

Jennifer Winter Testimony to House of Commons Standing Committee on Natural Resources on the
Greenhouse Gas Emissions Cap for the Oil and Gas Sector

FEBRUARY 28, 2022

Good afternoon. Thank you for inviting me to appear before the Committee on this very important issue. It is a privilege to speak to you today.

I am an economist and my research expertise is energy and environmental policy. I focus on climate change policy and in particular emissions-reduction policies and their effects on households and emissions-intensive and trade-exposed industries. I draw on this expertise in speaking to you today.

Canada faces a challenge in reducing emissions and simultaneously protecting the quality of life and economic growth that we enjoy. I strongly support implementing increasingly stringent policies to meet Canada's commitments under the Paris Agreement.

At the same time, adaptation to and mitigation of climate change is a complex problem, and the various policy solutions should be weighed very carefully. My comments today reflect both my support for emissions reductions and my desire to see thoughtful climate policy design that maximizes benefits and minimizes costs to Canadians.

From a global perspective, as well as for Canada's Paris commitments, the source of emissions does not matter: a tonne is a tonne is a tonne, regardless of whether the emissions come from Nova Scotia or Alberta, from home heating or oil and gas production. And yet, as numerous witnesses to this committee have noted, the oil and gas sector is a significant contributor to Canada's emissions. The sector's emissions must decline in order for Canada to meet its 2030 and 2050 emissions-reduction targets. This is the case for all parts of the Canadian economy, including households.

The important question facing this Committee and the government is whether a cap on oil and gas emissions is necessary to achieve the desired emissions reductions. Specifically, what policy problem does the cap solve? I respectfully submit that the government already has the necessary policy tools at its disposal, and that a cap on oil and gas emissions would unnecessarily damage the Canadian economy. My concern is four-fold.

First, a sector-specific emissions cap overlaps with existing policy. Emissions pricing — whether the federal backstop or provincial or territorial systems — creates incentives for emissions reductions in both the demand and supply sides of the economy. On the demand side, the emissions price increases the cost of fossil-fuel-

based energy sources like gasoline and emissions-intensive goods and services. The emissions price lowers demand for these products by incenting changes in consumption patterns. On the supply side, emissions pricing increases the costs of production, incenting changes in production processes to avoid the price.

Moreover, the proposed Clean Fuel Standard creates a market for emissions reduction credits, further incentivizing emissions reductions across the Canadian economy. This market ensures firms receive a return for investments in emissions-reductions, beyond avoiding paying the emissions price.

Given these two policies are already in place, a cap on oil and gas emissions adds little to Canada's toolkit, and is potentially more costly than beneficial, which leads me to my next concern.

Differential treatment of a specific sector reallocates capital and labour throughout the economy, moving these production inputs away from their most productive use. This artificially expands some sectors and shrinks others, and lowers Canada's productivity.

Third, and relatedly, differential emissions prices — either implicit or explicit — in different sectors means some firms engage in more costly emissions reductions than would otherwise be the case. This results in more costly emissions reductions overall, increasing the cost of meeting Canada's targets.

Fourth, an emissions cap for the oil and gas sector adds complexity in an already complex climate space. Canada already has differential prices via different provincial, territorial and federal systems, and adding an additional regulatory cap exacerbates this complexity. A cap on emissions would be administratively costly for the government and adds to the compliance burden for firms, increasing their costs. It needlessly complicates the Canadian climate policy landscape. Moreover, it moves us away from a consistent approach to emissions pricing across Canada.

Given these concerns, a direct approach is a more appropriate, easier and less costly way to reduce oil and gas emissions. This could include reducing output, increasing the stringency of the emissions price, or reducing the output subsidy that emissions-intensive and trade-exposed sectors receive.

To conclude, I have three main points. First, there is nothing special about oil and gas emissions: a tonne is a tonne is a tonne, and prices should apply uniformly to all sectors. Policy that ensures consistency in emissions pricing across the economy is vastly preferable to special treatment of one sector. Second, Canada already has the necessary policy tools in place to reduce emissions from all sectors of the economy.

The question is whether the existing emissions price is sufficiently stringent to meet these targets and sends a long-term signal to firms to invest in large-scale and expensive emissions-reductions. Third, using existing policy mechanisms avoids complexity and unnecessary and higher costs for the same emissions reductions.

Thank you for your time, and I look forward to answering your questions.