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## Risky climate policy

Why governments do the energy sector no favours with a status quo approach

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BY AMIN ASADOLLAHI

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**T**here should be no confusion about where Canada stands with respect to its efforts to curb greenhouse gas emissions and meet its international climate targets.

Earlier this year, Prime Minister Stephen Harper claimed that, “No country is going to take actions that are going to deliberately destroy jobs and growth in their country. We are just a little more frank about that, but that is the approach that every country is seeking.”

This statement ignores the evidence that Canada can do its fair share to tackle climate change without damaging the economy—economic modelling conducted on behalf of the Pembina Institute has found that Canada could meet a stringent, science-based emissions reduction target while continuing to see economic growth, particularly in Alberta.

Yet in Alberta, where companies and the province stand to gain the most by demonstrating climate leadership, the story is no different. PC leadership candidate Jim

Prentice, for instance, made a point of identifying himself as both a conservationist and a conservative. It’s a position that resonates with many Albertans, including presumably the 76 per cent who want to see the province support responsible resource development by requiring tougher constraints on industrial emissions. However, when asked about the prospect of strengthening existing rules, Prentice took a different stance, stating, “I do not believe that we should unilaterally impose costs and charges on the Canadian side of the border that will make us uncompetitive.”

The belief that industry cannot afford to take responsibility for its emissions seems widely held among politicians—even though the sector is profitable and well-established, and greenhouse gas emissions resulting from oilsands development are Canada’s fastest-growing source of carbon pollution.

The future of the oilsands industry depends in part on the sector’s ability to convince

**The entire oilsands sector is paying the price through market access barriers, regulatory uncertainty and reputational damage.**

customers and critics it is serious about being a responsible corporate citizen and reducing carbon pollution. Given what’s at stake—pipeline proposals, social licence and the long-term viability of a fossil fuel industry in an increasingly carbon-constrained world—it’s worth exploring what’s gone wrong with Alberta’s approach to managing emissions to date, and how the oilsands industry could chart a more competitive course.

## Is Alberta deliberately flunking the climate test?

In a scathing report released this summer, the Alberta Auditor General found that Alberta's climate strategy is failing in a variety of areas, including lax monitoring and reporting and lacking an adequate and credible plan to meet the province's own climate targets.

Yet Alberta deserved credit in 2007 when it led the pack by introducing Canada's first legislation to regulate emissions from large industrial facilities.

The Specified Gas Emitters Regulation (SGER) required large emitters to reduce their emission intensity (emissions per unit of production) by 12 per cent, relative to their typical performance. In the case of the oilsands, the government's intent was to improve the sector's per-barrel emissions performance, with a focus on driving down the emissions intensity of each barrel of oil produced rather than reducing overall emissions.

Unfortunately, the sector's emissions intensity has failed to improve since the regulation was enacted; as a consequence, Alberta has little to show for its efforts. Judged against Alberta's commitment to reduce emissions 50 megatonnes per year below the business-as-usual scenario by 2020, Alberta's approach can only be characterized as abject failure.

Rather than dropping, Alberta's emissions are increasing faster than any jurisdiction in North America.

Part of the challenge is in the design. The SGER only applies to large emitters, which are responsible for about half of Alberta's emissions. In addition, industrial process emissions, which typically contain high concentrations of carbon dioxide, are strictly excluded from the emissions target. As the chart illustrates, these design features, in conjunction with the low 12 per cent threshold, mean that only a small portion of Alberta's total emissions are priced under the current emissions regulations.

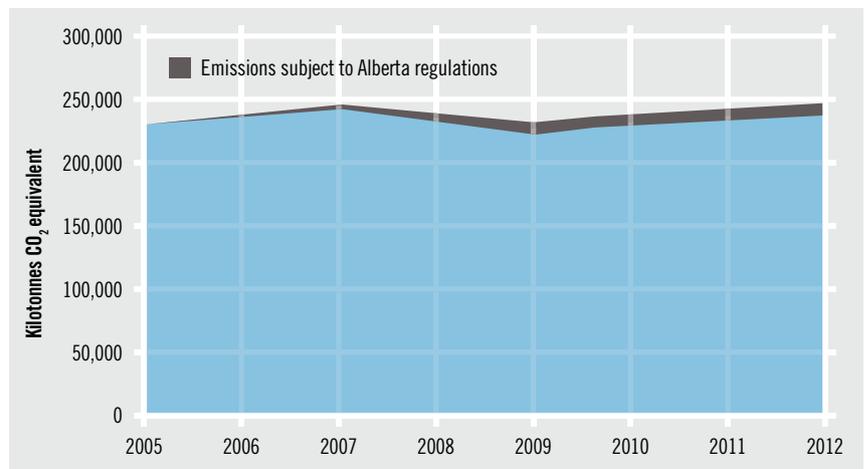
On the positive side, the SGER rightly recognized the business case for compliance flexibility. Companies can reduce their emissions in-house, use previous credits,

purchase emissions offsets, or make payments into a technology fund. However, this flexibility is also part of the problem.

Together, the quantity of offsets permitted and the technology fund price effectively determine the level of real reductions at the facility level. On both fronts, Alberta set the bar so low that there was never a real incentive to improve a facility's emissions intensity. Given the abundance of low-cost offsets and an unlimited technology fund set at \$15 per tonne of emissions, it has been more cost-effective for companies to pay up than it has been to reduce emissions.

Until we get a handle on our growing emissions problem, Canada cannot defensibly claim it is a "world leader in responsible resource development."

Rather than helping Canada's leading oilsands producers compete, political denial and delay tactics on climate only benefit the most retrograde emitters—and only in the short term. The entire oilsands sector is paying the price through market access barriers, regulatory uncertainty and reputational damage. And ultimately, we'll all pay the price if we fail to head off runaway climate change.



Alberta greenhouse gas emissions required to be reduced under the Specified Gas Emitters Regulation.

GRAPHIC: PEMBINA INSTITUTE; DATA SOURCES: ENVIRONMENT CANADA'S 2014 NATIONAL INVENTORY REPORT, GOVERNMENT OF ALBERTA.

## The importance of being earnest (and achieving results)

The auditor general's assessment sends a clear message that the province's existing climate regulations aren't working.

Strengthening Alberta's emissions regulations and developing a credible plan to meet the province's climate target would significantly help an industry that is competing with lower-carbon alternatives globally and facing stiff opposition at home. As Jeff Jones, a Calgary-based journalist with the *Globe and Mail*, has observed, "Making real, measurable progress on carbon reduction won't solve all of Alberta's problems, but it certainly won't hurt efforts to open the right doors."

## Strong regulations can help companies compete

The battles over pipelines indicate that critics of the environmental impacts of oilsands development are capable of delaying projects and driving up costs for producers. However, competitiveness concerns rarely take into account the risks of not proactively taking responsibility for managing those impacts. Research released this year by the Harvard Kennedy School's Corporate Social Responsibility Initiative found that reputational damage ultimately had a higher cost-impact for companies in the extractive sector than delays in project approvals. ●



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Market access for Alberta's energy products, particularly bitumen, will increasingly be tied to the sector's environmental performance. Alberta has an opportunity to capitalize on this attention, to show leadership and demonstrate to customers that its energy products are both economically competitive and environmentally responsible. Strengthening the sector's emissions regulations is an essential starting point.

To this end, the government should create the level of incentive required for real emissions reductions and specify long-term requirements for regulatory certainty. Industry can then plan ahead, knowing exactly what is around the corner rather than speculating. This is especially important for a sector that already faces market variability.

The lack of a long-term political vision has increased investment risk and cost. In anticipation of this, many companies use "shadow" carbon pricing as a tool to forecast the cost of future greenhouse gas regulations in their investment decisions. A study released in December 2013 by the Carbon Disclosure Project found some of the world's largest oil and gas companies are using an internal carbon price of up to \$60 per tonne to assess the profitability of projects under various policy scenarios.

An increasing number of companies believe that carbon pricing will be part of future regulatory requirements to address climate change, and some leaders among the Calgary C-suite have shown support behind the scenes for strengthening Alberta's greenhouse gas regulations. Yet few companies made their support known publicly, which means any changes to the regulations will likely trend toward the approach that benefits the lowest common denominator.

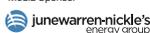
In conversation with industry leaders, I have heard one thing over and over: that it's the provincial and federal governments' responsibility to level the playing field, with a sufficiently high incentive to make more efficient technologies and environmentally responsible practices economically viable. Creating certainty today for the investment decisions of tomorrow simply makes sense, and there's no time to lose. **OSR**

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