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Written submission for the Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap

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February 5th, 2024

Throughout its 54-year history, the Conservation Council of New Brunswick has strived to increase awareness of environmental issues and advocate for solutions by conducting research, educating the public, and implementing interventions. We at the Conservation Council are committed to promoting solutions that are socially, environmentally, and economically responsible.

As part of our Climate Solutions Program, we aim to identify strategies to achieve net-zero emissions in the electricity and energy sectors, hence our participation in the Regulatory Framework for Oil and Gas Greenhouse Gas Emissions Caps submission process.

We applaud the release of the oil and gas emissions cap framework during COP28 as a positive step towards Canada's climate goals. However, we express concerns about certain aspects of the proposed design:

1. **Regulatory Timeline:** We are deeply concerned about the proposed regulations' implementation in 2026. Given the rising emissions in the oil and gas sector, delays in enforcement hinder efforts to achieve necessary greenhouse gas (GHG) reductions and effectively combat climate change.
2. **2030 Target:** The proposed 2030 emissions cap falls short of international standards, notably the International Energy Agency's (IEA) recommendation of a 60 per cent reduction. Aligning the target with Canada's Nationally Determined Contribution (NDC) and implementing an interim target is crucial for sectoral responsibility.
3. **Loopholes:** The inclusion of loopholes allowing offsets, the decarbonization fund, and reliance on Internationally Transferred Mitigation Outcomes (ITMOs) is troubling. We advocate for the removal of such loopholes, ensuring direct emissions reductions from the oil and gas sector.

To enhance the effectiveness of the emissions cap, we recommend:

1. **Earlier Implementation:** The emissions cap should come into effect by 2025 at the latest, with draft regulations available by April 1, 2024, considering the urgency of climate action.
2. **Strengthened Target:** Align the emissions reduction target with Canada's NDC of 40-45 per cent from 2005 levels by 2030, ensuring fairness across economic sectors.
3. **Interim Target:** Include an interim target to incentivize early and ambitious emissions reductions in the oil and gas sector.
4. **Loophole Removal:** Eliminate loopholes that allow GHG reductions and the proposed decarbonization fund to be avoided, ensuring direct emissions cuts from operations.
5. **Auctioning Allowances:** Auction emission allowances instead of allocating them freely to generate revenue for climate-affected communities and promote swift, cost-effective reductions.
6. **Strong Compliance Mechanisms:** Enforce robust compliance mechanisms with significant penalties, deterring companies from treating penalties as a cost of doing business.
7. **Equitable Burden Sharing:** Distribute the decarbonization burden equitably across sectors, avoiding an unjust shift to other industries, workers, or consumers.
8. **Indigenous Rights:** Ensure alignment with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), respecting Indigenous rights and securing free, prior, and informed consent.

By incorporating these recommendations, the emissions cap can play a pivotal role in reducing GHG emissions and effectively advancing Canada's climate objectives.

Below are the Conservation Council’s responses to the posed questions.

1. **How should allowances be allocated? What should be taken into account? How should changes in production and new projects be considered?**

Emission allowances should be auctioned to companies at a set minimum price. The funds raised should support communities affected by climate change and the energy transition. This aligns with Canada's Polluters Pay Principle and encourages companies to choose cost-effective greenhouse gas (GHG) reduction methods. Public acceptance would likely increase as communities witness policy benefits. The oil and gas industry, being financially robust, can bear the emission reduction costs. Allowances could be auctioned by subsector to ensure fairness, benefiting both smaller and larger companies. If there's an initial free allocation period, prioritize low-emission producers, penalizing GHG-intensive ones.

There is also an urgent need for the federal government to shift to auctioning, following successful models in the European Union, Quebec, and California. Using these models, new entrants must buy allowances from existing producers to prevent sector growth incentives and potential cap breaches. Avoiding allowance reserves is crucial to maintaining emission cap effectiveness.

2. **What process should be established to review the emissions cap trajectory for the post-2030 period?**

Canada must set its emissions cap in line with the Paris Agreement's goal of limiting global warming to 1.5 C. Canadian policy should match the IEA's net-zero scenario, which predicts a 75 per cent decrease in global oil and gas usage by 2050. Additionally, it's important for the federal government to take into account the analysis provided by the Canada Energy Regulator, as its guidance is increasingly in line with a 1.5 C pathway. With global demand for oil and gas expected to decline this decade, the government should set targets cautiously to avoid overexpansion in a shrinking market.

Considering the government will establish its 2035 emissions reduction target by year-end, the emissions cap must also ensure oil and gas companies contribute proportionately, preventing unfair burden shifts. The government should also set post-2030 targets every three years to align with compliance periods, ensuring companies track toward net-zero by 2050.

3. **If, when and to what extent some compliance flexibilities should be phased down or phased out.**

Oil and gas companies must not fulfill their allowances through payments to the decarbonization fund. The emissions cap aims to achieve actual reductions in oil and gas emissions in order to achieve climate goals, not speculative investments in costly and unproven technologies like Carbon Capture and Storage (CCS). Relying on the decarbonization fund is a risky gamble.

Similarly, companies should be barred from using offsets for compliance. The cap should mandate GHG cuts within their operations instead of allowing credits for external reductions. Offset systems often struggle to ensure real, additional, and permanent emissions reductions. ITMOs shouldn't be considered due to unclear international rules and complex negotiations.

Allowing companies to bank credits for two compliance periods also risks delaying decarbonization efforts. The current three-year compliance period already offers flexibility, and additional banking is unnecessary and jeopardizes urgent emissions reductions from the oil and gas sector.

We support the framework's limitation on trading within the oil and gas sector. Expanding trading to other sectors weakens the cap, enabling companies to avoid reductions by crediting emissions cuts elsewhere.

4. **How should the proposed approach to indirect GHG emissions be implemented?**

Ensure comprehensive inclusion of all Scope 1 and Scope 2 emissions without exemptions. The cap must cover emissions from oil and gas extraction, production, and refining, encompassing primary production, enhanced oil recovery, co-generation activities, and new upgrading—addressing all sector-related emission sources.

5. **What measurement protocols or quantification methods most accurately estimate methane emissions at the facility level?**

To enhance methane emission measurement, the federal government should adopt a comprehensive approach. This involves utilizing aerial monitoring, such as airplanes, helicopters, or drones, alongside on-site monitoring that provides near-continuous tracking of methane emissions at the facility level. Current estimation methods for methane emissions are insufficient for generating precise figures, and relying solely on self-reporting from the oil and gas sector has already resulted in substantial underreporting.

6. **What administrative approaches can be used to define and regulate facilities with GHG emissions below 10 kt CO_2e per year?**

Establish a dedicated regulatory body for smaller facilities (under 10-kilotonnes CO2 equivalent per year), responsible for one-third of total GHG emissions from the oil and gas industry. This body should efficiently allocate allowances, consider each facility's emissions and prioritize those with less emissions-intensive outputs to minimize administrative burdens.

7. **How should the proceeds from the decarbonization funding program be distributed? How should contributions be used to support decarbonization of the oil and gas sector?**

Oil and gas companies must not use payments to the decarbonization fund to meet their allowances. If the fund is adopted, contributions should support communities affected by climate change and the energy transition, such as retraining workers for sustainable jobs. This approach, which is opposed to returning proceeds to the industry, enhances public support by showcasing policy benefits. With substantial profits and net-zero commitments, the oil and gas sector is financially equipped for its decarbonization.

The proposed $50 per tonne CO2 contribution rate is insufficient. Calculated based on a $170 per tonne carbon price in 2030, it falls short. Companies benefit from generous carbon pricing, paying less than the actual cost of emissions. The contribution rate should align with the federal goverment's's social cost of carbon at $294 per tonne in 2030, encouraging companies to achieve genuine emissions reductions.

8. **What are the advantages and disadvantages of a federal offsets fund? How should a federal offsets fund operate?**

The federal government should refrain from creating an offset fund. Including offsets in the emissions cap allows the oil and gas sector to sidestep direct reductions in its own operations. This undermines the goal of achieving genuine emissions reductions, as companies can opt for an easier path by purchasing offsets elsewhere.

9. **What role should Internationally Transferred Mitigation Outcomes (ITMOs) play in compliance flexibility?**

ITMOs should be avoided. Including ITMOs is another loophole for the oil and gas industry. It poses a risk of undermining the credibility and strictness of the emissions cap. As there are currently no established international rules for ITMOs, their inclusion creates uncertainty and may weaken efforts to combat climate change.