



SUBMISSION: NET-ZERO ADVISORY BODY

PERSPECTIVE ON ‘INITIAL OBSERVATIONS’

REPORT FOR NET-ZERO PATHWAYS

INTRODUCTION

The Canadian Association of Energy Contractors (CAOEC) represents Canadian energy service companies operating close to the wellhead who employ tens of thousands of energy workers in the oil and gas industry and emerging sectors such as hydrogen, helium, geothermal, and carbon capture, utilization and storage (CCUS). With over 300 member organizations, including land drilling, directional drilling, service rig, and offshore drilling companies, CAOEC appreciates the opportunity to provide a submission to the Net-Zero Advisory Body (NZAB) and provide our perspective on the Initial Observations report for Net-Zero Pathways in Canada.

The NZAB has indicated it is currently preparing advice for the Government of Canada to support a 2030 emissions reduction plan including principles that will help set targets for the oil and gas sector. Canada’s Energy Contractors recognize that governments and industry leaders from across the country, and around the world, have issued a challenge: net-zero. It is CAOEC’s belief that through partnership and collaboration with the Canadian oil and gas industry, meeting the net-zero goal is well within our grasp.

The International Energy Agency (IEA) continues to project growing demand for oil and natural gas in the coming decades. Canada is home to the world’s third largest oil reserves and 18th largest reserves of natural gas. With a record of over \$3.5 billion invested since 2018 in technologies to reduce greenhouse gas emissions (GHGs), Canada’s energy industry continues to be the largest investor in low-carbon innovations, clean technologies, and environmental protection in the country. Our industry is committed to lowering emissions and producing the cleanest forms of energy in the world so that our resource communities and the Canadians who work in them can continue to prosper throughout an energy transition.

By producing cleaner oil and gas, developing alternate energy sources such as hydrogen and geothermal, and perfecting CCUS techniques, Canada’s valuable oil and gas resources, and Canada’s energy services sector can help Canada achieve net-zero. At the same time, Canada’s energy sector can play a major role producing needed net-zero energy for global markets that can help to reduce global emissions and displace higher emitting sources of energy. The Canadian energy industry has the tools, technology, and knowhow to help Canada meet emissions targets, and can play a meaningful role in satisfying global demand for low-carbon energy if there are continued opportunities and appropriate policies put in place to support the success of the industry, its workers, and resource communities as we drive towards net-zero targets.

CAOEC has three overarching positions to share with the NZAB as follows:

1. Emissions reductions to reach net-zero do not require cuts to oil and natural gas production

Industry supports the Government of Canada’s goal to significantly reduce the GHG emissions profile of our oil and gas sector, but strongly asserts that the drive for net-zero should not effectively become a cap on oil and natural gas production in Canada. Canada’s energy sector is a willing partner in helping Canada achieve net-zero emissions. We believe this transition is a technical challenge but also a great economic opportunity. The production of cleaner oil and gas, development of alternative energy sources such as hydrogen and geothermal, and support for CCUS can form a viable pathway

to net-zero, and is one that supports Canadian workers, resource communities, and our economy through the energy transition.

2. Canadians depend upon reliable, affordable sources of energy that the oil and gas sector supplies

Access to reliable, affordable, and secure sources of energy is essential to Canadian families and our economy. Without prudent and realistic planning, our actions to reach net-zero by 2050 may produce unintended consequences that could ultimately undermine Canada’s climate commitments. The ongoing and escalating energy crisis in Europe demonstrates the need for energy affordability, reliability, and security as we tackle emissions reductions. The production of Canadian oil and gas also employs hundreds of thousands of Canadians. Within the context of continued global demand for oil and gas resources, Canada’s net-zero commitments should not result in unnecessary job loss, drastic increases to energy bills, or displaced economic activity to jurisdictions who do not share our commitment to climate action. Canadian economic prosperity and energy security must be considered as we move forward, as failure to do so could result in decreased support for climate action from Canadians. CAOEC believes the net-zero transition will need to be planned thoughtfully and take time; but through partnership, government and industry can ensure Canadian oil and gas resources succeed in a net-zero energy environment.

3. The NZAB should increase collaboration with industry

In support of the overarching positions described above, the CAOEC would recommend that the NZAB collaborate more closely with industry as it prepares advice for Canada’s 2030 emissions reduction plan. Canada’s energy industry has a decades’ long and well documented track record of lowering and capturing carbon emissions, and this work will accelerate as we move through an energy transition. The NZAB may benefit from accessing more industry expertise as it reviews technology pathways and policy design to achieve declining emissions targets for the oil and gas sector. Collaboration will be critical to ensure that Canada’s net-zero targets support innovation, jobs, and continued economic prosperity for Canadians.

It is within this context that the CAOEC provides the following submission on the Initial Observations report for Net-Zero Pathways including the NZAB’s proposed foundational values and design principles for achieving net-zero emissions in Canada by 2050.

FOUNDATIONAL VALUES FOR PATHWAYS TO NET-ZERO

The Initial Observations report’s foundational values are created to support further engagement on the most likely pathways for Canada to achieve net-zero emissions by 2050. CAOEC is pleased to provide the following perspectives on the values identified by the NZAB:

1. Seize the Upsides

The NZAB report notes under this foundational value that there “are major economic, environmental, health, and social benefits that are directly linked with climate action” and that “the most likely pathways are those that have the broadest benefits – for individuals, families, workers, businesses, and society as a whole.” The report further lists Indigenous partnerships, improvements to

environmental, social, and governance factors, and the role of private sector investments in climate solutions as upsides to net-zero climate action.

CAOEC is largely supportive of this value in principle. We support reconciliation and the participation of Indigenous peoples in resource development and clean technology innovation. We support high environmental, social, and governance standards. And we support net-zero pathways that provide broad benefits to Canadian workers and businesses.

CAOEC asserts that the net-zero pathway that has the broadest benefits for Canadian society is the one that leverages the innovation and expertise of Canada’s oil and gas industry, supports energy resource workers, and recognizes that Canada’s energy sector can play a role producing needed net-zero energy for global markets that can help to reduce global emissions.

2. Put people first

The NZAB report notes under this value that putting people first means supporting a “just and fair transition.” Canada’s energy sector is a willing partner in helping Canada achieve net-zero emissions. Given the Canadian energy industry’s willingness and proven record of lowering emissions, and the strong global demand for responsibly developed oil and gas, it is difficult to understand in what context transitioning to net-zero emissions must leave any workers or resource communities behind.

Canadians from coast to coast to coast are employed by the energy sector to the tune of 282,000 direct and 550,500 indirect jobs (NRCAN, 2019). Canadian workers employed in the energy sector earn significantly more in wages than the average across all other industries including Indigenous peoples and newcomer Canadians. Careers in the energy industry, in particular, have a large role in leveling the playing field with respect to diversity and access to high-value, life-building careers for individuals who may not have academic credentials or the ability to pay for post-secondary education and defer income.

CAOEC believes that a just and fair transition that puts people first is one that embraces net-zero energy development and the export of our low-carbon energy, thereby ensuring Canadian energy workers have a bright future as we innovate and participate in one of the greatest energy transformations in over 150 years.

3. Motivate and empower Canadians

The NZAB report notes the “most likely pathways enable Canadians to envision and strive towards a future that is desirable in itself, for reasons beyond GHG emissions reductions and removals” and “result(s) in real outcomes that improve the lives of Canadians.”

CAOEC would suggest that the NZAB acknowledge reliable, affordable, and secure sources of energy are essential to Canadian families and our economy within the context of “motivating and empowering” Canadians. It is vitally important that the NZAB recognize that in an era of increasing polarization, getting the net-zero policy wrong could result in decreased support for climate action from Canadians, especially if pathways pursued result in unnecessary job losses, drastic increases to energy bills, or displaced economic activity to climate-laggard jurisdictions.

Canadians support a transition to a low-carbon economy, but we risk losing Canadians’ support to act if net-zero policies place undue burdens on families and livelihoods.

4. Collaborate every step of the way

The NZAB report notes the “most likely pathways are grounded in real-world experience and built collaboratively.” CAOEC agrees and would suggest the NZAB collaborate more closely with industry as it prepares advice for Canada’s 2030 emissions reduction plan.

Canada’s oil and gas industry is a partner in helping the Government of Canada reach our national climate targets and international obligations. The sector has a proven track record of innovation that has resulted in demonstrable environmental improvements and emissions reductions. Ongoing and deeper collaboration would benefit from supportive policy that clearly outlines the role of Canadian oil and natural gas in reaching our net-zero targets through to 2050. Policy measures should be supported based on their ability to motivate and reward early action and investments in innovation by industry. This means market-based, rather than regulatory approaches. Canada must also pursue a stable, predictable policy environment as this is critical to attracting the private investment needed for continued progress on reducing emissions.

5. Recognize and respect regional differences and circumstances

The NZAB report recognizes “there will be pathways that are common for all of Canada at the national-level, but there will also be different pathways for different regions and economic sectors.” CAOEC is pleased to read acknowledgement of this reality.

Regionally-driven and locally-delivered policies will require robust sectoral and regional strategies that preserve employment, attract investment, and promote low-carbon energy exports from Canada to the world. Our industry is committed to lowering emissions and producing the cleanest forms of energy in the world so our resource-producing communities and the Canadians who work in them can continue to prosper throughout an energy transition.

DESIGN PRINCIPLES FOR PATHWAYS TO NET-ZERO

The Initial Observations report’s design principles were created to guide the policy pathways for Canada to achieve net-zero emissions by 2050. CAOEC is pleased to provide the following perspectives on the design principles suggested by the NZAB:

1. Act early and urgently

The NZAB report notes that the “most likely pathways are the ones that start now, use a carbon budget as a basic tool, and increase ambition to keep the 2050 goal within reach.” CAOEC agrees that urgency is required to meet 2050 targets, but would assert impacts on Canadian families, jobs, and our economy must be considered as the NZAB moves through this process.

The wrong policies, such as effective production cuts to Canadian energy, can result in unintended consequences that are harmful to Canadians and our climate ambitions. The ongoing and escalating energy crisis in Europe demonstrates the need for energy affordability, reliability, and security as we tackle emissions reductions.

Furthermore, if Canada restricts the production of its oil and gas resources within the context of ongoing global demand, this demand will be satisfied by other jurisdictions with laxer climate policies. This will not only weaken Canada's ability to impact global emissions but could result in increased global emissions, and a softening of support for robust climate policies from Canadians.

Canada's oil and gas industry is already acting early and urgently. The Oil Sands Pathways to Net-Zero Alliance is one such example and has a detailed framework for reaching net-zero by 2050. It is vitally important for the NZAB and the Government of Canada to collaborate with industry and governments in producing provinces to ensure we get net-zero policies right and capitalize on the unique potential of our energy resources and environmental innovation.

2. Be bold and proactive

The NZAB report notes that the "most likely net-zero pathways are strategic and ambitious" and "require decisive government leadership and clear signals to support investment by the private sector." CAOEC agrees that the NZAB should look to support a strategic and detailed plan in collaboration with key sectors like the oil and gas industry.

To be successful, Canada must reconcile ambitious goals with effective implementation. Greater emphasis on how to reach the government's targets while protecting energy reliability, affordability, and economic prosperity is required.

3. Acknowledge there is more certainty than uncertainty

The NZAB report notes that the "most likely net-zero pathways prioritize available, at scale solutions." CAOEC would generally agree and assert there are a number of proven technologies and incentives in our industry to achieve net-zero without jeopardizing Canadian jobs, investment, or resource and tax revenues.

It is also important to acknowledge the certainty that there will continue to be a need and a demand for oil and natural gas as we approach 2050 and beyond. Non-emitting sources of power including renewables and nuclear will play an increasingly important role in developed countries, but in other parts of the world, demand for oil and increasingly natural gas will persist. Canada should recognize and leverage its economic and environmental advantages to supply the energy that the world needs (LNG, for example) while helping to reduce emissions via displacement of higher-emitting forms of energy, such as coal.

4. Don't get caught in the "net"

The NZAB report notes that "the 'net' in 'net-zero' cannot become an excuse to allow continued emitting, growth of emissions, or slow action." On principle, CAOEC would agree but reiterate the drive for net-zero should not effectively become a cap on oil and natural gas production in Canada.

It is incredibly important that the Government of Canada recognize the role its energy sector can play in not only reaching net-zero at home, but the opportunities to assist other countries in displacing higher-emitting forms of energy. Canada can be a global leader in the production of net-zero oil and gas and develop alternate energy sources such as hydrogen and geothermal in partnership with the energy sector. Through collaboration, Canada's valuable oil and gas resources, and Canada's energy

services sector can help Canada achieve net-zero. At the same time, Canada's energy sector can play a major role producing needed net-zero energy for global markets.

5. Beware of dead-ends

The NZAB report notes that "most likely net-zero pathways avoid locking-in systems and technologies that will become emissions liabilities before 2050."

CAOEC finds this design principle unclear. We would re-assert our contention that policy measures should be market-based not regulatory, and that pathways that are supported be based on their ability to motivate and reward early action and investments in innovation by industry. Furthermore, CAOEC would assert it would be a mistake to characterize some emission reduction opportunities as dead-ends or long-term liabilities. Canada's net-zero policy approach should focus on reducing emissions in a manner that protects energy reliability, affordability, and economic prosperity.

CONCLUSION

CAOEC believes the need for cleaner, modern energy solutions in a world of growing demand is an economic opportunity for the country. Canada has a demonstrated track record of successfully lowering emissions and can position itself as a global leader in the production of net-zero energy which can ensure continued prosperity for Canada's natural resource workers and communities.

The world's demand for energy is growing, and the global marketplace has set a mandate for not only low carbon, renewable, and clean alternatives, but for responsible and ethical processes throughout the production life cycle. Higher environmental, social, and governance performance expectations from both the market and government means Canada's energy services sector, and the entire upstream oil and gas industry, can develop a unique competitive advantage moving forward. By producing cleaner oil and gas, developing alternate energy sources such as hydrogen and geothermal, and perfecting CCUS techniques, Canada's valuable oil and gas resources, and the Canadians employed in the sector, can prosper through a net-zero transition.

We appreciate the opportunity to provide a submission to the NZAB and reiterate our overarching positions that emissions reductions to reach net-zero do not require cuts to oil and natural gas production; that Canadians depend upon reliable, affordable and secure sources of energy that the oil and gas sector supplies; and that the NZAB should increase collaboration with our industry.

We look forward to further engagement with the NZAB.

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