



Canada Needs a Cap on Oil and Gas Sector Greenhouse Gas Emissions

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BY THE CANADIAN CLIMATE INSTITUTE AND NET-ZERO ADVISORY BODY

If Canada wants to achieve its 2030 target for greenhouse gas emissions, the federal government must follow through on its proposed cap on oil and gas emissions. But the details matter, and getting the design right is critical.

Emissions in the oil and gas sector are out of sync with a net zero pathway. Unlike most other heavy industry sectors like steel and cement, its emissions are still rising—a trend that we can no longer afford if we want to avoid the worst impacts of climate change. Between 2005 and 2019, [emissions from oil and gas rose by almost 20 per cent.](#) Without a cap and mandated reductions in place, current policies are not stringent enough to drive the emissions reductions necessary for Canada to meet its climate goals, and contribute our share of the solution to the global problem of a heating planet.

At the same time, investment planning in this sector in today's global context is particularly tricky. In the short-term, Europe faces an energy shortage while they step up efforts to [reduce reliance on fossil fuels, conserve energy, and build more renewable power projects.](#) But in the medium and long-term, declining global demand for oil and gas risks increasing the total costs of Canada's net zero transition. Investments in carbon-intensive projects risk “locking-in” emissions, and every dollar spent on infrastructure that is incompatible with pathways to net-zero will cost taxpayers more in the long run. As the [Net-Zero Advisory Body explains](#), “dead-end” solutions, like new high-carbon oil and gas projects that will continue to operate for decades, will make it more expensive for Canada to achieve its emissions target or put it out of reach altogether. More emissions in oil and gas will force other sectors to contribute more reductions. The oil and gas sector also has the power to leverage its own expertise, resources,

and workforce to implement decarbonization solutions and diversify its operations. We all know that inaction costs more than action and that they have the wealth to contribute to the societal imperative to reach net-zero.

A cap gets to the heart of these unique challenges. It provides greater certainty about an emissions pathway for the oil and gas sector, creating clear expectations for the sector and a credible mechanism to make sure that new investments and new projects in the sector are compatible with net zero pathways.

Nevertheless, how the cap is designed matters.

First, the cap should deliver real, absolute emissions reductions in the sector, not simply improvements in the emissions intensity of fossil fuel products. This means compliance flexibility mechanisms, like offsets, that [reduce the certainty of achieving permanent emissions reductions](#) should be very limited and available only in the short term. As the [NZAB outlines](#), a net-zero pathway for the oil and gas sector should be consistent with an economy-wide pathway to net-zero, and cannot depend on reducing emissions from other sectors.

Second, a cap should not distract from the imperative to reduce methane emissions. Methane emissions are [severely undercounted](#) and methane itself has a [heat-trapping potential more than 80 times greater over a 20-year span](#) than carbon dioxide. Increasing the stringency of methane regulations would drive emissions reductions more quickly in the oil and gas sector than a cap on CO₂ alone. Slashing methane also represent some of the [lowest cost emissions reductions available](#). Increasing the stringency of methane regulations would also relieve pressure on the cap; bringing the carbon price in the sector in closer alignment with the rest of the economy which lowers the cost to achieve Canada's climate goals. With the [recently passed Inflation Reduction Act](#) in the United States our southern neighbour is reducing emissions in key sectors, including methane emissions, to ensure they will be competitive in a net zero world.

Third, policy design should seek to minimize costs for firms, protecting competitiveness and avoiding "leakage" of emissions to jurisdictions with weaker climate policies. The government has already indicated it will use market-based instruments that will minimize the costs of achieving the sector's emissions pathway. Moreover, [the Canadian Climate Institute's response](#) to the government's discussion paper on the cap provides additional options such as avoiding layering multiple policies and compliance mechanisms.

A net-zero pathway for Canada's oil and gas sector is key for Canada's climate goals. A cap on the sector's emissions can deliver that pathway. If designed well, a cap can also [support transformation](#) in the sector that will position it well not only to contribute to our emissions reductions here at home, but to compete in a net-zero world.

There's no time to waste.

