From: Grant Bishop
To: Jonathan Wilkinson, Minister of Environment and Climate Change Canada
Date: June 26, 2020
Re: THREE REQUIREMENTS FOR CANADA’S PETROLEUM INDUSTRY

May was a bad month for Canada’s beleaguered oil producers. First, the Norges Bank, which manages Norway’s sovereign wealth fund, announced its divestment from four oilsands producers, citing their “unacceptable greenhouse gas emissions.” Then, presumptive Democratic presidential nominee Joe Biden announced that, if elected, he would cancel the permits for the Keystone XL pipeline. And there was the little matter of an unprecedented plunge in global oil demand thanks to the COVID-19 pandemic.

The Norges Bank’s decision is predicated on a misrepresentation of carbon pricing in Canada. Mr. Biden’s announcement represents a diplomatic failure, and a potentially fatal setback for a vital project. But those two developments underscore the ways in which Canada has failed to provide a credible pathway for our petroleum producers to flourish in a future of peak oil demand and global decarbonization.

Canada urgently needs three things: clarity around long-term greenhouse gas (GHG) policy, accurate benchmarking for emission intensity (emissions per unit of output), and disclosure standards for energy companies’ plans to adapt.

Today, companies face an unstable patchwork of provincial and federal policies around GHGs. The flashpoint around the since-scuttled Teck Frontier mine project—which promised to outperform other facilities on emission intensity—only highlighted the political uncertainty facing proponents of oilsands projects. Significant questions remain, including around who has constitutional jurisdiction for regulating GHGs. The Supreme Court, for its part, has delayed its hearings on challenges to the federal carbon-pricing backstop until September.

To make investments in new technology and facilities, producers must know the rules of the game and the trajectory for carbon pricing. The price set out by the federal government ramps up to $50 per GHG tonne by 2022, but stops there. Economic modelling by the Parliamentary Budget Officer and the federal government itself shows that this will be insufficient to meet Canada’s GHG commitments; the Ecofiscal Commission has estimated that Canada will require a $200-per-tonne carbon price by 2030 to achieve its targets.

Without credible and long-term policy on the issue, we risk seeing investors shy away from Canada’s energy sector. If investors do not understand Canada’s pathway for meeting GHG targets, they will be unable to assess the financial risks facing GHG-emitting operations.

The flaws in the Norges Bank divestment decision illustrates the confusion around Canada’s GHG plans. In its report, the bank incorrectly characterizes carbon pricing in Alberta, stating that the province lacks a “down-scaling factor” for emission allowances and that “the bulk of the emissions is exempt.” The C.D. Howe Institute has highlighted distortions in Alberta’s Technology Innovation and Emissions Reduction system (TIER) for large-emitter pricing, but TIER does tighten each facility’s benchmark by one percent each year. Moreover, under an output-based carbon-pricing system like TIER or the European Union’s Emissions Trading System, the profit from reducing a facility’s emissions intensity is equal to the carbon price. Allowances do not diminish that incentive.

Nonetheless, the Norges Bank decision exhibits the intensifying demand from investors that producers rigorously benchmark GHG performance against global competitors, and a belief that oilsands producers emit at a higher intensity relative to the global average, notwithstanding the real numbers.

Canada must do better to help investors understand the decarbonization pathway for our energy sector. Alongside predictable carbon pricing, benchmarking and standard disclosure frameworks will help companies communicate plans to make the transition.

The 2019 report of Canada’s expert panel on sustainable finance made a similar recommendation, calling for timely, reliable and comparable industry data to enable informed investment and lending decisions. As former Bank of Canada chief Mark Carney has emphasized, asset managers need a 50 shades of green” taxonomy for reporting performance and progress, rather than just a binary “green” or “brown” approach.

And that’s the irony: the four oilsands producers targeted by Norges Bank do provide audited GHG reporting and sustainability disclosure in accordance with the recommendations of the Financial Stability Boards Task Force on Climate-related Financial Disclosures. But the conditions are such that companies are forced to formulate their own scenarios for stress-testing and guess at the future carbon price. They lack accurate, up-to-date benchmarking to show where they stack up against the competition on the carbon curve.

Canada’s beleaguered oil patch does have cause for anger. But petroleum producers know that no problem was ever solved by yelling into the wind—and so it will need to lean on its long record of innovation around the problems being laid at their feet.