

A robust and ambitious

Cap on Emissions from the oil and gas industry

MEDIA

BACKGROUND

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environmental
defence



Context

The Government of Canada is currently developing a new policy that could drastically reduce emissions and allow Canada to meet its domestic and international climate targets: a decreasing cap on greenhouse gas emissions (GHG) from the oil and gas sector. The federal government has [committed](#) to “cap oil and gas emissions today, and ensure they decrease tomorrow at a pace and scale needed to reach net-zero by 2050,” with five year binding targets as milestones along the way.

The oil and gas sector is Canada’s largest source of emissions: reducing these emissions is critical for Canada to make real progress on its climate commitments. However, until now, the oil and gas sector’s continuous expansion has been a blindspot for Canada: there have been no limits to how much climate pollution the sector can create. Previous climate plans have all failed to meaningfully address the sector’s growing emissions.

The Prime Minister’s credibility on climate change depends both on if this policy is ambitious and robust, and on whether the government is able to implement this policy within the next year.

There will be pressure on the government from industry to delay the policy and adopt a bare minimum approach. If the government caves to this pressure and sets the cap too low, then we will miss a critical opportunity to rein in industry emissions and reach our targets.

Emissions from the Oil and Gas Sector

The oil and gas sector is responsible for 26% of Canada’s emissions, more than any other sector. While other sectors reduced emissions—most notably electricity, heavy industry, and light manufacturing—greenhouse gas emissions from the oil and gas sector [have risen 87% since 1990](#). While most G7 countries have decreased their emissions since the Paris Agreement on climate change was signed in 2015, [Canada was the only G7 country where emissions have significantly increased](#). In large part, that’s due to increased emissions from oil and gas production.

Benefits of capping emissions from Canada’s oil and gas sector

- It is evident that provincial policies regulating oil and gas sector emissions are not up to the task, because the sector’s emissions have continued to rise. This policy could be the new tool that is necessary to tackle Canada’s largest growing source of emissions.
- Capping oil and gas emissions is necessary for Canada to reach its domestic and international climate targets, and reduce the worst impacts of the climate crisis. According to the U.N., to limit warming to 1.5 degrees, global emissions [have to drop 7.6% every year this decade](#). Canada will not reach its share of that target without addressing oil and gas emissions.

- Energy markets are shifting rapidly. The IEA predicts that on the pathway to achieving net-zero emissions by 2050, global oil demand will drop to 24 million barrels per day in 2050, down from 98 million barrels per day in 2019. As [high-emission, high-cost oil](#), the Canadian oil sector is [particularly vulnerable to drops in oil demand](#). An emissions cap is an opportunity to steer our economy towards a more competitive direction in a global context that is fast evolving.
- A well-designed cap with a prescribed trajectory to achieve zero emissions by 2050 would provide predictability to industry, workers, and communities. This in turn will drive innovation and private investments, and will lower the risk of stranded assets and dead end approaches.
- The oil and gas sector is experiencing record revenues because of rising oil and gas prices and cost-cutting measures achieved through automation, consolidation and workforce streamlining. Given these high revenues, the sector is well-placed to invest in additional emissions reductions now.
- Without a robust target for reducing oil and gas emissions, a greater burden for emission reductions would shift to other sectors of the economy and onto individuals.

Process by which Canada could implement a hard cap on emissions

The most straightforward way to place a hard and absolute cap on oil and gas industry emissions would be through passing regulations under the *Canadian Environmental Protection Act* (CEPA). CEPA was used to [put a cap on ozone-depleting hydrochlorofluorocarbons \(HCFCs\)](#) to fight the hole in the ozone layer in 2016. A hard cap can be brought into force, along with subsequent (e.g., five year) declining caps.

Because CEPA already exists as a law, regulations under the Act can be passed by the federal Cabinet. The Cabinet can therefore implement a cap on oil and gas emissions by publishing draft regulations (in Canada Gazette I), inviting stakeholders to provide written comment, and then finalizing the regulations based on feedback received (published in Canada Gazette II).

The government has committed to releasing draft regulations before the end of 2022 and having final regulations in place in 2023. Furthermore, the 2025 and 2030 targets should be announced before the end of the year in order to send immediate and clear signals to the industry. However, the oil and gas industry will push to delay that timeline.

As of June 2022, Environment and Climate Change Canada has yet to put out a much anticipated discussion paper for public consultation ahead of drafting regulations. This is expected to be released by mid-summer 2022.

Setting the right cap level to reduce emissions immediately on a 1.5 pathway

The Government of Canada's current domestic targets - a decrease of emissions by 40-45% from 2005 levels by 2030 - is not aligned with the Paris Agreement's commitment to maintain temperature rise to 1.5°C. Canada's whole-of-economy "[fair share" climate target](#) is a 60 per cent emissions reduction by 2030 compared to 2005 levels. In the interest of fairness and accountability, the 2030 cap on oil and gas emissions must be in line with a 60 per cent reduction from 2005 levels, putting the emissions cap at 64 million tonnes in 2030. A strong 2025 cap is also needed to ensure reductions start immediately.

Though this cap is ambitious, it is both necessary for the climate and possible. Oil and gas companies can meet the reduction target by:

- Reducing methane emissions: According to [Canada's GHG inventory](#), nearly 30 per cent of GHG emissions from oil and gas facilities are in the form of methane (and scientific research shows that's a [significant underestimate](#)). Reducing those 50 million tonnes is very cheap—[88 per cent methane reductions are possible right now at less than \\$25/tonne](#). A dozen large oil companies have even [pledged to reach "near zero"](#) methane emissions by 2030. The Government of Canada has existing regulations in place to decrease methane emissions by 2025, and is currently developing 2030 regulation.
- Not developing any new oil or gas projects. [According to the International Energy Agency](#), there can be no new fossil fuel projects on the pathway to 1.5 degrees. If this guidance is heeded, natural decline from existing projects would lead to a [drop of just over 30%](#) in Canadian oil and gas output from 2020 to 2030.
- Reducing emissions from the production of oil and gas, for example through electrification, switching to green hydrogen and operational efficiencies.
- If oil and gas companies aren't able to meet the target through the above measures, then companies will have to curtail production to stay within cap levels. Production cuts are likely necessary in order to ensure a safe future. In fact, a [recent report](#) has found that wealthy, economically diversified countries like Canada need to phase out their extraction of oil and gas by 2034 for the world to maintain a 50% chance of limiting warming to 1.5°C.

As noted before, the Government of Canada will be under pressure from industry proponents to put forward a weak cap. In March 2022, the government released its [Emissions Reductions Plan](#) (ERP). Though the plan did not include a binding target for the emissions cap, it did include a projected contribution from the oil and gas sector, which serves as an indication of what the government is considering for the emissions cap.

The ERP projected that the oil and gas sector should reduce emissions 31% below 2005 levels by 2030 (which would allow the sector to produce 110 million tonnes of greenhouse gas pollution in 2030). Not only is this far from the fair-share 60% reduction target, it doesn't even ensure that the oil and gas shoulders a burden equal to Canada's current climate targets, which are a 40-45% reduction by 2030.

Principles of a "hard" or absolute cap on emissions

There are many ways to design an emissions cap and getting it right matters since it will determine if oil and gas companies are finally forced to take responsibility for their impact on the climate.

- A hard cap on absolute levels of emissions, not just on emissions per barrel. A strong 2025 target is critical to favor early and ambitious emissions reductions. Front-loading climate action, paired with long-term planning over several years, is the most cost-effective way to reach a given temperature target. Failure to reduce emissions early could make later emissions targets impossible to achieve.
- Include all emissions from the production of oil and gas. The vast majority of fossil fuel emissions - 80-85 per cent - are produced when the oil and gas is burned, mostly overseas. In fact, in 2019 the emissions from the fossil fuels exported by Canada were 954 million tonnes, considerably greater than Canada's entire domestic emissions (730

million tonnes). Though the policy mechanism for these 'downstream' emissions won't be the same as the hard cap on direct emissions, other policy approaches should be considered, for example the federal government could impose limits on oil and gas exports.

- Avoid loopholes and relief valves that let companies off the hook. Oil and gas companies will be lobbying for both "flexibility" and weak rules including allowing offsets and using intensity-based targets instead of absolute reductions. Oil and gas companies should only be permitted to trade emissions reductions (a cap and trade model) within the sector if robust rules are in place.
- Include strong enforcement measures. Penalties or fines should be significant amounts that serve as a strong deterrent rather than allow companies to internalize these as a small cost of doing business. Compliance mechanisms that are not financial should also be considered, such as mandated production cuts or use of the criminal powers allowed under CEPA.
- Integrate equity into policy development. Taking care of people and their communities should be the first priority of the federal government when considering unintended consequences of climate action. The policy must uphold the inherent title and rights of Indigenous peoples and other rights affirmed in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), including securing Indigenous Peoples' free, prior, and informed consent for energy development on their territory.

The federal government must also develop and implement a strategy to ensure a fair, managed, and supported transition for workers and communities dependent on the oil and gas industry. [Research shows](#) that phasing out oil and gas while taking care of those affected is entirely manageable for Canada, and successful transitions away from fossil fuels have been undertaken in other jurisdictions. The emissions cap policy will have impacts on workers and communities that need to be fully integrated into broader just transition strategies.

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