

March 24, 2022

Members of the House of Commons Standing Committee on Natural Resources
c/o Clerk of the Committee, Hilary Jane Powell

Dear Sirs/Madames:

Re: Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector

CAPP appreciates the opportunity to submit a brief to the House of Commons Standing Committee on Natural Resources, for consideration as part of its *Study of a Greenhouse Gas Emissions Cap for the Oil and Gas Sector*.

The upstream natural gas and oil industry shares the government's commitment to reducing emissions and addressing global climate change. Providing responsible, affordable and stable energy to the globe while driving down greenhouse gas (GHG) emissions are international challenges to which CAPP members can offer solutions. Our industry is well positioned to apply expertise in both science and technology to reduce emissions. We welcome the opportunity to work with governments to achieve our common goals.

Canada's global energy role and a possible emissions cap:

Growing Canadian oil and natural gas exports is a practical way to both reduce global emissions and enhance domestic and global energy security. It is imperative that Canada take a strategic approach to supporting global energy supply by making our own energy production and transportation systems more robust and responsive to global demand. The biggest and most immediate role Canada can play in addressing global climate change is by displacing coal in the global energy mix with responsible Canadian natural gas¹ exported as liquefied natural gas (LNG). Exporting LNG from Canada to markets in Asia and Europe would reduce net global emissions by displacing coal and would enhance both Canadian and our allies' energy security and prosperity.

Canada is the only energy-producing jurisdiction in the world where major producing companies – specifically six large oil sands operators – have a goal and plan to achieve net zero emissions. Further, Canadian natural gas producers continue to develop and deploy world-

¹ Natural gas emits 50% fewer CO2 emissions per unit of energy than coal. (Source US. EIA)

leading environmental practices including powering facilities with hydro-electricity and reducing methane emissions and water use through innovative technologies.

CAPP member companies support climate policies that effectively and efficiently reduce GHG emissions while preserving their ability to maintain a vibrant oil and natural gas sector that continues to deliver environmental innovations. While we acknowledge that the specific details regarding an emissions cap are still under consideration, we know that if ensuring industry accountability for driving down emissions is not done well, it could limit Canada's ability to improve global energy security and reduce net global emissions. The government already has tools that are working to incent industrial emission reductions – new regulation or policy could disrupt these effective mechanisms and slow progress.

It is our view that establishing a policy target for emissions reductions, rather than new regulation, would ensure that current policies and regulations continue to incent innovation and reward real action on emissions reduction. To that end, CAPP recommends:

- Government of Canada establish a policy target for emissions reductions and not impose an emissions cap through regulation.
- That any new climate change policies respect past investments that were made in good faith, based on compliance with existing policies and regulation to ensure these assets are not unduly affected or stranded. This is important to Canada preserving a predictable and attractive investment environment.
- Government of Canada work with provinces to ensure any federal approach to climate policy respects provincial jurisdiction for natural resource development and preserves the ability of provinces to implement effective, locally adapted climate policies.
- Government of Canada promote the strategic role that Canadian oil and natural gas can play in global emission reductions.
- Government of Canada implement a complementary strategy for global energy trade, including regulatory measures that support infrastructure development and attract investment in major projects.

CAPP is committed to a healthy oil and natural gas industry that will continue to have a strong future in Canada and globally. This future includes providing employment for hundreds of thousands of Canadians, advancing Indigenous reconciliation, guaranteeing a secure supply of responsibly produced energy for Canadians for our allies in the US and Europe, and generating billions of dollars of revenue for the various levels of government in Canada.

CAPP's full correspondence to Ministers Guilbeault and Wilkinson on these recommendations and the global energy and climate role of Canada's oil and natural gas sector - a leading Environmental, Social and Governance (ESG) energy producer - can be found in Appendix 1. The letter outlines more completely the recommendations included above and the rationale/justification for the proposals.

CAPP appreciates the opportunity to provide this brief and to have presented to the Committee on February 9, 2022.

Regards,

A handwritten signature in blue ink, appearing to read 'Shannon Joseph', is positioned below the text 'Regards,'.

Shannon Joseph
Vice President, Government Relations and Indigenous Affairs

March 18, 2022

The Honourable Steven Guilbeault
Minister of Environment and Climate Change
200, boul. Sacré-Coeur
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(via email: steven.guilbeault5@ec.gc.ca)

The Honourable Jonathan Wilkinson
Minister of Natural Resources
580 Booth Street, 21st Floor, Room: C7-1
Ottawa, Ontario K1A 0E4
(via email: HonJonathan.Wilkinson@nrcan-rncan.gc.ca)

Dear Minister Guilbeault and Minister Wilkinson:

Re: Canada's crucial opportunity to support global energy security

We are pleased to continue to dialogue with you regarding our members' commitments to provide clean, affordable, safe and secure energy to Canadians and the world at large. We agree wholeheartedly with the Prime Minister that, "protecting the environment and growing our economy go hand-in-hand," and the upstream natural gas and oil industry shares the government's commitment to reducing emissions and addressing global climate change. **We believe that growing Canadian oil and natural gas exports is the solution to both reducing global emissions and enhancing energy security.**

In this letter, we present the current global energy context including demand growth and security issues, and offer our position on how Canada's responsibly produced oil and natural gas can play global roles in addressing both security and emissions.

It is more imperative than ever for Canada to take a strategic approach to global energy systems.

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Sadly, as we write this letter, the Russian invasion of Ukraine continues, taking a terrible toll on people and the economy. Energy is vital not only for Canada's economy but also for our security, so it follows that we must make our energy and energy transportation systems more robust.

We believe there are important lessons we can learn from energy policy choices made in other jurisdictions. The European situation highlights **the perils of a disorderly energy transformation**. Even before the Russian invasion of Ukraine, oil and natural gas prices had been rising as a result of supply shortages and a decline in drilling programs, particularly in free-market producer countries. Since autumn 2021, Europe has been paying a premium to divert U.S. liquefied natural gas (LNG) shipments from Asia in order to meet their energy needs. Europe now finds itself with few options to meet the significant energy needs of its economies and relies on Russia to supply up to 40 per cent of its natural gas, even as war rages on in Ukraine.

Peter Tertzakian of ARC Energy Research Institute¹ notes, "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 crises. Western countries have allowed the control of oil and gas markets to regress into the hands of countries that have a history of leveraging political muscle with their energy supply."

Global energy demand continues to grow as the world's population increases and standards of living improve.² We believe Canadian oil and natural gas are playing a vital role in today's global integrated energy economy, and we are leading the way with innovative solutions to tackle climate change. According to the International Energy Agency (IEA), "the supply of oil and gas remains vital to stability and security through the transition. As such, there remains an important role for stable, reliable producers such as Canada to supply reliably from their reserves while minimizing emissions."

The Canadian energy sector can and should be a key contributor to reducing global emissions while also meeting the growing demand for affordable and reliable energy.

To be clear, Canada's industry views climate change as a serious issue that will require collaboration, innovation and investment to reduce greenhouse gas (GHG) emissions while also meeting growing energy demand and the need for energy security. Our industry is well positioned to apply expertise in both science and technology to reduce

¹ Peter Tertzakian "A Disorderly Transition" <https://www.arcenergyinstitute.com/a-disorderly-energy-transition/>

² World oil demand is over 100 million barrels per day and natural gas demand is approximately 389 billion cubic feet per day and rising - <https://www.iea.org/topics/world-energy-outlook>

emissions. We welcome the opportunity to work with governments to achieve our common goals.

CAPP understands from various government communications and discussions with federal officials that the Government of Canada plans to impose a cap on GHG emissions from the oil and natural gas sector. We also understand that consultation will likely continue beyond spring of this year. We welcome the opportunity for continuing discussions, and appreciate the government's willingness to consult.

The biggest role Canada can play in addressing global climate change is by displacing coal in the global energy mix with Canadian natural gas³ exported as liquefied natural gas (LNG).

Canadian energy should play a vital role in addressing the energy crisis through its lower-emission natural gas supply. To play this role, energy trade needs to be part of Canada's climate change response, by prioritizing needed infrastructure (e.g. pipelines, LNG facilities) and regulatory and fiscal environment to deliver responsible energy to the world.

Canadian natural gas producers employ world-leading environmental technologies. These solutions include powering facilities with hydro-electricity, reducing methane emissions through technology changes, and managing water use. Canadian producers also provide significant economic opportunities for Indigenous businesses and communities across Canada – we and our Indigenous partners hope to grow these opportunities.

Exporting LNG from Canada to markets in Asia and Europe would help reduce net global emissions by displacing coal for electricity generation. It would also enhance both Canadian and our allies' energy security and prosperity.

Canada is the only energy-producing jurisdiction in the world where major producing companies – specifically six large oil sands operators – have a goal and plan to achieve net zero emissions.

According to data from the Government of Canada's 2019 National Inventory Report, Canada's oil sands per-barrel GHG emissions have fallen 34 per cent since 1990. The inventory is Canada's official report submitted to the United Nations Convention on Climate Change (UNFCCC) on GHG emissions.

³ Natural gas emits 50% fewer CO₂ emissions per unit of energy than coal. (Source US. EIA)

Technological advances coupled with energy efficiency, emerging technology, and carbon capture, utilization and storage (CCUS) have enabled the *Oil Sands Pathways to Net Zero* initiative to set a goal of working collaboratively with governments and stakeholders to meet net zero emissions from oil sands by 2050.

Reducing emissions and moving away from ‘conflict’ oil will require considerable investment in technology and innovation at scale, including negative emissions technologies such as CCUS. We have already begun and realize our efforts offer important opportunities for industry to help other large emitters remove carbon too. To our knowledge this ambitious effort and collaboration within and across industries and the government is unprecedented, and illustrates how Canada can lead the world towards a better energy future.

We should strive for comparable, effective climate policies across sectors in the same way we strive for fairness across jurisdictions.

Carbon pricing mechanisms, when implemented properly, can be an effective means to reduce emissions. CAPP member companies support climate policies that effectively and efficiently reduce GHG emissions while protecting our ability to maintain a vibrant oil and natural gas sector.

Andrew Leach,⁴ economist at the University of Alberta, noted:⁵ “In arguing for the *Greenhouse Gas Pollution Pricing Act* (GGPPA) before the Supreme Court of Canada, the Attorney General for Canada claimed that “[e]xperts around the world, including the vast majority of Canadian economists, agree that carbon pricing is one of the most cost-effective ways to reduce emissions.” ... In that context, the Crown was arguing that ensuring a comparable carbon price across provinces was important because such a policy would yield the most cost-effective emissions reductions. The same is true when we consider how policies are applied across sectors... Greenhouse gas emissions do not affect the climate (or Canada’s national inventory) differently if they come from the oil sands or from the manufacture of cement any more than they have different effects if they come from New Brunswick instead of from Alberta. Our policies should strive to treat emissions similarly as well, across provinces and across sectors.”

The output-based pricing system has been an important driver of climate innovation in our industry and others. Rewarding early climate action and supporting the emergence of a clean energy ecosystem that is now delivering emissions solutions to other sectors of the Canadian economy and to international customers. The government has tools

⁴ “Extended Brief on the Proposed Oil and Gas Cap,” <http://www.aleach.ca>

⁵ *References re Greenhouse Gas Pollution Pricing Act*, 2021 SCC 11 [GGPPA References], Factum of the Attorney General of Canada at para 48, citing FINA No 151 (7 May 2018) at 1.

that are working – new regulation or policy could disrupt these effective mechanisms and slow progress.

While we don't have specific details regarding the emissions cap under consideration, we know that if establishing industry accountability for driving down emissions is not done well, it has the potential to limit Canada's ability to offer energy security to the globe while also reducing net global emissions. As previously stated, providing responsible, stable energy to the globe while driving down GHG emissions are two of the great challenges that the globe faces and CAPP members believe that we are part of the solution to address both of these.

Oil and natural gas production in Canada is an important economic driver for the country. The industry must remain vibrant and successful in order to help fund society's social structure and support a stable, affordable Canadian energy system through the transformation to a low-carbon economy. Our leadership in emissions reductions and clean technology innovation, combined with our world-leading approach to environment, social and governance performance, will help to protect both the environment and Canadian jobs, while also ensuring our economy thrives and global energy security is strengthened.

It is our view that a policy target for emissions reductions would allow the existing and announced policies and regulations to continue supporting innovation and rewarding action on emissions reduction. Such policies would protect additionality attributes of emission reduction projects, and maintain important financial incentives – revenues from the sale of carbon offsets, CFR credits, and avoided carbon taxes. These incentives result in real emissions reductions, are validated by third parties and can help other parts of the economy manage their transition to lower emissions without significant costs or job losses.

CAPP makes the following recommendations:

- CAPP recommends that the Government of Canada establish a policy target for emissions reductions – not regulated emissions caps – in order to allow the existing policies to continue to support innovation and to reward continuing action on emissions reduction.
- CAPP recommends that climate change policies build forward and preserve economic predictability – no policy should cause investments made in good faith to retroactively become worthless or become stranded.
- CAPP recommends that the federal government work with provinces to ensure any approach to climate policy respects provincial jurisdiction for natural resource

development and the ability of provinces to implement locally adapted climate policies.

- CAPP recommends that the Government of Canada support the role that Canadian oil and natural gas can play in global emission reductions, including efforts to displace energy sourced from jurisdictions with lower environmental, social and governance (ESG) performance than Canada. Low emission Canadian oil and natural gas can reduce GHG emissions in high emitting countries, including China and India.
- CAPP recommends that the federal government implement a strategy for energy trade, including through regulatory measures that support infrastructure development and attract investment in major projects. This will enable the needed reduction of coal and high-emitting oil sources on a global scale, which in turn will reduce global emissions.

Canada’s upstream natural gas and oil industry supports innovative, collaborative solutions that lower emissions while meeting the world’s growing need for secure, reliable and responsible energy.

Our industry is committed to working with all levels of government in a productive and collaborative way to achieve significant emissions reductions. CAPP is also committed to a healthy oil and natural gas industry that will continue to have a strong future in Canada and globally. This future includes providing employment for hundreds of thousands of Canadians, advancing Indigenous reconciliation, guaranteeing a secure supply of energy for Canadians for our allies in the US and Europe, and generating billions of dollars of revenue for the various levels of government in Canada.

With the right fiscal and regulatory frameworks in place, Canada can, and should, realize our energy opportunity, curbing the emissions growth of major emitter countries while achieving our own nationally determined targets.

The world should be getting its energy from Canada – an affordable, reliable, responsibly produced, and politically stable source that’s also focused on emissions reduction. We are part of the solution for addressing global emissions and global energy supply. Canada can and should “own the podium on energy,” supported by our values, resources and resourcefulness.

We look forward to working with you to ensure Canada’s energy industry and its local, provincial and federal governments are able to work together to make certain we all play key roles in improving global energy security and reducing emissions.

As I believe you are aware, I am relatively new in my position at CAPP. This letter, written with the support of our members, is being provided in the spirit of constructive dialogue and collaboration. We appreciate and share your commitment to consultation. I would welcome the opportunity to meet in person at your convenience to discuss how we can work constructively to ensure a bright future for Canadian energy and the environment.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'C. Bryksa', with a stylized flourish at the end.

Craig Bryksa
Chair, Board of Governors
Canadian Association of Petroleum Producers