Pathways Alliance

Summary of Pathways Alliance's Submission on the proposed Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap

Submission Date: February 5, 2024

On December 7, 2023, Environment and Climate Change Canada (ECCC) published the proposed *Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap* (the "Emissions Cap"). The Pathways Alliance's (Pathways') feedback on the proposed Emissions Cap provided in response to the Government of Canada engagement, which concluded on February 5, 2024, can be summarized as follows:

Pathways previously provided comments in September 2022 with respect to the Discussion Paper entitled *Options to cap and cut oil and gas sector greenhouse gas emissions to achieve 2030 goals and net-zero by 2050.* While there have been some proposed changes between the March 2022 Emissions Reduction Plan, the Discussion Paper and the proposed Emissions Cap, Pathways submits that a cap-and-trade regime administered through CEPA remains untenable. Pathways feedback on the proposed Emissions Cap can be summarized as follows:

> An Emissions Cap specific to the oil and gas sector as outlined in the *Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap* is unnecessary and unworkable.

The Pathways Alliance launched in 2021 under existing climate policy and has an ambitious plan to achieve net-zero GHG emissions (scopes 1 and 2)[1] from oil sands operations by 2050. The Pathways net-zero plan was developed in the absence of the proposed Emissions Cap. Economy-wide carbon pricing is widely recognized as the most efficient means to drive GHG emission reduction, while also incenting innovation through well established, economy-wide programs designed to protect the competitiveness of emission-intensive-trade-exposed (EITE) sectors. Existing climate policy mechanisms are already incenting the right behaviours and, when combined with a competitive fiscal environment, can support a net-zero by 2050 trajectory.

Not only is the Emissions Cap unnecessary, but imposition of a new cap-and-trade system for a single sector applied in addition to the existing Output-Based Pricing System is unworkable. The application of duplicative carbon pricing regimes will likely de-stabilize provincial carbon pricing programs for large emitters and create uncertainty related to future stringency (e.g., post-2030), carbon prices, and credit markets thereby risking investment in planned decarbonization activities.

[1] All references in this submission to GHG emission reduction by the Pathways members refer explicitly to scopes 1 and 2 emissions only, from oil sands operations, and do not include scope 3 emissions.

The proposed Emissions Cap will likely have the unintended effect of making oil and gas operators involuntarily choose to shut-in Canadian production rather than decarbonize it for global and domestic markets.

The Government of Canada has clearly stated the intent of the Emissions Cap is to reduce production-related emissions from the oil and gas industry *without* adversely affecting Canada's oil production. Under the Emissions Cap, oil and gas emitters have a choice in how to achieve compliance – operators can fund decarbonization projects allowing them to maintain and/or grow production to meet global demand, or shut-in production to reduce GHG emissions. This approach disadvantages Canadian production compared to other major-producing jurisdictions, creating risks that will likely result in production curtailment, specifically by:

- establishing an emission reduction trajectory that does not reflect current production levels, nor leave sufficient room for growth to meet demand[2] or grow market share;
- mandating timelines that will be challenging to meet because required fiscal support structures, policy certainties and regulatory approval timelines to enable decarbonization projects are not in place;
- increasing compliance costs, which decreases the Canadian oil and gas sector competitiveness and the availability of funding for investment in decarbonization projects;
- introducing critical uncertainties that make business planning and investment unfeasible; and
- providing insufficient compliance pathway alternatives.

Furthermore, it is concerning that Pathways' planned reductions based on technically achievable emissions reductions from oil sands operations have been improperly translated by the Government of Canada to a regulated emission reduction from a baseline year.

The proposed Emissions Cap will both deter investors from the Canadian oil and gas sector and tie-up the operators' capital in compliance payments, leaving insufficient funding for decarbonization and steering operators toward production shut-in to avoid risking non-compliance.

The proposed Emissions Cap does not align with fundamental principles for effective climate policy.

Adjustments to Canadian production, as will likely be required to achieve compliance with the Emissions Cap, will simply shift production and GHG emissions to other jurisdictions (i.e., advantaging crude produced in nations with less robust ESG performance) and will not improve GHG emissions globally. For example, the first phase of Pathways members' net-zero plan is to reduce approximately 22 million tonnes (MT) of GHG emissions per year by the start of the next decade, leveraging a range of decarbonization projects. These projects require fiscal supports, policy certainty and regulatory assurance to be sanctioned; the Emissions Cap detracts from efforts to provide the aforesaid and risks creating serious impacts to oil sands production and therefore the associated jobs, economic benefits and energy security for Canadians. This is counter to the Government of Canada's intended outcomes

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[2] CER – Estimated Production of Canadian Crude Oil and Equivalent (cer-rec.gc.ca)

of supporting clean growth and innovation by making Canada a leader in the development and deployment of 'breakthrough' clean technologies.[3]

To ensure intended outcomes – to reduce GHG emissions by attracting and accelerating investment in decarbonization projects while strengthening economic prosperity and energy security – are achieved Pathways submits that effective Canadian climate policy must align with the following fundamental principles:

- Competitiveness of EITE sectors must be protected to ensure continued prosperity of Canadian industries and avoid carbon leakage[4].
- Industrial emissions must be treated equitably and requirements across industries and emission sources should be aligned.
- Requirements should avoid duplication and distortion of other climate policies.
- Collaboration, innovation, and technology development must be enabled to support the build-out of infrastructure at scale as required to broadly decarbonize industrial sectors.
- Technologically and economically feasible targets executable within the expected timeframe to enable intended outcomes (i.e., advancement of decarbonization activities) are required to avoid unintended consequences, e.g., Canadian production curtailment.
- International signposts and global market events must be monitored to inform and update policy, relying on current and robust data sources.
- Adequate opportunities to achieve compliance must be enabled through technology deployment and appropriate, flexible compliance mechanisms.

In conclusion, Pathways maintains that the Emissions Cap is unnecessary and remains concerned that it will undermine existing climate policy. An overly ambitious cap on oil and gas emissions, coupled with the uncertainty created by the Emissions Cap, will deter investment in decarbonization in the oil sands sector and risk oil sands production shutting in. In order to attract and accelerate investment in decarbonization projects, the necessary fiscal, policy and regulatory support structures need to be enabled, which the proposed Emissions Cap does not address. Pathways encourages ECCC and the Government of Canada to refocus efforts on enacting necessary legislation, advancing fiscal programs, and developing regulatory approval processes that enable and incent decarbonization investments. The proposed Emissions Cap will hinder oil sands operators from completing critical decarbonization initiatives that are underway and necessary to achieve the shared goal of net-zero by 2050.

Pathways is committed to, and strongly recommends, continued collaboration between the Government of Canada, the Government of Alberta and the oil sands industry to align on solutions to ensure that shared emissions reductions outcomes are delivered and that the sector remains resilient and prosperous in a low carbon future.

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[3] Clean technology, innovation and jobs - Canada.ca

[4] Carbon Leakage is "*the effect of carbon costs that cause companies or investors to move production to jurisdictions with lower costs. The result is that emissions are not reduced; they are just emitted in a different location.*" (Exploring Border Carbon Adjustments for Canada – Canada.ca)