Must-haves for an effective oil and gas emission cap

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A stringent federal cap on oil and gas emissions means Canada's greenhouse gas emissions could actually start going down and we could meet our international and domestic climate targets, something every federal government has failed to achieve. As the world switches to clean energy, capping emissions is also an opportunity to steer our economy in a more competitive direction and to position Canada as a leader and innovator of this global transformation. This climate policy could well be the defining moment for the Prime Minister's legacy on climate change. But, to be a strong and credible policy that sufficiently reduces emissions from the oil and gas sector, the cap must include:

1. **A 1.5°C-aligned trajectory.** All G7 countries have managed to drive down their emissions since 2015, except Canada. As a wealthy and high-emitting country, Canada has the capacity and responsibility to reduce its emissions while undertaking a just transition. The cap must reflect the rapidly shrinking global carbon budget and Canada's fair share of the effort. Analysis by Climate Action Network Canada shows that in order for Canada to do its fair share of the global effort to limit warming to 1.5°C, emissions must be reduced by at least 60% below 2005 levels by 2030. That trajectory should apply to the oil and gas sector as well – if the industry doesn't shoulder its fair share of Canadian emissions reductions, other sectors, workers and consumers will have to pick up the slack.

2. **No loopholes.** The policy must ensure the oil and gas sector actually reduces its emissions. It should not allow companies to avoid their obligations by purchasing offsets, which means paying other sectors or countries to reduce emissions rather than cutting emissions directly, and would mean a free pass for the oil industry.

   Neither should the policy allow for so-called "compliance flexibility," which means giving companies more wiggle room in the early years, when the need to drive down emissions is most urgent.

3. **Be comprehensive in scope**. All oil and gas activities and facilities in Canada, including pipelines, refineries and liquefied natural gas (LNG) export facilities, should be covered by the cap.

4. **No delays.** Regulations should be adopted and in place in 2023. Companies must receive advance notice of the obligations they must meet so they can make the necessary investments in decarbonization to meet Canada's 2030 targets, and be in line

with 2050 objectives.

5. **Uphold Indigenous rights and authority.** The design and implementation of the oil and gas emission cap and related policy must uphold the inherent authority, title and rights of Indigenous peoples and other rights affirmed in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). This includes securing free, prior, and informed consent from each impacted Indigenous People for any and all new energy projects, regardless of the degree to which a project is already complete.

6. **No free lunches.** Cap-and-trade schemes frequently hand out free emissions allowances to covered companies. In the past, this has resulted in a very low price of allowances. Even where there is no over-allocation, free allocation means the companies, and the purchasers of their goods, do not face a full carbon price, and the incentives to decarbonize are too low. A Canadian cap-and-trade scheme for oil and gas should not offer free allocation, but rather should auction off all emission allowances, with a price floor.

7. **Put people before profit**. Equity and environmental justice considerations must be integrated into policy design. Proceeds from the auction of emission credits under cap and trade should be redistributed to communities already affected by the impacts of fossil fuel production, and communities impacted by the transition off of fossil fuels. This redistribution would allow the benefits of this policy to be spread out and would increase buy-in.

In addition to these design elements for the oil and gas emissions cap, the following components are crucial to making sure the supporting regulatory environment effectively cuts pollution and ensures the Canadian economy, communities, and workers continue to prosper:

- Pursue options to **address downstream emissions** through other mechanisms, for example through regulations targeting oil and gas exports, and by following up on the commitment to adopt a federal zero-emissions vehicle mandate.
- As per Canada's G20 commitment, **eliminate fossil fuel subsidies** so that the polluter-pays principle is respected. Oil and gas companies should not receive funding in order to comply with this policy.
- **Strong and sufficient Just Transition mechanisms** will be essential to ensure that no workers and communities are left behind through the impacts of this policy.