to innovate. They noted that the country has good universities and a history of research collaboration

29 RNNR, [Evidence](#), 14 February 2022, 1545 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute); and RNNR, [Evidence](#), 28 February 2022, 1605 (Simon Langlois-Bertrand, Research Associate, Trottier Energy Institute)



between academics, government and industry.³⁰ Representatives from the oil and gas sector testified that the sector itself is committed to investing in research and development, but that government incentives play an important role in keeping the sector competitive.³¹

Josipa Petronic, the President and Chief Executive Officer of the Canadian Urban Transit Research and Innovation Consortium (CUTRIC), noted that although Canada has played a leading role in developing certain technologies—including fuel cell stack design, electrolysis design and energy storage—they are little-used inside the country. “We are ready exporters,” she said, “but we certainly are not domestic consumers.” On behalf of CUTRIC, she recommended that the federal government play a more active role by serving as a “national convenor” of provincial and territorial energy ministries and by investing in the “energy industry of the future.”

Mark Scholz, the President and CEO of the Canadian Association of Energy Contractors, said that the federal government could support a transition to new energy sources by supporting the energy sector itself. He described how the energy service sector was developing new industries using technologies developed for petroleum production, like using oil and gas drilling techniques to extract lithium and geothermal energy. Merran Smith agreed that an emissions cap should “incent the energy and industries of the future,” but cautioned that government assistance should not be used as a mechanism to expand the oil and gas industry.

The government support that witnesses described could take many forms, including subsidies such as grants and tax credits. Dale Beugin said that subsidies could be used to develop new technologies, but those subsidies should be targeted “to get value for money while also ensuring that those investments are consistent with the long-term transition, both domestically and internationally.” In contrast, Charles Séguin felt that carbon pricing “should be the main channel to encourage technology development, rather than [a] subsidy, because it's pretty hard for the government to know which solution is better to subsidize.”

30 RNNR, Evidence, 14 February 2022, 1715 (Dr. Josipa Petronic, President and Chief Executive Officer, Canadian Urban Transit Research and Innovation Consortium); RNNR, Evidence, 14 February 2022, 1715 (Merran Smith, Executive Director, Clean Energy Canada); and RNNR, Evidence, 16 February 2022, 1725 (Meredith Adler, Executive Director, Student Energy).

31 RNNR, Evidence, 9 February 2022, 1710 (Tim McMillan, President and Chief Executive Officer, Canadian Association of Petroleum Producers); and RNNR, Evidence, 28 February 2022, 1625 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation)

Although he did not endorse a specific policy, [Tristan Goodman](#) agreed that it was important for the government to take a technology-neutral approach, supporting technologies based on the emissions they reduce.

The Committee also heard about technologies that are likely to have a role in reducing emissions from the oil and gas sector. Carbon capture, utilization and storage is among these technologies.

Carbon Capture, Utilization and Storage

Carbon capture, utilization and storage (CCUS) refers to various human technologies that absorb CO₂ so that the gas can be used or permanently stored. According to [Louis-César Pasquier](#), who cited a report by the Global CCS Institute, CCUS projects capture approximately 4 Mt of CO₂ annually in Canada, from power generation, bitumen upgrading and hydrogen and fertilizer production. For example, [Shell Canada](#) described the [Quest carbon capture and storage facility](#) near Edmonton, Alberta, which captures CO₂ from hydrogen production at a bitumen upgrader. Quest captures approximately 1 Mt of CO₂ per year and stores it underground.

CCUS plays a significant role in net-zero plans outlined by the oil and gas industry, and the Committee heard that CCUS might have wider applications in the sector.³² In addition to its role in reducing emissions, [Robert Tarvydas](#) pointed out that CCUS technologies could also be a valuable export product for Canada.

To make sense of the role of technologies like CCUS in achieving Canada's climate goals, the [Canadian Climate Institute](#) said it was important to distinguish between "safe bets" and "wild cards":

Safe bets are already commercially available and scalable. In oil and gas, safe-bet solutions include methane capture from fugitive emissions, industrial energy efficiency, and carbon capture, utilization, and storage, CCUS, for concentrated streams of CO₂. Safe bets are critical for achieving the 2030 target.

Wild cards on the other hand might be game-changers, or they might not contribute significantly. In oil and gas, wild cards include blue hydrogen, direct air capture for carbon removal, and CCUS for unconcentrated streams. Achieving net zero by 2050

32 RNNR, [Evidence](#), 9 February 2022, 1615 (Susannah Pierce, President and Country Chair, Shell Canada Limited); RNNR, [Evidence](#), 28 March 2022, 1550 (Dale Swampy, President, National Coalition of Chiefs); and CAPP, [Re: Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector](#) (Brief submitted to RNNR, 24 March 2022).



becomes easier if wild cards become available. That means safe bets and wild cards are complements. Both are necessary, and both require policy.

In addition to capturing emissions from oil and gas processing, CCUS can also be used to capture the emissions that are created when natural gas is transformed into hydrogen. Hydrogen produced in this way is sometimes called “blue hydrogen.” There are blue hydrogen projects underway in Western Canada, including an Indigenous-supported program in Edmonton that [Dale Swampy](#) said should help Indigenous communities become more sustainable.

Other witnesses discouraged the use of CCUS for this purpose. Blue hydrogen, according to [Dale Marshall](#), would be a “false solution” to the problem of oil and gas emissions. [Bruno Detung](#) added that blue hydrogen production is energy-intensive and that “these energy losses make for a very low energy return on investment.” Instead, witnesses encouraged the government to support the development of “green hydrogen,” which is produced using renewable electricity.³³ [Francesco La Camera](#) suggested that there could be a transitional role for blue hydrogen, but that in “the medium to long term, there is no doubt that the best option is to go for green hydrogen.”

There are also CCUS technologies that could theoretically compensate for GHG emissions, delivering “negative emissions” by pulling CO₂ directly from the atmosphere. [Mark Jaccard](#) suggested that one of these technologies—direct air capture, or DAC—could play a role in an oil and gas cap if producers were allowed to use these projects to offset their other emissions.

Other witnesses felt differently. The role of these technologies, according to [Andrew Gage](#), should be limited, with carbon capture restricted to industries “that we cannot possibly move away from.” [David Keith](#) agreed. Although he is the founder of a company that conducts direct air capture and believes the technology will be useful, [Professor Keith](#) said he did not see a scenario “in which [DAC] is just used to compensate for emissions from oil in the future.”

Regardless of how CCUS is used, some witnesses emphasized that the federal government should focus on reducing emissions in absolute terms and that technology

33 RNNR, [Evidence](#), 14 February 2022, 1625 (Dr. Josipa Petrunic, President and Chief Executive Officer, Canadian Urban Transit Research and Innovation Consortium); RNNR, [Evidence](#), 14 February 2022, 1710 (Merran Smith, Executive Director, Clean Energy Canada); and RNNR, [Evidence](#), 16 February 2022, 1710 (Bruno Detuncq, Retired Professor, École Polytechnique de Montréal).

should not distract from or delay these efforts.³⁴ [Simon Langlois-Bertrand](#) argued that it was more important to reduce emissions early than to invest in capturing and sequestering them:

If every sector starts capturing carbon instead of reducing emissions...the future of carbon storage is likely to be riddled with complications. The quantities will become impossible to manage, mainly because we have little experience in storing huge quantities of carbon.

[Bruno Detuncq](#) echoed this concern, saying there was limited evidence about the environmental effects of underground CO₂ storage.

There may be other caveats to bear in mind. [Louis-César Pasquier](#) told the Committee that carbon capture projects take time to bring into operation and are not currently used for capturing emissions from the production or refining of oil and gas.³⁵ Consequently, [he](#) argued that CCUS “will not be the solution for achieving the sector’s specific reduction targets in the short term.”

[Julia Levin](#), [Angela Carter](#) and [Laurie Adkin](#) also raised concerns about the costs of CCUS projects, and objected to the high levels of public funding that they have needed. Federal and provincial governments had provided approximately 70% of the funding for the major CCUS projects that were operating in Canada at the time of the study.³⁶ On the other hand, [Colleen Collins](#) noted that earlier projects were more expensive and that the cost of carbon capture should decrease as proponents gain experience with the technology.

[Glenn Hargrove](#), Assistant Deputy Minister for the fuels sector at NRCan, told the Committee that CCUS will be “critical” in reducing emissions. To support the technology’s development, the Government of Canada plans to publish a [CCUS strategy](#) and proposed an [investment tax credit](#) for CCUS.

[Mark Jaccard](#), [Andrew Leach](#), and [Colleen Collins](#) told the Committee that they supported a federal investment tax credit for CCUS. Other witnesses endorsed the policy within certain limits. [Sara Hastings-Simon](#) recommended that a credit be designed so

34 RNNR, [Evidence](#), 9 February 2022, 1340 (Dan Wicklum, Co-Chair, Net-Zero Advisory Body); RNNR, [Evidence](#), 21 March 2022, 1645 (Louis-César Pasquier, Associate Professor, Institut National de la Recherche Scientifique); and RNNR, [Evidence](#), 28 March 2022, 1625 (Andrew Gage, Staff Lawyer, West Coast Environmental Law Association).

35 There is a carbon capture unit at the Sturgeon refinery in Alberta, but this unit captures emissions from bitumen upgrading rather than from the refining process.

36 Library of Parliament, [Carbon Capture, Utilization and Storage](#), HillNotes, 7 February 2022.



that producers did not receive an “unnecessary windfall” by receiving a tax credit while reducing their liability to pay carbon prices. [Dale Beugin](#) noted that if a tax credit was combined with a cap-and-trade system, firms could more easily achieve their targets, which might affect carbon prices—and their accompanying incentive—within the sector.

[Angela Carter](#) was among the witnesses who were more sceptical of CCUS and concerned about the implications of a federal tax credit. She—and a few other witnesses—were among approximately 400 academics who signed a letter sent to the Deputy Prime Minister and Minister of Finance and the Minister of Natural Resources opposing an investment tax credit for CCUS. [Professor Carter](#) criticized the technology’s widespread use for enhanced oil recovery, saying that CCUS “[is] not a climate solution.”

[Louis-César Pasquier](#) likewise opposed the use of CCUS for enhanced oil recovery, which in his view “negates any environmental benefit” of the technology. Speaking on behalf of Environmental Defence Canada, [Julia Levin](#) described a tax credit for CCUS as “a terrible use of public dollars” that would, she estimated, only address between 3% and 9% of the lifecycle emissions associated with oil and gas products.

Recommendation 3

That the Government of Canada ensure that an emissions cap for the oil and gas sector incentivizes innovation while remaining technology neutral.

Regulations

Well-designed regulations can also encourage innovation and provide policy certainty. For instance, the [Minister of Natural Resources](#) claimed that the federal methane regulations—and their provincial equivalents—have not only reduced emissions but have also encouraged the development of emissions-reducing technologies. At the time of the study, Environment and Climate Change Canada had recently launched consultations about updating these regulations. The [Minister of Environment and Climate Change](#) told the Committee that these consultations would also explore how Canada’s commitment to reduce methane emissions relates to an emissions cap.

Indeed, witnesses identified methane emissions as an important factor to consider in the design of an emissions cap. Approximately one-quarter of the emissions in the oil and gas sector are of methane, which is a particularly potent GHG.³⁷ Canada has [committed](#) to reducing these emissions by at least 75% below 2012 levels by 2030.

37 RNNR, [Evidence](#), 23 March 2022, 1605 (Francis Fong, Managing Director, TD Bank Group).

According to [Chris Severson-Baker](#), Canada could exceed this commitment. Using currently available technology, he said, Canada could reduce methane emissions by approximately 88% below 2012 levels by 2030 at a cost of less than \$25 per tonne.³⁸ Both Mr. Severson-Baker and [Dale Marshall](#), from Environmental Defence, spoke in favour of strengthening the existing federal methane regulations. Similarly, [Sara Hastings-Simon](#) proposed that “more direct regulations around the use of different equipment” could reduce methane emissions in the oil and gas sector.

The [Clean Fuel Regulations](#) could also help reduce emissions from the oil and gas sector. The regulations—which were not finalized at the time of the committee’s study—will issue credits to the producers and users of low-carbon fuels, incentivizing a shift away from unabated fossil fuels. By creating a market for these credits, [Jennifer Winter](#) explained, the regulations should also encourage investment in emissions-reducing technology. The regulations should reduce emissions by reducing the demand for unabated oil and gas,³⁹ and could also encourage the adoption of lower-emitting fuels within the oil and gas sector.⁴⁰

Representatives from the Clean Fuel Standard Advocates Coalition urged the government to ensure that the final regulations focus on emissions from the combustion of fuels rather than their production. [They](#) said that minimizing the role of unprocessed fuels like crude oil in the Clean Fuel Regulations would help ensure that an emissions cap does not duplicate the regulations.

Regulatory duplication is a potential pitfall for an emissions cap. Canada already has multiple regulations and programs for reducing oil and gas emissions.⁴¹ The regulatory environment “could even be described as Byzantine,” according to [Charles Séguin](#). Professor Séguin, [Jennifer Winter](#), the [Explorers and Producers Association of Canada](#) and [CAPP](#) told the Committee that the federal government should design an emissions cap that is coordinated with existing policies and avoids overlap. On behalf of TC Energy, [Robert Tarvydas](#) recommended that the Government of Canada study all existing federal and provincial climate policies to understand how they interact with one another.

38 See also: Jan Gorski, Pembina Institute, [The case for raising ambition in curbing methane pollution](#), 4 August 2021

39 RNNR, [Evidence](#), 28 February 2022, 1705 (Andrew Leach, Associate Professor, University of Alberta).

40 RNNR, [Evidence](#), 7 February 2022, 1610 (Colleen Collins, Vice-President, Canada West Foundation); RNNR, [Evidence](#), 9 February 2022, 1605 (Caroline Brouillette, National Policy Manager, Climate Action Network Canada); and RNNR, [Evidence](#), 28 February 2022, 1705 (Andrew Leach, Associate Professor, University of Alberta).

41 RNNR, [Evidence](#), 7 February 2022, 1610 (Colleen Collins, Vice-President, Canada West Foundation).



Recommendation 4

That the Government of Canada analyse how existing provincial and federal measures for the oil and gas sector interact, with a view to developing an emissions cap that minimizes regulatory duplication, and that the government publish this analysis.

Avoiding Carbon Leakage

The oil and gas sector can be described as emissions intensive and trade exposed. As [Susannah Pierce](#) explained, the sector must address the costs and challenges of decarbonizing while competing internationally. These pressures can put Canadian producers at a competitive disadvantage and might lead to Canadian oil and gas being replaced by products from other sources. If those products are more carbon-intensive than Canadian products, global emissions could increase. This effect is known as “carbon leakage.”⁴²

The Committee heard that an emissions cap might create some risk of carbon leakage. As described above, some witnesses argued that Canadian natural gas can displace higher-emitting fuels like coal. If an emissions cap discourages such displacement, they argued, then it might be considered a form of carbon leakage.⁴³

In contrast, Canadian oil products may present a lower risk of carbon leakage. While [CAPP](#) stated that Canadian bitumen is not the world’s most carbon intense oil, Canadian oil products, particularly from the oil sands, have among the world’s highest emissions intensities.⁴⁴ [Sara Hastings-Simon](#) and [Mark Jaccard](#) told the Committee that if these products are displaced, the world’s overall emissions are unlikely to increase.

42 RNNR, [Evidence](#), 7 February 2022, 1650 (Dr. Sara Hastings-Simon, Assistant Professor, University of Calgary).

43 RNNR, [Evidence](#), 9 February 2022, 1555 (Tim McMillan, President and Chief Executive Officer, Canadian Association of Petroleum Producers); RNNR, [Evidence](#), 9 February 2022, 1615 (Susannah Pierce, President and Country Chair, Shell Canada Limited); Tourmaline Oil Corp., [Submission for study on Greenhouse Gas Emissions Cap for the Oil and Gas Sector: Recommendation that current policy tools to incentivize reduction in methane emissions be maintained](#), (Brief submitted to RNNR, 23 March 2022), p. 3.

44 RNNR, [Evidence](#), 9 February 2022, 1700 (Caroline Brouillette, National Policy Manager, Climate Action Network Canada); RNNR, [Evidence](#), 14 February 2022, 1550 (Merran Smith, Executive Director, Clean Energy Canada); and RNNR, [Evidence](#), 28 February 2022, 1720 (Dale Marshall, Manager, National Climate Program, Environmental Defence Canada).

Recommendation 5

That the Government of Canada ensure that an emissions cap for the oil and gas sector minimizes the risk of carbon leakage.

Border Carbon Adjustments

Output-based carbon pricing systems like the OBPS and the TIER Regulation are designed with the risk of carbon leakage in mind.⁴⁵ However, if the government wished to complement—or even strengthen—these systems, it could consider another policy known as a border carbon adjustment. In simple terms, a border carbon adjustment is a measure that would extend carbon pricing to internationally traded goods.⁴⁶ Its purposes are to avoid carbon leakage, and, as [Jennifer Winter](#) said, to “[level] the playing field” between firms that face different costs due to climate policies in their home countries.

Various witnesses described border carbon adjustments as a potentially useful tool to accompany an emissions cap.⁴⁷ At the same time, the Committee heard that these measures are complex and would take time to adopt.

[Charles Séguin](#) said that he did not expect border carbon adjustments to be implemented “for many years.” [He](#) explained that it is difficult to design an adjustment that accounts for non-price climate policies in other countries, and that Canada would likely want to coordinate its measures with the United States. [Dale Beugin](#) agreed that the “issue of collaboration and coordination of other countries is really essential.” [Shell Canada](#) cautioned that a border carbon adjustment should avoid discouraging imports that are “needed in the energy transition” but are “manufactured in carbon-intensive jurisdictions.”

[Mr. Beugin](#) and [Andrew Weaver](#), a professor at the University of Victoria, suggested that possible alternatives to a border carbon adjustment could include establishing “carbon clubs” of countries that share a price on pollution, or setting global carbon prices.

45 RNNR, [Evidence](#), 14 February 2022, 1620 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute); and RNNR, [Evidence](#), 28 February 2022, 1700 (Jennifer Winter, Associate Professor, University of Calgary).

46 Library of Parliament, [Border Carbon Adjustments](#), 11 June 2021.

47 RNNR, [Evidence](#), 14 February 2022, 1620 (Michael Bernstein, Executive Director, Clean Prosperity); RNNR, [Evidence](#), 14 February 2022, 1620 (Dale Beugin, Vice-President, Research and Analysis, Canadian Climate Institute); RNNR, [Evidence](#), 28 February 2022, 1705 (Andrew Leach, Associate Professor, University of Alberta); and RNNR, [Evidence](#), 21 March 2022, 1600 (Andrew Weaver, Professor, University of Victoria).



Recommendation 6

That the Government of Canada collaborate through international trade negotiations to establish a level playing field that ensures that fossil fuel producers and exporters meet a global standard for environmental, labour and human rights obligations.

THE OIL AND GAS SECTOR IN A LOW-CARBON TRANSITION

Risks and Opportunities

“We have to walk this tightrope carefully. If we move too quickly, failing to produce the energy that consumers need today, prices will go up, creating real hardship, particularly for those with the lowest capacity to pay. If we move too slow or not at pace, we will miss the opportunity to grow revenues, gain market share and meet the demands of a lower-carbon energy customer base.”

Susannah Pierce,
Shell Canada Limited

The oil and gas sector makes significant contributions to the Canadian economy. [TC Energy](#) cited statistics indicating that the sector contributed \$105 billion to Canada’s gross domestic product in 2020 while supporting nearly 400,000 Canadian jobs. [CAPP](#) estimated that the sector invested approximately \$33 billion in Canada in 2021, and that its products represent around 20% of Canada’s exports. Moreover, the sector represents a major source of public revenue, which [CAPP](#) estimated at between \$7 billion and \$15 billion a year.

At the same time, the sector also receives public funds, some of which can be considered subsidies. [Environmental Defence Canada](#) and the [Climate Emergency Unit](#) said that any subsidies should end, while the [Canadian Climate Institute](#) called on governments to “recalibrate” their spending so that it is coordinated with other policies and consistent with an energy transition. [CAPP](#) rejected the notion that the oil and gas sector is subsidized, saying that “we are net contributors to provinces, municipalities and the federal government.”

Given these considerations, an emissions cap could present certain economic risks. [Robert Tarvydas](#) noted that his organization, TC Energy, supports an emissions cap, but is concerned that an inefficiently implemented cap would undermine the economic contributions of the oil and gas sector and could make energy less affordable. [Jennifer Winter](#) did not support a cap, in part because she said it would be more expensive than stricter versions of existing policies. However, [Francis Fong](#) was less certain of these risks, telling the Committee that “it is difficult to fully assess economic implications” of an emissions cap “in isolation from [other policies] and against the broader economic backdrop that we currently find ourselves in.”

Gil McGowan, President of the Alberta Federation of Labour, framed the problem differently. The “biggest issue” facing Alberta workers, [he](#) affirmed, was not an emissions cap but an “unfolding global energy transition,” that is “happening whether we like it or not...it’s a global phenomenon that is largely outside of our control.” Others agreed that a transition is inevitable. The National Policy Manager at Climate Action Network Canada, [Caroline Brouillette](#), emphasized that transition “can’t be avoided in the global context,” while [Francesco La Camera](#) stated: “We see that energy transition is already in place. It’s happening.”

This energy transition presents opportunities as well as challenges. Speaking for the Net-Zero Advisory Body, [Dan Wicklum](#) described the transition to net-zero as “probably one of the largest economic opportunities in many generations...There are huge upsides that we need position Canada to be able to capitalize on.”

For example, according to [Merran Smith](#), [modelling](#) by Clean Energy Canada suggests that employment gains from energy transition could outweigh the losses. [She](#) cited a finding that the clean energy sector should see an increase of 208,000 jobs “if we followed through on the climate commitments that we had a year ago,” compared to a projected 126,000 jobs lost in the fossil fuel sector. However, as [Mr. Wicklum](#) said, such economic benefits “will only become real if we act.”

Inaction carries its own risks. [David Keith](#), [Laurie Adkin](#) and [Caroline Brouillette](#) argued that transitioning away from fossil fuels would reduce the risk of an economic crash that would harm workers and communities that currently depend on oil and gas. In [Professor Keith’s](#) words:

I've seen what a crash looks like. I've seen what it does to people. As an Albertan, one who wants to see good jobs for my children and my friends, including many friends in the oil patch, my judgment is that digging the economy deeper into oil and gas will just make the crash harder.



[Mark Jaccard](#) did not agree with this characterization. In [his](#) view, declining demand for oil and gas in the coming decades would mean that “these sectors will go down very slowly, so, for workers, a transition may not be as harsh as people try to portray it.”

Impacts on Indigenous Peoples and Indigenous Rights

Some groups are disproportionately vulnerable to the effects of the energy transition. The oil and gas sector is an important employer of Indigenous people, and several witnesses discussed how an oil and gas cap could affect Indigenous nations and communities. Drawing attention to the possible negative effects of an emissions cap, [Dale Swampy](#) of the National Coalition of Chiefs warned that “[o]ur ability to be able to get our people on reserve out of poverty is going to be limited even more because of this.”

Reflecting the views of several witnesses, [Angela Carter](#) affirmed that Indigenous communities should not experience hardship because of the cap. Likewise, [Chief Sharleen Gale](#), from the First Nations Major Projects Coalition, declared that “hardship should not fall disproportionately upon first nation communities, including those Indigenous communities invested in oil and gas.” She contended that multinational corporations can better absorb the transition costs required to meet these regulations than First Nations.

Echoing these views, [Melody Lepine](#), the Director of the Mikisew Cree First Nation underscored that it is “not fair to allow us to become highly dependent on an oil and gas sector and then, all of a sudden, shut the lights off and expect us to sustain.”

Several witnesses, including the [First Nations Major Projects Coalition](#), [Climate Action Network Canada](#) and [Environmental Defence Canada](#), emphasized that the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)—which the Government of Canada has committed to implementing—should be upheld within the design of the emissions cap.

The [Minister of Natural Resources](#) underscored that the process of developing the emissions cap would include consultations with Indigenous communities “who want to be part of the conversation” and [stated](#) that “we certainly intend to have meaningful consultation with indigenous communities.” [Seth Klein](#) of the Climate Emergency Unit explained that UNDRIP “sets a higher bar that requires not only consultation but consent.”

Noting this requirement, [Mark Podlasly](#), the Director of Economic Policy and Initiatives at the First Nations Major Projects Coalition, asserted that “[t]he purest form of consent is

an equity ownership in a project.” Similarly, [Susannah Pierce of Shell Canada Limited](#) quoted elected chief councillor Crystal Smith, who characterizes an equitable Indigenous partnership in energy transition as having “a share and a say.”

[Mark Podlasly](#) mentioned barriers that Indigenous people face in participating in such projects:

access to capital is the number one issue for indigenous people wanting to participate in infrastructure on energy, clean energy and other transportation infrastructure in this country, just because of the way the Indian Act has set up indigenous people in this country. We are subservient to a federal act that was not made for a modern energy transition.

A few witnesses provided recommendations focused on ensuring that Indigenous rights and reconciliation are upheld in the design of the emissions cap:

- [Chief Sharleen Gale](#) recommended that the government support “clean energy opportunities with indigenous equity ownership of new projects and financing government collateralization of investments.”
- [CAPP](#) recommended that the Government of Canada contemplate legislation that would include Indigenous production.
- [Melody Lepine](#) advocated for a transition framework and plans for resource diversification so that northern and isolated Indigenous communities can “continue to sustain [their] economic and Indigenous cultural way of life.”

Recommendation 7

That the Government of Canada consult with Indigenous governments and communities to ensure that an emissions cap does not have disproportionately negative impacts on Indigenous peoples.



Managing the Transition

Honestly, if workers aren't consulted, if there's silence about how something important like this might affect them, then the silence will be filled with anxiety and anger, and we already see how dangerous that can be.

Gil McGowan,
Alberta Federation of Labour

Workers and communities that depend on the oil and gas sector will need support to succeed in a low-carbon future. Communities that are highly dependent on individual sectors, such as oil and gas, face a range of risks from economic transition, including job losses, reduced municipal budgets, and even population decline.⁴⁸ A range of witnesses said that the federal government had a responsibility to develop supportive policies and to consult workers, communities, Indigenous peoples and industry about managing a low-carbon transition.⁴⁹

In conducting these consultations, Angela Carter suggested that Canada could draw on the example of “green job coalitions,” in the United States, which bring together “labour, governments and Indigenous peoples, or other groups in society that be hurt by [transition].” Alternatively, Laurie Adkin proposed that the government could establish regional citizen’ assemblies to examine various questions, including “a broader, comprehensive plan for a green transition.”

Canada will be in a better position to manage the transition if it works proactively. As Caroline Brouillette put it “Rather than reacting to this transformation, we have an opportunity today to discuss it, to make a plan, and to make workers the central focus of that plan.”

This plan, according to several witnesses, should take the form of a “just transition,” which their testimony characterized as a proactive, inclusive and fair transition to a

48 Canadian Institute for Climate Choices, *Sink or Swim: Transforming Canada's economy for a global low-carbon future*, October 2021, p. 68.

49 RNNR, Evidence, 9 February 2022, 1605 (Caroline Brouillette, National Policy Manager, Climate Action Network Canada); RNNR, Evidence, 16 February 2022, 1720 (Gil McGowan, President, Alberta Federation of Labour); RNNR, Evidence, 16 February 2022, 1720 (Meredith Adler, Executive Director, Student Energy); and RNNR, Evidence, 28 March 2022, 1605 (Dale Swampy, President, National Coalition of Chiefs).

low-carbon future.⁵⁰ [Climate Action Network Canada](#) recommended establishing an advisory working group “in charge of establishing the process, mechanisms, tools and funding for a just transition.” [Environmental Defence Canada](#) cited a [report](#) conducted with the Centre for Future Work that identified retraining programs, relocation funds and funding for community economic development as key measures to support this transition.

On this note, [Meredith Adler](#), the Executive Director of Student Energy, mentioned that young people wanted “the opportunity to be part of the transition, and the key issue right now is that there are not clear pathways into green jobs.”

The [Alberta Federation of Labour](#) has also recommended establishing a dedicated federal transfer to energy-producing provinces, which the [Climate Emergency Unit](#) described as “something audacious that would signal for all workers in the fossil fuel sector they need not fear and that they're not going to be left behind.” The federal government has committed to what the [Minister of Natural Resources](#) described as “legislation and a comprehensive action plan to support sustainable jobs in Canada.”

Witnesses mentioned that industries themselves could need federal support during a transition, although [Angela Carter](#) and [Gil McGowan](#) recommended that federal funding for vulnerable industries be accompanied by agreements to protect jobs. The [Canadian Association of Energy Contractors](#) did not endorse a specific approach, but said that “whatever framework gets decided on, jobs, job creation and the potential elimination of jobs should be taken into consideration.”

Recommendation 8

That the Government of Canada consider the impact that an emissions cap will have on employment.

50 In addition to the witnesses cited below, see: RNNR, [Evidence](#), 28 February 2022, 1645 (Julia Levin, Senior Climate and Energy Program Manager, Environmental Defence Canada); RNNR, [Evidence](#), 21 March 2022, 1615 (Melody Lepine, Director, Mikisew Cree First Nation); and RNNR, [Evidence](#), 28 March 2022, 1540 (Laurie Adkin, Professor, University of Alberta).



Recommendation 9

That, to minimize the harms and maximize the benefits of low-carbon transition, the Government of Canada should:

- **establish ongoing consultative processes with workers, unions, industry, Indigenous governments and communities who are likely to be affected by transition;**
- **identify the sectors, communities, and regions most likely to be negatively or positively affected by a low-carbon transition;**
- **develop indicators for measuring these effects; and**
- **consider establishing new federal supports to help workers, industry, Indigenous governments and communities, and regions manage the impacts of a low-carbon transition.**

Environmental Impacts

A decline in oil and gas activity would have implications for the environment as well as the economy. [Martin Olszynski](#), [Sara Hastings-Simon](#) and representatives from the [Mikisew Cree First Nation](#) told the Committee that the Government of Canada should be attentive to the environmental impacts of oil and gas operations, and to the costs of remediating them.

[Melody Lepine](#) pointed to the large quantities of water used in oil sands mines, noting that projects near her Nation use water from the Athabasca River, whose flow has declined, making the river harder to navigate. Once used, water from these projects is pumped into tailings ponds. Since the contents of these ponds are toxic, [Ms. Lepine](#) emphasized that they represent a threat to biodiversity and to human health.

The reclamation costs of these projects are significant. [Martin Olszynski](#) estimated that environmental liabilities associated with oil sands mining amount to between \$34 billion and \$130 billion, “for which less than \$1 billion has currently been set aside by industry.”⁵¹ [Sara Hastings-Simon](#) agreed that these liabilities, and stranded assets more generally, were “very important” for the Government of Canada to consider. On this note, [Benjamin Sey](#), Manager of Environmental Affairs for the Mikisew Cree First Nation,

51 The estimate of \$130 billion in environmental liabilities associated with oil sands mining comes from a worst-case scenario prepared by the Alberta Energy Regulator in 2018.

encouraged the Government of Canada to factor the costs of reclamation and tailings treatment into an emissions cap.

Recommendation 10

That the Government of Canada account for the environmental impacts of the oil and gas sector, and the financial costs of these impacts, within the design of an emissions cap.

CONCLUSION

All sectors must contribute to meeting Canada's climate goals, and the oil and gas sector is no exception. Reducing emissions from this sector may be challenging, but it is possible, and it is necessary for mitigating the impacts of climate change. At the same time, it is important to recognize the role that the oil and gas sector plays in providing employment and economic opportunity for many Canadians, and in supporting energy security for the country and its allies. It is in this context that the Committee has examined the Government of Canada's commitment to establish an emissions cap for the sector.

The Committee has identified some core principles that should guide the Government of Canada as it develops such a cap. Among these principles are the need to give investors and industry the certainty they need to reduce emissions, to incentivize innovation within the sector, to avoid the risk of carbon leakage, and to minimize the negative effects that low-carbon transition may have on workers, communities and Indigenous peoples. By acting on these principles and the other recommendations in this report, the Government of Canada will be better positioned to meet its climate targets and ensure prosperity for Canadians in the years to come.

APPENDIX A LIST OF WITNESSES

The following table lists the witnesses who appeared before the committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the committee’s [webpage for this study](#).

Organizations and Individuals	Date	Meeting
As an individual	2022/02/07	4
Sara Hastings-Simon, Assistant Professor, University of Calgary		
Mark Jaccard, Professor, Simon Fraser University		
Canada West Foundation	2022/02/07	4
Colleen Collins, Vice-President		
Net-Zero Advisory Body	2022/02/09	5
Marie-Pierre Ippersiel, Co-Chair		
Dan Wicklum, Co-Chair		
Canadian Association of Energy Contractors	2022/02/09	6
Mark A. Scholz, President and Chief Executive Officer		
Canadian Association of Petroleum Producers	2022/02/09	6
Tim McMillan, President and Chief Executive Officer		
Climate Action Network Canada	2022/02/09	6
Caroline Brouillette, National Policy Manager		
Explorers and Producers Association of Canada	2022/02/09	6
Tristan Goodman, President and Chief Executive Officer		
Shell Canada Limited	2022/02/09	6
Susannah Pierce, President and Country Chair		
Canadian Climate Institute	2022/02/14	7
Dale Beugin, Vice-President, Research and Analysis		
Canadian Urban Transit Research and Innovation Consortium	2022/02/14	7
Josipa Petrunic, President and Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Clean Energy Canada Merran Smith, Executive Director	2022/02/14	7
Clean Prosperity Michael Bernstein, Executive Director	2022/02/14	7
Climate Emergency Unit Seth Klein, Team Lead	2022/02/14	7
The Pembina Institute Jan Gorski, Director, Oil and Gas Chris Severson-Baker, Regional Director, Alberta	2022/02/14	7
As an individual Angela Carter, Associate Professor, University of Waterloo Bruno Detuncq, Retired Professor, École Polytechnique de Montréal	2022/02/16	8
Alberta Federation of Labour Gil McGowan, President	2022/02/16	8
First Nations Major Projects Coalition Chief Sharleen Gale, Chair of the Board of Directors Mark Podlasly, Director, Economic Policy and Initiatives	2022/02/16	8
Student Energy Meredith Adler, Executive Director	2022/02/16	8
As an individual David Keith, Professor of Public Policy, Harvard Kennedy School Andrew Leach, Associate Professor, University of Alberta Jennifer Winter, Associate Professor, University of Calgary	2022/02/28	9
Environmental Defence Canada Julia Levin, Senior Climate and Energy Program Manager Dale Marshall, Manager, National Climate Program	2022/02/28	9

Organizations and Individuals	Date	Meeting
TC Energy Corporation Robert Tarvydas, Vice-President, Regulatory Strategy Christopher Vivone, Director, Federal Government Relations	2022/02/28	9
Trottier Energy Institute Simon Langlois-Bertrand, Research Associate	2022/02/28	9
As an individual Martin Olszynski, Associate Professor, Faculty of Law, University of Calgary Louis-César Pasquier, Associate Professor, Institut national de la recherche scientifique Nicholas Rivers, Associate Professor, University of Ottawa Charles Séguin, Associate Professor, Université du Québec à Montréal Andrew Weaver, Professor, University of Victoria	2022/03/21	11
Mikisew Cree First Nation Melody Lepine, Director Benjamin Sey, Manager, Environmental Affairs	2022/03/21	11
As an individual Kevin Anderson, Professor of Energy and Climate Change, Tyndall Centre for Climate Change Research, University of Manchester	2022/03/23	12
International Renewable Energy Agency Francesco La Camera, Director General	2022/03/23	12
International Transport Forum Olaf Merk, Administrator, Organisation for Economic Co-operation and Development	2022/03/23	12
TD Bank Group Francis Fong, Managing Director	2022/03/23	12

Organizations and Individuals	Date	Meeting
As an individual Laurie Adkin, Professor of Political Sciences, University of Alberta	2022/03/28	13
Clean Fuel Standard Advocates Coalition Bora Plumptre, Secretary, Coordinating Committee Ian Thomson, Chair, Coordinating Committee	2022/03/28	13
National Coalition of Chiefs Dale Swampy, President	2022/03/28	13
West Coast Environmental Law Association Andrew Gage, Staff Lawyer	2022/03/28	13
Canadian Energy Regulator Genevieve Carr, Chief Environment Officer Jean-Denis Charlebois, Chief Economist Gitane De Silva, Chief Executive Officer	2022/04/06	16
Department of Natural Resources Glenn Hargrove, Assistant Deputy Minister, Fuels Sector Hon. Jonathan Wilkinson, P.C., M.P., Minister of Natural Resources	2022/04/06	16
Department of the Environment Hon. Steven Guilbeault, P.C., M.P., Minister of Environment and Climate Change	2022/04/06	16

APPENDIX B LIST OF BRIEFS

The following is an alphabetical list of organizations and individuals who submitted briefs to the committee related to this report. For more information, please consult the committee's [webpage for this study](#).

Adkin, Laurie

Canadian Association of Petroleum Producers

Canadian Gas Association

Climate Action Network Canada

David Suzuki Foundation

Environmental Defence Canada

Équiterre

Gooderham, David

Indigenous Resource Network

International Institute for Sustainable Development

Leach, Andrew

Mikisew Cree First Nation

Nathan, Jennifer

Olszynski, Martin

Quebec Business Council on the Environment

Shift Action for Pension Wealth and Planet Health

Tourmaline Oil Corporation

West Coast Environmental Law Association

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 4 to 9, 11, 12, 13, 16, 27, 28, 29, 31, 33 to 38 and 44) is tabled.

Respectfully submitted,

John Aldag
Chair

The Demise of the Canadian Energy Sector

Conservative Party of Canada Dissenting Report: *A Greenhouse Gas Emissions Cap for the Oil and Gas Sector*

Standing Committee on Natural Resources

The Natural Resources committee undertook a study into the potential impacts of an emissions cap for the oil and gas sector. The final report failed to define terms, provide definitions, or recommend that the Government provide evidence-based details before moving forward with an emissions cap. Despite a series of witness testimony to the contrary, the Committee's final report fails to recognize global context and the serious risk of carbon leakage; fails to recognize Canada's oil and gas sector's status and continued progress as a world-leader in environmental, labour, governance, Indigenous engagement, transparency, and human rights standards; fails to fully consider the impact on the economy, and on rural, remote, and Indigenous communities; fails to consider Federal jurisdiction and existing regulation in the industry; and does not adequately reflect witness testimony that an emissions cap is effectively synonymous with a production cap.

Upstream natural resources development is provincial jurisdiction. The Conservative Party opposes a federally-imposed oil and gas emissions cap, and disagrees with much of the content and many of the conclusions in the Committee's final report, and for these reasons, are issuing this dissenting opinion.

Importance of the Global Context

Global demand for oil and gas is growing. Energy security for Canada's European allies is threatened by Russia's invasion of Ukraine.

In their brief to Committee, the Canadian Association of Petroleum Producers (CAPP) stated they "believe that growing Canadian oil and gas exports is the solution to both reducing global emissions and enhancing energy security."¹ Peter Tertzakian from ARC Energy Research Institute stated that "dismissing the importance of fossil fuel systems before having sufficient, secure, and affordable clean energy substitutes is only half the problem. The other half is more ominous and reflective of past crisis."² Mr. Tertzakian highlighted that global oil and gas production and exports are dominated by less democratic and environmentally responsible regimes.³ CAPP is declaring what is already known to be true by policy experts around the world: Canada has the solutions to reduce global emissions and to enhance domestic Canadian energy security, and provide energy to free and democratic countries around the world.⁴

¹ RNNR, *Evidence*, 9 February 2022, (Tim McMillan, President and Chief Executive Officer, Canadian Association of Petroleum Producers).

² Canadian Association of Petroleum Producers, *Re: Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector* (Brief submitted to RNNR, 24 March 2022).

³ *Ibid.*

⁴ *Ibid.*

Global energy demand continues to increase as the world’s population grows and countries continue to develop. The International Energy Agency (IEA) projects that oil and natural gas remains critical to global energy supply and demand. But the Prime Minister has called for the phase out of Canadian oil production, vilifies the sector, and has implemented numerous regulatory and fiscal measures that undermines Canadian energy development and makes Canada less competitive, despite the sector’s disproportionate contribution to Canadian GDP, job creation, government revenue at all three levels, investment in clean tech and alternative energy development, and philanthropic and charitable social initiatives.

As home to the world’s third largest oil reserves and as the 6th largest natural gas producer with the 18th largest reserves, Canada has a responsibility to help address the energy crisis, and has the technology, technical, regulatory expertise, and resources, to do so. Witness testimony from TC Energy, CAPP, Shell, CAOEC, and the Explorers and Producers Association of Canada outlined the sector’s constant and significant progress on increasing production while reducing emissions.⁵

Athabasca Oil Corporation stated “it is critical to our company and our industry that we achieve policy certainty that is realistic and achievable,” a point highlighted by several witnesses.⁶

Canadian policy must account for the global context and Canada’s competitiveness. Canada’s domestic oil and gas sector can provide global emissions reduction solutions, particularly while alternative and renewable sources cannot yet fully supply current and future energy demands. Hostile public messages combined with punitive and arbitrary regulatory and fiscal measures in Canada undermine global aspirations for emissions reduction by deterring investment and road blocking Canadian energy production and exports, enabling other producers with much lower standards to meet increasing global energy needs.

If Canada is going to meet growing global demand and displace supply from undemocratic and less environmentally responsible oil producing countries, the Canadian government must work collaboratively with industry and set attainable, predictable policy. Mark Scholz, President, and CEO of the Canadian Association of Energy Contractors (CAOEC) stated “we strongly assert that the drive for net-zero must not effectively become a cap on oil and natural gas production in Canada.”⁷

The Canadian oil and gas sector provides quality, stable, and well-paying jobs. Globally, Canada’s oil and gas sector is a leader in technology development and its standards for production, and the industry’s commitment to address climate change and cleaner production has garnered the support of many energy agency leaders. Canada has been a reliable and stable partner in the energy market for decades. The priority for Canadian energy policy development

⁵ RNNR, *Evidence*, 28 February 2022 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation), RNNR, *Evidence*, 9 February 2022, (Tim McMillan, President and Chief Executive Officer, Canadian Association of Petroleum Producers), RNNR, *Evidence*, 9 February 2022 (Susannah Pierce, President and Country Chair, Shell Canada Limited), and RNNR, *Evidence*, 9 February 2022 (Mark Scholz, President and Chief Executive Officer, Canadian Association of Energy Contractors).

⁶ RNNR, *Evidence*, 9 February 2022 (Dan Wicklum, Co-Chair, Net-Zero Advisory Body) and RNNR, *Evidence*, 14 February 2022 (Dale Beugin, Vice-President, Research and Analysis, Canadian Institute for Climate Choices).

⁷ RNNR, *Evidence*, 9 February 2022 (Mark Scholz, President and Chief Executive Officer, Canadian Association of Energy Contractors).

should be to accelerate domestic oil and gas development and expand Canadian exports in order to reduce emissions globally.

Industry and Government Emissions Reduction Progress

This report does not accurately capture testimony heard by this committee on the role of Canada’s energy sector in emissions reduction, producing oil and gas at a lower carbon intensity than all the other major producers around the globe.

It became clear through the study that the other parties were intent on attacking the sector, instead of taking a realistic look at the sector’s efforts, especially compared to global jurisdictions. There are sections of the report that even editorialize witness testimony by refuting facts they brought to the table – despite no other witness testimony contradicting these facts. The President of the National Coalition of Chiefs, Mr. Dale Swampy, said “this Parliament seems to treat the oil and gas sector like they’re the enemy and a problem to be fixed.”⁸ – and this inclination, unfortunately, is reflected in the Committee’s final report. Starting from this premise devalues the industry’s many advancements. Shell Canada and TC Energy referenced the significant investments already made to lower emission intensity in their operations: “Per barrel emissions from the oil sands, for example, declined by approximately 33% between 1990-2020.”⁹

Canada is the only energy producing jurisdiction in the world where 6 major producing companies have a goal and plan to achieve net zero emissions. Canada’s energy industry has invested over \$3.5 billion since 2018 in emission reduction technologies. According to the Canadian Association of Energy Contractors (CAOEC), that puts the industry as the largest private sector investor in Canadian emissions reduction technology and innovation.¹⁰ Not only can Canada’s efforts benefit Canada, but the production and export of cleaner oil and gas, development of alternative energy sources such as hydrogen and geothermal, and the perfection of CCUS techniques, contribute to Canada’s environmental achievements, if Canada capitalizes on and recognizes those efforts rather than demonizes them. Canada must acknowledge and promote its energy industry’s proven track record and position as a world leader. Tourmaline Oil Corp reported the reduction of overall emissions intensity by 31%, and methane emissions by 26% in two years, while striving to become the industry’s cleanest and lowest-emitting natural gas in the world.¹¹ Tourmaline expressed deep concern that an emissions cap in Canada could bring all action to a halt with wider negative impacts, such as carbon leakage.

⁸ RNNR, *Evidence*, 28 March 2022 (Dale Swampy, President, National Coalition of Chiefs).

⁹ RNNR, *Evidence*, 9 February 2022 (Susannah Pierce, President and Country Chair, Shell Canada Limited), and RNNR, *Evidence*, 28 February 2022 (Christopher Vivone, Director, Federal Government Relations, and Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation).

¹⁰ RNNR, *Evidence*, 9 February 2022 (Mark Scholz, President and Chief Executive Officer, Canadian Association of Energy Contractors).

¹¹ Tourmaline Oil Corp., *Submission for study on Greenhouse Gas Emissions Cap for the Oil and Gas Sector: Recommendation that current policy tools to incentivize reduction in methane emissions be maintained*, (Brief submitted to RNNR, 23 March 2022).

Three professors who addressed the committee opposed the proposed cap, Dr. Keith, Dr. Leach and Dr. Winter.¹² Rather than risk losing momentum of meeting targets, Craig Bryska urges Canada to expand and advance innovation by rewarding it in Canada’s world-leading energy sector.¹³ The Explorers and Producers Association of Canada noted that climate policy programs should be assessed and supported based on measurable carbon reduction results.¹⁴ Canada’s energy sector can boast results, and their various partnerships and collaborative initiatives have delivered significant progress on emissions reduction in Canada. As put by Colleen Collins of the Canada West Foundation (CWF), “Canada and its provinces are already recognized leaders in emissions reduction policy” – and adding more uncertainty would be detrimental to Canada’s investment climate.¹⁵

Canadian Standards Prevent Carbon Leakage

Carbon Leakage is defined as a situation where production is moved from a jurisdiction with high environmental and emissions reductions standards to a country with very little regulation, leading to an increase of global emissions. In the Canadian context, policies like the carbon tax, and new, duplicative, and changing layers of regulations that cause uncertainty and have driven private sector proponents to abandon major investments and initiatives, cause companies to shutter production, invest new operations in other jurisdictions, and force Canadian refineries to rely on imported foreign oil.

Numerous witnesses and members from all parties recognized the importance of preventing carbon leakage. While recommendation 5 does note the importance of preventing carbon leakage, the report does not adequately emphasize the risk, or the key role of Canada’s oil and gas sector in preventing carbon leakage, and replacing oil and gas from countries with lower environmental and human rights standards.

Tim McMillan of CAPP highlighted that, if carbon leakage is not considered, “this could lead to greater global emissions as we see more coal being utilized than natural gas and sources of supply for natural gas and oil coming from jurisdictions that don’t have our high standards.” He noted that if an emissions cap was proposed, it could discourage investment in Canada, a jurisdiction with high environmental and social standards.¹⁶ Colleen Collins highlighted that the industry can reduce per-barrel and total intensity while increasing production – and how this work, driving down the intensity of Canadian oil, can be used to replace higher emitting sources in global markets.¹⁷

¹²RNNR, *Evidence*, 28 February 2022 (David Keith, professor of public policy at Harvard Kennedy School, Andrew Leach, associate professor, University of Alberta, and Jennifer Winter, associate professor, University of Calgary).

¹³ Canadian Association of Petroleum Producers, *Re: Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector* (Brief submitted to RNNR, 24 March 2022).

¹⁴ RNNR, *Evidence*, 9 February 2022 (Tristan Goodman, President and Chief Executive Officer, Explorers and Producers Association of Canada).

¹⁵ RNNR, *Evidence*, 7 February 2022 (Colleen Collins, Vice-President, Canada West Foundation)

¹⁶ RNNR, *Evidence*, 9 February 2022, (Tim McMillan, President and Chief Executive Officer, Canadian Association of Petroleum Producers).

¹⁷ RNNR, *Evidence*, 7 February 2022 (Colleen Collins, Vice-President, Canada West Foundation)

Dr. Mark Jaccard advocated for a system to measure carbon leakage in any proposed cap, including as part of a cross-sector approach in Canada.¹⁸ Michael Bernstein believed that carbon leakage could be addressed by border carbon adjustments. It was clear that addressing carbon leakage through some measures was a priority for the witnesses that appeared for this study.

An emissions cap would pose a significant risk to cause carbon leakage. As Robert Tarvydas stated, “a cap on production or even a decrease in production would likely result in leakage to other jurisdictions with environmental standards that are perhaps not as strict as Canada’s.”¹⁹ This was noted by other organizations, such as Tristan Goodman of EPAC and Dr. Charles Seguin, who specifically noted the danger OPEC presents to Canada.²⁰ An emissions cap would put Canadian producers at a disadvantage compared to other global jurisdictions, reducing competitiveness on the global market and putting increased strain on the Canadian energy industry to compete with other oil and gas producers, like Venezuela, Russia, and Saudi Arabia. Carbon Leakage needed to be a major focus of the Committee’s final report, but was not.

Canadian oil and gas is produced with the highest environmental and human rights standards in the world. If pipelines that could have increased Canada’s export capacity had been completed, or if a single LNG export facility had been constructed in the last decade, Canada could displace oil from Saudi Arabia, LNG from Russia, and supply the energy European countries are seeking from Canada, at the time of writing this report.

An Emissions Cap is Synonymous with a Production Cap

The Committee heard strong opposition to a production cap from multiple witnesses, as noted in the main report (paragraph 25). Despite this opposition, the report fails to acknowledge that an emissions cap will function effectively as a production cap, and does not include recommendations to ensure that any considered emissions cap does not cap production.

Feedback that an emissions cap will be a production cap in Canada has been clear from experts, producers, industry stakeholders such as TC Energy and the Canadian Association of Energy Contractors, and from Indigenous leadership.²¹ Multiple witnesses expressed a shared agreement that an emissions cap must not effectively become a production cap in practice, put well by Robert Tarvydas of TC Energy: “Government must ensure that industry’s ability to adhere to an oil and gas emissions cap is achievable and economically efficient. The inability for the oil and gas sector to cost-effectively decarbonize to the levels required by an overly restrictive emissions cap would effectively create a cap on production, with irreversible impacts on energy security, reliability and affordability. This would significantly impact both Canada’s economy and balance

¹⁸ RNNR, [Evidence](#), 7 February 2022 (Dr. Mark Jaccard, Professor, Simon Fraser University).

¹⁹ RNNR, [Evidence](#), 28 February 2022 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation).

²⁰ RNNR, [Evidence](#), 21 March 2022 (Charles Séguin, Associate Professor, Université du Québec à Montréal) and RNNR, [Evidence](#), 9 February 2022 (Tristan Goodman, President and Chief Executive Officer, Explorers and Producers Association of Canada).

²¹ RNNR, [Evidence](#), 28 February 2022 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation), RNNR, [Evidence](#), 9 February 2022 (Mark Scholz, President and Chief Executive Officer, Canadian Association of Energy Contractors), and RNNR, [Evidence](#), 28 March 2022 (Dale Swampy, President, National Coalition of Chiefs).

of trade, while having a negligible impact on global emissions as production moves to jurisdictions with inferior ESG profiles.”²²

During the study, the Environment Minister admitted that production falls under provincial jurisdiction over natural resources development.²³ It’s clear the federal government must therefore distinguish a cap on emissions from a cap on production, but several witnesses cautioned the federal plan for an emissions cap will almost certainly be a cap on production as an indirect result, which was not adequately reflected in the Committee’s final report.

Dr. Charles Séguin and Dr. Andrew Leach both noted the potential for production to decline as an indirect by-product of the emissions cap.²⁴ While Leach highlighted regulatory uncertainty and insufficient investment, Séguin said the options for keeping up with a cap would become more difficult and expensive over time.

Similarly, Dr. Simon Langlois-Bertrand and Chris Severson-Baker both anticipated that the energy sector will likely need to reduce production²⁵ – and similar to the Liberal Government’s position regarding an emissions cap, to “reduce emissions”²⁶ without a reference to production, these witnesses believed that a cap on emissions “would result in the future in a reduction in production.”²⁷

Dale Swampy of the National Coalitions of Chiefs stated that “a cap on emissions will be, in effect, a cap on production in the oil and gas industry,” and highlighted how that will harm Indigenous communities across Canada.²⁸

Dr. Mark Jaccard, who otherwise generally maintained that an emissions cap could be compatible with oil and gas production, likewise seemed open to its potential for eventually restricting production.²⁹

An Emissions Cap Would Duplicate Provincial Regulation

Despite the fact that Canada has not had a federally-imposed emissions cap, it is already a world leader in emissions reduction policy – and as witnesses emphasized, “One has to ask what the value is of additional legislation that creates even more uncertainty and distracts from the business of implementing existing policies.”³⁰

²² RNNR, *Evidence*, 28 February 2022 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation).

²³ RNNR, *Evidence*, 6 April 2022 (Hon. Steven Guilbeault, Minister of Environment and Climate Change).

²⁴ RNNR, *Evidence*, 21 March 2022 (Charles Séguin, Associate Professor, Université du Québec à Montréal) and RNNR, *Evidence*, 28 February 2022 (Andrew Leach, Associate Professor, University of Alberta).

²⁵ RNNR, *Evidence*, 14 February 2022 (Chris Severson-Baker, Regional Director, Alberta, The Pembina Institute), and RNNR, *Evidence*, 28 February 2022 (Simon Langlois-Bertrand, Research Associate, Trottier Energy Institute).

²⁶ Liberal Party of Canada, “[Cap and Cut Emissions from Oil and Gas](#),” Our Platform: Forward. For Everyone.

²⁷ RNNR, *Evidence*, 14 February 2022 (Chris Severson-Baker, Regional Director, Alberta, The Pembina Institute).

²⁸ RNNR, *Evidence*, 28 March 2022 (Dale Swampy, President, National Coalition of Chiefs).

²⁹ RNNR, *Evidence*, 7 February 2022 (Dr. Mark Jaccard, Professor, Simon Fraser University).

³⁰ RNNR, *Evidence*, 7 February 2022 (Colleen Collins, Vice-President, Canada West Foundation)

Colleen Collins raised concerns over duplicating federal and provincial regulation, as Alberta already has a 100 megatonne cap, introduced in 2015, on its oil sands – and it “works because there is room for growth under the cap. It supports economic growth and innovation to reduce emissions, so the environment and the economy are explicitly recognized in the design of that cap. It's one thing to regulate 35 oil sands sites with six producers, but it's a whole other thing to regulate 200,000 sites across different provincial jurisdictions to establish this cap.” She also highlighted the possibility of federal-provincial battles over the cap, creating more uncertainty for investors.³¹

The Liberal government has layered and duplicated red tape, and driven energy investment from Canada, costing the cancellation of hundreds of thousands of jobs and hundreds of billions in energy projects and indigenous partnerships. Witnesses at committee were clear that more red tape would be bad for business, saying “The inability for the oil and gas sector to cost-effectively decarbonize to the levels required by an overly restrictive emissions cap would effectively create a cap on production, with irreversible impacts on energy security, reliability and affordability,” and that “uncertainty is the reason Canada has one LNG facility, which is under construction, while Australia has 16, the U.S. has seven, and the rest of the world has 70 LNG facilities.”³²

Provinces such as Alberta, British Columbia, and Quebec already have emissions caps. The years of legal disputes led by provinces whose own regulations are arbitrarily not deemed sufficient by a Liberal government, combined with regulatory duplication and constantly changing goalposts, means that an emissions cap will be another reason why foreign investors will look elsewhere, and domestic producers will seek to leave Canada.

An Emissions Cap Would Negatively Impact the Economy, and Rural, Remote, and Indigenous Communities

The Committee’s final report does not accurately capture the significant impact of an emissions cap on economic development, and particularly on rural, remote, and Indigenous communities where local economies, job creation, and revenue disproportionately rely on oil and gas and other natural resources production.

Dr. Mark Jaccard specifically noted that government policy must focus on “not harming a particular industry or region.”³³ Dr. Jennifer Winter noted that “different treatment of a specific sector reallocates capital and labour throughout the economy, moving these production inputs away from their most productive use. This artificially expands some sectors, shrinks others, and lowers Canada’s productivity.”³⁴

Dale Swampy of the National Coalition of Chiefs noted the emissions cap will be detrimental to future economic opportunities for Indigenous communities, entrepreneurs, and youth, and

³¹ RNNR, *Evidence*, 7 February 2022 (Colleen Collins, Vice-President, Canada West Foundation)

³² RNNR, *Evidence*, 28 February 2022 (Robert Tarvydas, Vice-President, Regulatory Strategy, TC Energy Corporation), and RNNR, *Evidence*, 7 February 2022 (Colleen Collins, Vice-President, Canada West Foundation)

³³ RNNR, *Evidence*, 7 February 2022 (Dr. Mark Jaccard, Professor, Simon Fraser University).

³⁴ RNNR, *Evidence*, 28 February 2022 (Jennifer Winter, Associate Professor, University of Calgary).

warned that an emissions cap will “stop new production just when we have gotten our foot in the door and are positioned to benefit and lead that new growth” and it’s “incredibly frustrating.”³⁵

Mark Podslay of FNMPC (the First Nations Major Projects Coalition) highlights that getting this decision wrong impacts nations with equity stakes in the oil and gas sector: “First Nations look to take equity positions in these projects because it gives us, first of all, a say in how the projects are being built, where they're being operated and where they will be routed. Also, it's for a revenue stream. Many First Nations in the country, particularly those of us who are in remote areas or places where we don't have easy access to urban facilities or urban employment options require a revenue stream to fund self-determination priorities.”³⁶ For that reason, Chief Sharleen Gale of the FNMPC emphasized how Indigenous communities have been left behind, and how they “need to be involved in any decisions, policy change and discussions moving forward.”³⁷

Top priorities for policy consideration by the federal government should be to promote economic reconciliation for Indigenous communities, and to maintain the economies of rural and remote regions in Canada. The Committee’s final report fails to capture the serious impacts of an emissions cap on these areas and makes no recommendations to the Government to rectify the negative economic consequences for rural, remote, and Indigenous communities that own, operate, or are shareholders in oil and gas projects.

In Conclusion

An emissions cap on the oil and gas sector has the potential to cap production; cause carbon leakage; jeopardize the global geo-political and socio-economic contributions of Canada’s world-leading environmental, labour, governance, Indigenous engagement, transparency, and human rights standards; infringe on provincial jurisdiction, even when those provinces have emissions caps themselves; undermine Canada’s competitiveness and ability to attract major private sector investment; and will be another blow to Canada’s oil and gas sector that provides billions in annual tax revenue to governments, hundreds of millions to local charities and social causes, and supports the economies of rural, remote, and Indigenous communities.

For these reasons, Conservatives oppose an emissions cap, and reject the conclusions of this report.

³⁵ RNNR, *Evidence*, 28 March 2022 (Dale Swampy, President, National Coalition of Chiefs).

³⁶ RNNR, *Evidence*, 16 February 2022 (Mark Podslay, Director, Economic Policy and Initiatives, First Nations Major Projects Coalition).

³⁷ RNNR, *Evidence*, 16 February 2022 (Chief Sharleen Gale, Chair of the Board of Directors, First Nations Major Projects Coalition).

New Democratic Party Minority Report on Proposed Emissions Cap for Oil/Gas Sector

In the face of the looming climate crisis, Canada must take the rising emissions seriously from the oil/gas sector. We are the one country in the G7 that has missed every climate target and the country where emissions continue to rise. Therefore, when the Prime Minister stood at COP26 on November 1, 2021 and announced that Canada would be the first country to institute an emissions cap, people took notice.

However, we've learned that the Prime Minister made this move without any preparatory work on how such an emissions cap would be implemented. Bold statements, not supported by planning, have become a pattern with this Government and are damaging Canada's credibility on the international stage and slowing down responsible climate action.

Based on the testimony heard at the Natural Resources committee, New Democrats offer the following seven recommendations:

1. International promises from the Prime Minister on climate action must be more than performative

Since the November 2021 promise at COP26, no credible steps have been taken by this Government to implement an emissions cap. The Government continues to approve considerable increases in oil production, and emissions have begun to rise again (following a dip caused by the pandemic slowdown). The lack of follow-up by the Prime Minister on this bold promise has only eroded international and domestic confidence in the Government's approach to climate action.

2. Canada must focus on meeting the targets it has already set

Canada has had nine climate plans since 1990 and has failed to hit any of its targets. According to the Federal Environment and Sustainable Development Commissioner, Canada "has become the worst performer of all G7 nations since the landmark Paris Agreement on climate change was adopted in 2015. New Democrats support the Environment Commissioner's statement that Canada needs to stop going "from failure to failure; we need action and results, not just more targets and plans."

3. Canada must address rising production if it is to be serious about emissions reductions

The Liberal Government continues to promote increases in oil and gas production while claiming it can reduce emissions by 40% within seven years. This is simply not possible. The International Energy Regulator states that production must drop by 75% if the world is to meet its 1.5-degree limit on global heating. And yet Canada's Energy Regulator forecasts an increase in oil production of 1.2 million barrels per day, which will only gradually decrease after 2032. The CER believes that Canadian oil production in 2050 will be roughly the same as today. The Government must choose whether it is serious about supporting the expansion of oil and gas or is committed to serious reductions in emissions to prevent climate catastrophe.

- 4. Canada must develop a more robust and substantive process for evaluating the Government's ability to meet the targets and objectives of international agreements before agreeing to participate**
- 5. Based on the promise made at COP26, the Prime Minister must set the emissions cap at 191 million tons or lower (based on 2019 data)**

At the time of the Prime Minister's promise in 2021, the available emissions data was for 2019, representing 191 million tonnes. This should be the baseline year above which emissions can't rise. The need for additional GHG emissions data should not be used as an excuse for delay.

6. Canada must include scope three emissions

Most fossil fuel emissions, 80-85 percent, are produced when the oil and gas are burned, mostly overseas. In fact, in 2019, the emissions from the fossil fuels exported by Canada were 954 million tonnes, considerably more significant than Canada's total domestic emissions (730 million tonnes).

Any cap on emissions must include those that occur when fossil fuels are burned, not just when they are produced. Otherwise known as Scope 3 emissions, they represent an overwhelming majority of GHG emissions in Canada. To leave them out of any regulation under a cap would be irresponsible.

We heard testimony that: "the greatest concern isn't the production emissions; it's what happens when that product successfully gets to market and is burned. Those scope three emissions account for 85% of the GHGs from fossil fuels. The GHG emissions embedded in the fossil fuels Canada exports now exceed our domestic emissions. To ignore these scope three emissions is a moral abdication".

7. The Government must make a serious commitment to a clean transition

Canada's oil and gas sector has received billions in subsidies. The Government has spent over \$21 billion on the TMX pipeline to build export capacity. To be serious about drastically reducing emissions, Canada must invest in clean energy and promote a major overhaul of Canada's energy portfolio so that clean technology receives priority.