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I. Executive Summary – Suncor's input on Emissions Cap Discussion Paper

Background

Suncor understands the Proposed Framework seeks certainty in reaching federal emission reduction targets for the sector through a cap-and-trade system that would restrict the sector's emissions. The Proposed Framework would be layered on top of the current economy-wide carbon pricing regimes in Canada. Our assessment is that this additional regulatory layer will add uncertainty, reduce competitiveness, lower investment, and, as proposed, have the unintended consequence of production curtailment in the sector.

Suncor shares the federal government's objective to reduce oil and gas emissions without reducing Canadian production. This objective can only be achieved through investments in decarbonization and low emissions technologies while we continue to satisfy global energy markets. Canadian production must remain competitive with other jurisdictions to attract this needed investment for decarbonization, as these investments compete for capital with other projects both within Suncor and in wider markets.

We appreciate the desire for emissions certainty. Equally important is the fiscal, policy, and regulatory certainty that decarbonization investments require to ensure capital deployment and timely execution of projects. The barrier to accelerating decarbonization projects in the sector is not a lack of a regulatory requirement to deliver on those ambitions, but rather how the existing policy and regulatory environment combines with fiscal stimulus to compete with other jurisdictions on both a supply cost and decarbonization investment attractiveness basis. If those conditions are not met and a regulatory limit is set, then the only alternative to comply with the law will be to limit production and have Canada suffer the economic consequences. An outcome that doesn't serve our shared interests.

Suncor's duty to invest in cost-effective projects with shareholder capital requires an attractive fiscal, policy, and regulatory environment. The Proposed Framework will not improve investment conditions and will lead to several outcomes that run counter to our shared efforts to reduce GHG emissions in the sector. As we described in our last submission, we did not think an additional cap-and-trade system is a constructive policy. Accordingly, Suncor cannot support the Proposed Framework.

Key Considerations

- **An emissions cap is unnecessary:** Canada already has a carbon pricing system in place and investments will move forward when that system is combined with the right fiscal incentives. No cap for any other industrial sector is being contemplated.

Canada’s oil and gas emissions have grown mainly from increases in exports, which when maintained or expanded can help fund domestic decarbonization projects.

- **An additional cap-and-trade system undermines existing carbon pricing:** Carbon pricing is widely recognized as the most efficient means to reduce GHG emissions while also driving innovation. As such, it has emerged as the most prominent means of regulating industrial emissions across Canada. The addition of a cap-and-trade system and a differentiated carbon price for one sector undermines carbon pricing’s competitiveness protection of emission-intensive-trade-exposed (EITE) sectors. It adds further complexity to an already complicated regulatory environment, making investment returns uncertain, and leading to decisions to deploy capital elsewhere.

- **Stringency and inflexible compliance, without fiscal supports, constrains the ability to comply:** Suncor’s and Pathway’s emission reduction goals depend on the required fiscal and policy support for co-investment, along with regulatory certainty with a realistic timeline. The Proposed Framework includes emission reductions that are based on unsanctioned projects that currently lack the required fiscal and regulatory supports to secure investment. Delaying these supports also delays investment decisions, making the project and regulatory timelines too short to advance major projects by 2030. This path will create high compliance costs at the beginning of the cap-and-trade regime, limiting the capital available for decarbonization projects, and raising the prospect of shut in.

- **Additional compliance costs lower competitiveness and diverts funds from decarbonization investments:** Additional costs, like all GHG compliance costs, cannot be passed onto the consumer as oil trades as a global commodity. The cap-and-trade compliance costs will disadvantage Canadian crude oil compared to other major producers that put a lower or no price on GHG emissions. It also diverts funds from investment in direct reductions, making curtailment more likely.

- **Ongoing regulatory uncertainty delays investment decisions:** We believe a cap-and-trade regime under the Canadian Environmental Protection Act (CEPA) would take years to establish, with ongoing interpretations of the impacts on total carbon pricing and asset life. This, combined with expected legal delays due to conflicting federal-provincial purview, creates tremendous uncertainty and would delay decarbonization investment decisions until the substantial economic and legal risks are understood.

- **Competition for limited credits under a regulated cap undermines industry collaboration:** Suncor and other Pathways partners are concerned that the Proposed Framework will undermine Pathways’ ability to collaborate on shared infrastructure since we will be forced to compete for limited GHG credits to maintain compliance.

Suncor’s Recommendations

Suncor has set a goal to reduce GHG emissions from oil sands operations and reach net zero by 2050. Through Pathways collaboration, we are actioning this plan through different phases. Phase one includes deploying various emissions reduction technologies at scale, including one of the world’s largest carbon capture and storage (CCS) projects, to be constructed in the Cold Lake region of northeastern Alberta. This first phase of Pathway’s goal is estimated to reduce approximately 22 million tonnes (Mt) of GHG emissions by the start of the next decade. Importantly, these projects still require fiscal, policy and regulatory certainty to be sanctioned. These supports are still lacking in the Canadian market; however, the federal government used estimates of the potential emission reductions that are achievable from properly supported decarbonization investments and simply choose to mandate those outcomes instead. Government climate policy needs to be clear, predictable and balanced to attract and accelerate investment in decarbonization projects. This includes shifting away from the Proposed Framework and following established policy principles:

- Treat GHG emissions equitably and align regulations across industries to drive the most effective solutions.

- Protect competitiveness of EITE sectors to ensure the continued prosperity of industry and working Canadians.

- Provide a simple and clear framework, avoid overlapping and conflicting GHG regulations.

- Provide the necessary fiscal and regulatory supports to enable positive investment decisions in large-scale industrial decarbonization projects.

Closing

Thank you for the opportunity to provide input on the Proposed Framework. Suncor officials would like to continue engagement with federal counterparts to discuss our concerns and possible solutions.