

# Optimize existing policies to achieve Canada's climate goals

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*This is Clean Prosperity's submission in response to the federal government's "[Regulatory Framework for an Oil and Gas Sector Greenhouse Gas Emissions Cap](#)".*

*Clean Prosperity is an independent, non-partisan Canadian climate policy organization that develops and advocates for practical climate policy solutions to reduce Canada's emissions and grow the economy.*

## Introduction

The federal government has committed to cap and cut emissions from the oil and gas sector. Following feedback and engagement on its [discussion paper](#) outlining two possible policy options, the federal government has proposed moving forward with a new cap-and-trade system for the sector. They have released a [regulatory framework](#) outlining key details of the proposed approach for comment. This proposed approach creates uncertainty for firms, invites potential legal challenges, and risks disrupting the functioning of Canada's industrial carbon pricing systems. It is the wrong approach, and there is a better option.

In this submission, we reiterate our position that: **strengthening and optimizing existing carbon-pricing policies is the most effective way to achieve the government's objective of reducing emissions from the oil and gas sector and reaching net-zero by 2050.** In doing so, we can achieve greater emissions reduction economy-wide and at a lower cost.

Clean Prosperity advocates for policies that reduce emissions across the entire Canadian economy, rather than targeting particular sectors. Implementing a cap-and-trade system solely for Canada's oil and gas industry risks slowing down progress on emissions reduction by introducing uncertainty and even more regulatory complexity than already exists. Instead, we offer three recommendations for the government's consideration.

## Recommendations

We recommend three important measures that will optimize and strengthen the federal government's existing carbon-pricing policies. Together, these measures can accelerate emissions reductions both in the oil and gas sector and across the Canadian economy.

### **1. Dynamically adjust the minimum stringency criteria of the federal benchmark for industrial carbon pricing systems in Canada**

Stringency should be adjusted to maintain an emissions reduction trajectory — both in the oil and gas sector, and across Canadian industry — consistent with the federal government's 2030 Emissions Reduction Plan (ERP).

An insufficiently stringent industrial carbon-pricing system will discourage significant investments in decarbonization and limit our ability to achieve the 2030 goals and net-zero by 2050. Alberta's TIER system, for example, [risks an oversupply of cheap carbon credits](#) that will undermine the carbon price signal, discouraging further emission reductions.

The federal government should work with the provinces to determine the optimal schedule for stringency adjustment in order to achieve the ERP targets, based on sound energy-economy modelling.

System stringency in any year could be adjusted based on an adaptive approach that considers current market conditions and prior-year emissions reductions. This approach is described in [Clean Prosperity's report on the Alberta TIER system](#).

### **2. Guarantee the price of carbon credits using mechanisms like carbon contracts for difference**

Instead of pursuing a new policy that creates uncertainty for firms, invites potential legal challenges, and risks disrupting the functioning of Canada's industrial carbon pricing systems, the federal government should focus on accelerating the delivery of investment supports they have already committed to and implemented — such as carbon contracts for difference (CCfDs).

CCfDs act as a backstop or form of insurance, guaranteeing the price of carbon credits that trade within provincial industrial carbon pricing systems. CCfDs give companies certainty that they can generate dependable revenues from selling credits and incentivize them to make big investments in decarbonization, both in the oil and gas sector and across the economy.

The Canada Growth Fund has \$7 billion set aside for bespoke CCfD deals and signed its first agreement with a Calgary-based carbon capture company in December 2023. While this was a positive step, a broad-based program that offers CCfDs to low-carbon project proponents across the economy would attract even more investment and unlock greater decarbonization.

Quickly deploying mechanisms to increase carbon-pricing certainty, like CCfDs, will do more to accelerate final investment decisions in big decarbonization projects than a cap-and-trade system, which, among a myriad of other issues, could be vulnerable to legal challenges that might lead businesses to take a “wait and see” approach.

### **3. Protect the competitiveness of emissions-intensive, trade-exposed (EITE) industries — including the oil and gas sector**

If carbon pricing is to remain “[the cornerstone of Canada’s approach to climate action](#),” then we urgently need to reckon with its potential impacts on the competitiveness of Canadian industry and address the risk of carbon leakage.

Should Canada’s carbon price and the stringency of industrial carbon-pricing systems increase at a rate that is consistent with the emissions-reduction goals in the 2030 ERP, EITE industries will increasingly be competing on an uneven playing field against firms from jurisdictions with less ambitious climate policies — or more generous subsidies. The passage of the US Inflation Reduction Act, containing hundreds of billions of dollars in decarbonization incentives, creates an even greater imperative to address Canadian industrial competitiveness.

One mechanism that can effectively address this problem is a border carbon adjustment — tariffs on the carbon content of imports, as well as the possibility of rebates on carbon charges for Canadian exporters.

## **Advantages of optimizing existing policies**

### **A. It's faster and more efficient to optimize the policies we already have than to introduce new ones.**

We have less than six years to achieve the ambitious emissions reductions laid out in the 2030 ERP. After years of shifting federal and provincial climate policies, industry and investors urgently need clarity and certainty in order to make the big investments in decarbonization required to achieve our 2030 targets.

We don't have time to develop and implement new systems to help achieve the 2030 targets — especially considering that both of the federal government's proposed options could face years of legal challenges. It also doesn't make sense to implement new systems when the existing ones are fit for purpose.

### **B. Increasing the stringency of our existing carbon-pricing systems can reduce emissions from oil and gas — and across the economy.**

The 2030 ERP is clear: we need to reduce emissions from all sectors of Canadian industry to achieve our climate targets — not just from the oil and gas sector. This is the purpose and the power of an economy-wide carbon price: to reduce all our emissions in the most efficient and cost-effective manner possible. We should continue to treat industrial decarbonization holistically, as the industrial carbon-pricing system was designed to do, and optimize the entire system to best achieve the ERP targets.

### **C. Optimizing our existing tools would minimize disruptions for provincial industrial carbon-pricing systems.**

Provinces have already designed industrial carbon-pricing systems according to the unique characteristics of their economies, industries, and emissions-reduction strategies. Rather than upending these systems with an entirely new set of federal policies targeted at the oil and gas sector, we should seek to minimize the disruption to provincial systems.

Further, there is already a provision in the federal pricing benchmark effectively requiring that demand for credits exceed supply within industrial carbon pricing systems. This existing provision can be the basis for adjustments to system stringency.

#### **D. Working with the existing system avoids the risk of negative policy interactions.**

Adding new systems risks disrupting the dynamics of existing climate policies and hindering progress toward Canada's climate targets. For example, a cap-and-trade system for the oil and gas sector jeopardizes the efficient operation and decarbonization incentives of carbon-credit markets.

Added complexity also makes investment more challenging. The oil and gas sector is subject to multiple, overlapping policies, including industrial carbon pricing, clean fuel regulations, federal and provincial tax credit programs, as well as the planned cap-and-trade system. Given the uncertainty within many of these policy structures, the unclear interactions between them, and questions about policy durability, the added complexity of a cap-and-trade system will only slow progress on large capital investments in decarbonization.

## **Conclusion**

In conclusion, we would like to underscore the importance of optimizing existing carbon-pricing systems to meet Canada's emissions reduction goals. As the federal government explores mechanisms to reduce emissions from the oil and gas sector, Clean Prosperity continues to advocate for maximizing the potential of existing tools rather than introducing new and complex systems such as a sector-specific cap and trade.

In our submission, we highlighted three recommendations that will optimize and strengthen existing carbon-pricing systems:

1. Dynamically adjusting the minimum stringency criteria of the federal benchmark for industrial carbon pricing systems will deliver emissions cuts without layering on new and duplicative systems.
2. Guaranteeing the future value of carbon credits through carbon contracts for difference will provide certainty for firms and unleash large investments in decarbonization projects.
3. Implementing border carbon adjustments will address the risk of carbon leakages and ensure a level playing field for Canada's EITE industries.