December 4, 2024

Honourable Steven Guilbeault
Minister of Environment and Climate Change
229 Wellington Street
Ottawa, ON K1A 0A6

By email: ECO-DEC@ec.gc.ca

Re: Proposed Federal Government Regulatory Framework for an Oil and Gas Emissions "Cap"

Dear Minister:

The Independent Contractors and Businesses Association (ICBA) is Canada's largest construction industry association, with more than 4,500 members and clients. We represent the bulk of construction contractors and the men and women they employ in British Columbia and have a rapidly growing presence in Alberta. ICBA is one of the largest sponsors of trades apprentices in Canada. More than 300,000 people are on a health and dental plan supported by ICBA.

We write today to express our strong opposition to the federal government's proposed regulatory framework and emissions cap for the oil and gas sector – by far Canada's largest export industry, responsible for 20-25% of annual merchandise exports (depending on the year). Our view is that an emissions cap is neither necessary nor warranted in the context of the Canadian government's evolving climate plan. The cap threatens to undermine and shrink one of Canada's most productive industries – an industry that generates enormous economic benefits for every region of the country and that serves as a vital source of investment, business activity, and high-paying jobs throughout the wider energy supply chain.

On November 4, 2024, the federal government released draft regulations to implement a cap on greenhouse gas emissions in the Canadian oil and gas sector. The government's stated goal is to reduce greenhouse gas emissions from the upstream oil and gas industry by 35% from 2019 levels by 2030-32. This will be done using a "cap and trade" system applying to firms that are subject to the proposed regulatory system. The cap applies across the upstream oil and gas sector, encompassing onshore and offshore production, oil sands production and bitumen upgrading, natural gas extraction and processing, and the production of LNG. Oil and gas facilities covered by the cap will receive emissions allowances that decline over time as the cap "tightens" in line with the target to reduce emissions. New annual reporting requirements start in 2027.

The proposed oil and gas emissions cap comes on top of more than 70 other climate-related policies adopted by the federal government over the past several years. The cost and complexity of the government's evolving suite of climate-related policies continue to increase, raising questions about how the entire collection of policies will affect the economic viability and future commercial success of Canadian energy producers, energy-intensive manufacturers, other natural resource industries, and the transportation and construction sectors.

ICBA has identified several problems with the planned oil and gas emissions cap and related regulatory framework.

First, GHG emissions have exactly the same impact on the climate regardless of the source; there's no compelling reason to target a single sector, and the government has failed to make a persuasive case otherwise.

Second, as a group of prominent Canadian economists committed to strong climate action wrote back in 2023, climate policies targeting specific industries (or regions) are likely to reduce emissions at a much higher overall cost per tonne of avoided emissions. Smart public policy should aim to reduce emissions at the lowest possible economy-wide cost; an oil and gas emissions cap is flatly inconsistent with this principle.

Third, forcing down oil and gas emissions within a brief time span (5-7 years) is sure to exact a heavy economic price, at a time when Canada is projected to experience a long period of very weak growth in inflation-adjusted incomes and GDP per person, according to the OECD and other forecasting agencies. An aggressive made-in-Canada oil and gas emissions cap will stack an extra regulatory cost on top of the existing carbon price charged to oil and gas producers and other industries and numerous other federal and provincial regulatory measures (e.g., clean fuel standards). It also promises to foster complicated interactions with provincial regulatory and carbon-pricing regimes that also cover the oil and gas sector.

The Conference Board of Canada think-tank, the consulting firm Deloitte, and other expert groups have estimated the aggregate cost of the federal government's emissions cap. All these projections reasonably assume that Canadian oil and gas firms will scale back production to help meet the cap. Such production cuts will translate into many tens of billions of dollars of lost economic output, fewer high-paying jobs across the energy supply chain and in the broader economy, and a substantial drop in government revenues.

Fourth, the federal cap may well be unconstitutional. The Supreme Court of Canada struck down the federal *Impact Assessment Act* because it found key parts of the Act intruded unlawfully into areas of provincial jurisdiction. The federal oil and gas emissions cap faces similar constitutional obstacles. The cap effectively will act as a quantitative limit on oil and gas production. Yet under the Constitution it is the provinces – not Ottawa – who are the owners of the resource and have wide scope to manage and regulate energy and other natural resource activity occurring within their borders. The Government of Alberta has announced that it will mount a legal challenge to the federal cap. In the meantime, oil and gas companies are likely to defer taking steps to comply with the cap given significant uncertainty around its longevity and legality. In the interim, some producers may choose to reduce production rather than take other, more costly actions to comply with the mandated emissions reductions.

Finally, it should be noted that groups ranging from the U.S. government's Energy Information Administration to Goldman Sachs, Rystad Energy, Shell, and the McKinsey Global Institute, all forecast that global demand for energy, including oil and natural gas, will continue to grow in the coming decade or more. The outlook to 2050 is particularly positive for natural gas (including LNG), as worldwide energy use shifts from more carbon-intensive fuels to less carbon-intensive sources (natural gas and renewables). Canada and B.C. have an opportunity to support and benefit from this energy transition, by moving with purpose to build a global-scale LNG industry. The Canadian government's oil and gas emissions cap will work against that objective and threatens to undermine an industry that's poised to become British Columbia's number one source of export earnings.

In short, the federal government's proposed cap on GHG emissions from the oil and gas industry lacks any solid scientific, economic or policy rationale. Proceeding with the cap will add yet more costs and complexity to Canada's increasingly complicated, financially burdensome, and ever-growing suite of climate policies. We agree with the conclusion reached by the C.D. Howe Institute: "The cap on oil and gas emissions ought to be dropped. It is redundant, inefficient, expensive, and hurts productivity."

Sincerely,

Chris Gardner
President and CEO, ICBA

Mike Martens
President, ICBA Alberta

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