A Strong Emissions Cap for the Oil and Gas Sector

Climate Action Alliance
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Executive Summary

The federal government's emission cap regulations will make or break Canada's chance at securing our climate goals. The largest emitting sector in Canada is oil and gas, and while other sectors have reduced their emissions, the oil and gas sector's emissions have increased. To curb the oil and gas sector's emissions, an emissions cap for this sector must:

1. **Reduce emissions 45% below 2005 levels by 2030**
2. **Offer no timeline flexibility**
3. **Close loopholes**

Research demonstrates an emissions cap for the oil and gas sector with these three qualities is feasible, economically viable, and supported by a supermajority of Canadians.

The Emissions Cap Regulations

In 2021, Canada updated its Nationally Determined Contribution under the Paris Agreement to a 40-45% reduction from 2005 levels by 2030, and adopted the Canadian Net-Zero Emissions Accountability Act.[1] Right now, the federal government is drafting emission cap regulations that will set emission reduction targets for every sector of the Canadian economy. However, under these regulations, potential concessions to the oil and gas sector could undermine our Paris Agreement commitment. Emission cap regulations that are reasonable and fair for the oil and gas sector are essential for ensuring we meet these climate commitments in 2030 and beyond.

Supported by Canadians

Canadians overwhelmingly support this generational opportunity to address climate change via an emissions cap on oil and gas. Polling by Abacus Data from September 2022 showed that 7 in 10 Canadians want Canada's oil and gas industry to do its fair share of the climate effort, both compared to other Canadian sectors and on a global level.[2] This supermajority of Canadian support for an emissions cap is once again demonstrated by a more recent Abacus Data poll, which reveals that 2 in 3 Canadians believe the oil and gas industry should be required to limit emissions so that Canada can meet its climate goals.[3] This support is shared by 72% of Liberal and 77% of Bloc Québecois supporters, with support being the highest in Quebec and Atlantic Canada. Canadians are ready for leadership on climate action in the form of an emission cap for the oil and gas sector.

Feasibility and Economic Impacts

The ability of the oil and gas sector to generate real reductions according to a fixed 2030 timeline is as doable as it is important. In fact, even a reduction of 45% below 2005 levels by 2030 is demonstrably possible via viable, short- and medium-term solutions such as addressing methane leakage, electrification, energy efficiency and others.[4] Short-term low-cost action via methane reduction would eliminate 33 Mt annually, nearly a third of total emission reductions the oil and gas sector would have to make to reduce emissions 45% by 2030 from 2005 levels.

Assessing the economic impact of reductions in emissions is key to ensuring Canada's economic health. Presently, the oil and gas sector represents 5% of Canada's economy. Economic modelling forecasts that even with a nation-wide reduction of 60% below 2005 levels by 2030, Canada's GDP would still grow on average 1.8% per year, only 0.4% less on average per year than a business-as-usual scenario.[5]

1 RNNR (2023)
2 Abacus Data (2022)
3 Abacus Data (2023)
4 Pembina (2022)
5 Environmental Defence (2021)

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Why Does the Oil and Gas Sector Need an Emissions Cap?

Left to its own devices, the oil and gas sector has failed to reduce emissions. According to Canada's 2030 Emissions Reduction Plan, between 2005 and 2019 oil and gas emissions rose 19%.[6] During that same time, all other sectors cumulatively decreased their emissions by nearly 7%. Even at its most profitable, oil and gas has not invested in critical decarbonization efforts. In 2022, Canada's five biggest oil and gas companies made $38.3 billion in combined profits – more than double their 2021 profits. Yet, in that same year the Pathways Alliance (an industry group representing 95% Canada's oil sands production) made no significant funding or investment decisions to support emission reductions in their sector.[7] A regulatory mechanism like the emissions cap is essential to curb the oil and gas sector's emissions. The emissions cap's design will dictate the extent to which these regulations succeed in curbing emissions for this sector.

Essential Features of Emissions Cap Regulations for the Oil and Gas Sector

45% reduction below 2005 levels by 2030

A fair, doable, and economically prudent emission reduction goal aligned with what scientists agree is required to combat climate change is necessary for Canada's emissions cap regulations. In the Emission Reduction Plan, a goal of 40-45% has been outlined for the overall Canadian economy. Emission reductions of 40-45% below 2005 levels by 2030 within the oil and gas sector is practically and economically feasible. It's only fair that oil and gas pull its weight in reducing emissions, especially considering its historical contribution to emissions.

No Timeline Flexibility

Requiring the oil and gas sector to make reductions within the 2030 time frame is not only necessary, it's realistic with existing technologies. We urge our government to ensure there is no timeline flexibility in the emission cap regulations. The Net-Zero Advisory Body recognizes that "the most likely net-zero pathways prioritise early and deep reductions." [8]

No Loopholes

These regulations must ensure that consequences for noncompliance are strong enough to deter strategic non-compliance by oil and gas. There are three major loopholes that, if unaddressed, would weaken the emission cap. Therefore, these regulations must ensure:

- **Any nature-based offsets must be made in compliance with a regulated offset market, with permitted use of offsets or similar mechanisms capped at a maximum amount.**
- **The cap must be comprehensive in scope, applying to all oil and gas facilities in Canada, regardless of whether they are subject to other emissions reductions requirements.** For example, LNG transmission lines need to be included.
- **No additional Carbon Capture investments.** By 2030, Canada's CCS Investment Tax Credit is estimated to provide double the subsidy amount offered via the Inflation Reduction Act.[9] There are proven, cost effective alternatives that should be prioritised, such as methane reductions. For example, methane reductions can be implemented for $17 per tonne vs up to $200/tonne for CCUS reductions.

Conclusion

The oil and gas industry's emissions have been rising for decades even as other sectors have managed to cut their emissions. At the same time, they're raking in record profits. They can't be trusted to ratchet down emissions on good faith alone. An emissions cap with an enforceable 2030 timeline, no loopholes, and a doable emission reduction target of 45% below 2005 levels by 2030 are all essential for a meaningful emissions cap. Canadians are ready for the federal government to ensure the oil and gas sector does its fair share for securing Canada's climate legacy.

6 Canada's 2030 Emissions Reduction Plan (2022)
7 Pembina (2023)
8 NZAB (2021)
9 IISD (2023)