

Consultation Report on the Canadian Energy Sector's Transition to Net Zero

NET ZERO SERIES



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Stakeholder comments will be captured in the Implementation Roadmap, which will address the gaps identified in this *Report* in moving from the current to the desired narrative. Stakeholders and their affiliations will not be individually identified in the Implementation Roadmap unless the stakeholder waives confidentiality. The Implementation Roadmap will be published and posted on our website at www.cpacanada.ca.

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Table of Contents

| | |
|---|----|
| Context | 1 |
| CPA Canada's Transition to Net Zero Series | 1 |
| Summary of Viewpoints by Audience | 3 |
| Common Themes | 12 |
| Next Steps | 15 |
| The Call to Action | 15 |
| Appendix A - Domestic and International Drivers for Net-Zero Transition | 16 |
| Appendix B - Canada's Ecosystem for the Net-Zero Transition | 19 |
| Appendix C - Additional Resources | 20 |

Context

Global responses to climate change are accelerating rapidly, even during a worldwide pandemic. Governments, businesses, investors and civil society are focused on the actions required to meet the goals of the Paris Agreement, which includes achieving net-zero greenhouse gas (GHG) emissions by 2050 to limit global warming to two degrees Celsius above pre-industrial levels. In Canada, key players in the public and private sectors are increasingly acknowledging an urgent need to transition to a net-zero emissions economy by 2050 to remain globally competitive in the long term.

You can find a list of the key domestic and international drivers of the net-zero transition¹ in **Appendix A, Table 4**. Key stakeholders and economic sectors relevant to Canada's net-zero transition are listed in **Appendix B, Figure 1**.

The oil and gas sector is the highest GHG-emitting sector in Canada, accounting for 27 per cent of national emissions in 2017. As a longstanding cornerstone of Canada's economic foundation, the oil and gas sector will be a critical player in achieving Canada's net-zero aspirations by 2050. Canada has a significant economic opportunity to position itself as a global leader in providing clean, cost-effective oil and gas in a low-carbon future. And, as an issue of national interest, a just transition requires all Canadians and all economic sectors to act. This will require a multi-stakeholder approach.

CPA Canada's Transition to Net Zero Series

Chartered Professional Accountants of Canada (CPA Canada) is one of the largest national accounting organizations in the world. Its mission is to enhance the influence, relevance and value of the Canadian CPA profession by acting in the public interest, supporting members, and contributing to economic and social development. Climate change is an issue of public interest with the potential for substantial economic and social impacts. It is also likely to impact CPAs working in various roles within industry, governance, audit and financial services. In these roles, CPAs have an opportunity to advance the transition toward net zero by helping public and private sector organizations define their climate-change goals, create feasible action plans to achieve them, report on the results to stakeholders and sustain long-term value creation in the low-carbon transition. CPA Canada has had a longstanding commitment to supporting Canada's low-carbon transition and enhancing its climate change resilience (see **Appendix C**).

1 Throughout this *Report*, the "net-zero transition" is used interchangeably with the "low-carbon transition."

In 2020, CPA Canada was joined by The Prince of Wales's Accounting for Sustainability (A4S) [Canadian Chapter of the CFO Leadership Network](#) to host a series of virtual panels, interviews and roundtables (collectively referred to as the "Transition to Net Zero Series" in this *Report*) to gather insights and viewpoints from corporate directors, senior management and operational teams from Canadian oil and gas companies, as well as from representatives of the institutional investment community that provides capital to the sector.

Overview of the Transition to Net Zero Series

In the fall of 2020, CPA Canada convened key players in Canada's oil and gas sector ecosystem to engage in a dialogue on enabling a net-zero transition for the country. Below is a summary of the stakeholder engagement activities undertaken as part of this initiative:

| Date | Focus | Audience |
|--------------------|---|---------------------|
| November 2 | Innovation and Enabling Technologies in the Low-Carbon Transition Panel | All |
| November 4 | Director dialogue on the Role of Canadian Energy in the Low-Carbon Transition | Corporate directors |
| November 10 | Investor Forum on the Canadian Energy Sector's Transition to Net Zero | Investors |
| October / November | Interviews with senior management of Canadian oil and gas companies | Senior management |
| November 20 | CPA Canada Oil and Gas Conference Roundtable | Operational teams |
| November 26 | Joint Investor and Oil and Gas Leadership Roundtable | All |

The objectives of the Transition to Net Zero Series were to:

1. understand the current narrative about the Canadian oil and gas sector
2. establish a desired future-state narrative for the sector
3. identify the critical gaps to address to achieve a unified national position that will enable Canada to thrive in the low-carbon transition and remain globally competitive in the net-zero economy
4. provide actionable recommendations to close critical gaps identified in the national interest of all Canadians

This report summarizes viewpoints heard from the different audiences engaged in CPA Canada's Transition to Net Zero Series, which included corporate directors, investors, senior management and operational teams. It highlights common themes across different audiences and identifies gaps to address to facilitate Canada's transition to a lower-carbon economy and net zero by 2050.

The next step is to develop an Implementation Roadmap to address the gaps identified in this report and enable movement from the current to the desired narrative with actionable recommendations for each audience. CPA Canada will engage Indigenous communities and key stakeholders to obtain their perspectives and insights during the development of the Implementation Roadmap. As part of this broader engagement effort, CPA Canada launched a youth survey² to capture the viewpoints of students and young professionals across the country on Canada's energy transition.

The Implementation Roadmap will be issued as a separate report incorporating the viewpoints from this report.

Canada's Climate Agenda – A Healthy Environment and a Healthy Economy

During the development of this *Report*, the Government of Canada released a plan that builds on the [Pan-Canadian Framework on Clean Growth and Climate Change](#) released in 2016. The plan, outlined in [A Healthy Environment and a Healthy Economy](#), provides strategies and commitments on a national level to jointly address employment and affordability, economic resilience, and greenhouse gas emissions reductions. The plan acknowledges the task's complexity and provides insights that partially address the gaps identified in this *Report*.

Voicing the oil and gas sector's perspectives remains an essential component to ensure a just and inclusive low-carbon transition. As such, the gaps identified in this *Report*, in addition to the recommendations made in the implementation roadmap, will be supportive and complementary to the discourse on a national low-carbon transition.

For more information, see [A Healthy Environment and a Healthy Economy](#).

Summary of Viewpoints by Audience

A summary of viewpoints heard during the Transition to Net Zero Series is provided below. Relevant findings from live-polling questions asked during roundtable events are included.³

² Youth Survey: Canada's Energy Transition – Pathway to Net-Zero Emissions closed on February 7, 2021.

³ Note that polling results are based on a limited sample size and are not considered representative samples from the sector. This comment applies to all polling stats referenced in this *Report*.

TABLE 1: SUMMARY OF VIEWPOINTS BY AUDIENCE⁴**Corporate Directors**

- Canada's low-carbon transition goes beyond Canada's oil and gas sector and should focus on all key sectors and on Canada's national interest.
- Canada's oil and gas companies need to be cost- and carbon-competitive to realize an optimal low-carbon path.
- Corporate directors need to focus on the long-term value of a low-carbon transition.
- A unified narrative and implementation roadmap should leverage existing recommendations and support implementation through policy certainty.

Investors

- The global economy is moving rapidly toward a low-carbon transition – and Canada must decide whether to be a policy “maker” or “taker.”
- Federal and provincial / territorial governments need to provide policy certainty to facilitate a low-carbon transition in Canada's oil and gas sector.
- Canadian oil and gas companies must strive for industry collaboration to define a consistent transition approach.
- Investors are interested in participating in a low-carbon transition in Canada's oil and gas sector, alongside a competitive risk-return profile and greater transparency.

Senior Management

- Canadian oil and gas companies support net-zero aspirations but require a plan.
- The oil and gas sector is subject to stringent environmental, social and governance (ESG) regulations, thus ensuring global demand for Canadian oil and gas for decades to come.
- Reducing or eliminating emissions, and the transition away from fossil fuel extraction and use, are two distinct strategies and pathways to achieving net-zero emissions.
- Oil and gas companies are seeking industry collaboration supported by government policy and incentives.
- Canadian oil and gas companies continue to look for ways to address Scope 3 emissions.

Operational Teams

- The oil and gas sector needs to be a partner to accelerate the low-carbon transition.
- Greater government involvement is crucial to turn risks into opportunities for growth.
- CPAs play a supportive and complementary role in the transition to net zero.

⁴ Note that Table 1 does not include summaries of viewpoints presented during the November 2 and November 26 sessions due to the mixed audiences participating.

TABLE 2: DETAILED SUMMARY OF VIEWPOINTS HEARD AT ROUNDTABLES AND INTERVIEWS WITH SENIOR MANAGEMENT OF CANADIAN OIL AND GAS COMPANIES

| Innovation and Enabling Technologies in the Low-Carbon Transition (mixed audience) | |
|--|--|
| <p>Clear policy signals are needed to provide regulatory certainty.</p> | <ul style="list-style-type: none"> • Collaboration between federal and provincial governments will facilitate the development of resilient and effective transition policies. • A clear commitment to the Canadian oil and gas sector, and added policy support, will accelerate Canada's low-carbon transition. |
| <p>Business leadership and industry collaboration are needed.</p> | <ul style="list-style-type: none"> • Oil and gas companies cannot wait for government policies to address the low-carbon transition toward net zero. • Businesses must take the leadership opportunity and collaborate with industry peers to establish a unified roadmap and narrative for the Canadian oil and gas sector. |
| <p>Canada can be a global leader in low-carbon innovation.</p> | <ul style="list-style-type: none"> • Canada is well situated to be a global leader in low-carbon innovation by developing, commercializing and exporting innovative cleantech solutions. • One way to enable this is to understand and address the challenges that cleantech ventures face when growing and scaling their businesses (e.g., "Climate Tech's Four Valleys of Death and Why We Must Build a Bridge"). • Cleantech innovation can also be achieved through cross-sectoral collaboration to share knowledge, expertise and resources. |
| <p>There must be a desire for an "optimal energy transition" for Canada.</p> | <ul style="list-style-type: none"> • Canada's low-carbon transition will take decades. To support this transition, Canadian oil and gas companies must remain active in climate-related risk mitigation and disclosure, research and development (R&D), and technology adoption to take control of their narrative and win over global investors. • Investor support for Canadian oil and gas will increase the likelihood of a scenario where the sector can maximize carbon dioxide (CO₂) abatement with minimal adverse economic consequences (i.e., an "optimal energy transition" for Canada). |
| Director dialogue on the Role of Canadian Energy in the Low-Carbon Transition | |
| <p>Canada's low-carbon transition goes beyond Canada's oil and gas sector and should focus on all key sectors and on Canada's national interest.</p> | <ul style="list-style-type: none"> • To date, much of the discussion on Canada's low-carbon transition has been heavily focused on the role of the oil and gas sector. Given the importance of this sector to Canada's overall economy, this is truly an issue of national interest for all Canadians and all sectors. As such, the low-carbon narrative should expand to include other relevant key economic sectors (e.g., transportation, buildings, utilities) and the individual Canadian consumer's behaviour. |

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- Executing an integrated, cross-sectoral approach to Canada's low-carbon transition will clearly define the role of oil and gas in Canada's energy future and facilitate creation of a national energy plan that is inclusive of all Canadian stakeholders.
 - Rather than changing the current narrative, Canada can establish a new narrative to garner national and international support for Canadian oil and gas. A neutral and fact-based approach will help engage stakeholders across sectors to include considerations for the entire country.
 - Canadian oil and gas companies should continue to include key stakeholders in these conversations to enhance credibility and ensure a just transition for all Canadians, including Indigenous and marginalized communities.
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Canada's oil and gas companies need to be cost- and carbon-competitive to realize an optimal low-carbon path.

- Canadian oil and gas companies have undergone product and business-model innovation in the face of disruption for decades, focusing on reducing costs to remain competitive in a global commodity market. Canadian oil and gas companies recognize that they need to be cost- and carbon-competitive in the global low-carbon transition.
 - New and existing Canadian technologies and innovations are an integral part of reducing costs and emissions for domestic oil and gas companies. Several promising technologies and innovations are being implemented by the Canadian oil and gas sector, including industrial-scale carbon capture and storage (CCS) such as Shell's Quest project and SaskPower's Boundary Dam, a growing number of investments in Canada's hydrogen economy, applications for bitumen beyond combustion (Alberta Innovates), and energy efficiency improvements.
 - Scaling high-potential technologies and innovations requires leadership from the Canadian oil and gas sector and strategic partnerships between industry and small-scale cleantech ventures.
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Corporate directors need to focus on long-term value in the low-carbon transition.

- Corporate directors are focused on attracting capital into the Canadian oil and gas sector to help finance the R&D and capital investments required to transition to low carbon. A growing number of corporate directors are engaging with their investors on this topic by focusing on long-term value.
 - Boards of Canadian oil and gas companies should view the low-carbon transition as providing financial value over the short, medium and long terms. Corporate directors need to consider the low-carbon transition's financial impacts on Canadian oil and gas companies' strategy, risk management and capital allocation.
 - To do this, Canadian oil and gas companies need to identify key metrics, develop concrete plans with capital requirements clearly articulated, and support their path toward net zero with clear timelines and milestones to measure progress over time.
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A unified narrative and implementation roadmap should leverage existing recommendations and support implementation through policy certainty.

- There is a wealth of actionable work and recommendations through Innovation, Science and Economic Development Canada's [Economic Strategy Tables](#), The Institute for Sustainable Finance's (ISF) [Capital Mobilization Plan](#), and the [Final Report of the Expert Panel on Sustainable Finance](#) that should be implemented in the near term to advance the national interest for all Canadians and all sectors. Collaboration between the ongoing efforts by CPA Canada and the Public Policy Forum (PPF) to address this topic would help to broaden the audiences and increase the number of stakeholders involved in the process. Views similar to those expressed in this *Report* were shared at the November 2020 PPF Sustainable Finance 2 virtual roundtable on the subject. There is no need to re-invent the wheel – Canada should build on the strong foundation of work it has already completed over the past several years.
- Canadian oil and gas companies are ready to mobilize on these recommendations. However, they require regulatory and policy certainty (i.e., particularly the carbon price trajectory) from federal and provincial / territorial governments to do so with confidence. Regulatory and policy certainty allows Canadian oil and gas companies to take the long-term view required to develop and implement concrete plans to achieve net-zero aspirations.
- Through industry-wide collaboration, there is an opportunity to articulate policy recommendations to the federal and provincial / territorial governments. In doing so, the sector may unlock additional access to capital to support the investments required for the transition, including investments in cleantech innovation. Examples include clarity on the future trajectory of national carbon pricing, a national strategy to decarbonize the electricity grid and the use of methanol-blended fuels.

Investor Forum on the Canadian Energy Sector's Transition to Net Zero

The global landscape is moving rapidly toward a low-carbon transition – and Canada must decide whether to be a policy “maker” or “taker.”

- Most respondents (89 per cent) to a live poll administered during the session agreed that the low-carbon transition will be a challenge for Canada's oil and gas sector. Recent global regulatory and policy developments such as the European Union's (EU) green taxonomy, mandatory Task Force on Climate-Related Financial Disclosures (TCFD)-aligned reporting in the United Kingdom and New Zealand, and government responses to the COVID-19 pandemic create a strong impetus for unified action in the national interest. Canada has a limited window of time to determine whether it will be a policy “maker” or “taker” in the global low-carbon transition, mainly because Canada's oil and gas sector competes globally to access capital.
- Canada has an opportunity to be a leader in the global low-carbon transition by reducing GHG emissions from oil and gas production and exporting technologies and innovations to other countries. Leadership can be achieved by 1) leveraging the existing foundational work on enabling a low-carbon transition, 2) developing a transition finance taxonomy, and 3) creating a regulatory environment that provides direct financial incentives to invest in and scale up cleantech solutions.

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| <p>Federal and provincial / territorial governments need to provide policy certainty to facilitate a low-carbon transition in Canada's oil and gas sector.</p> | <ul style="list-style-type: none"> • Most respondents (63 per cent) to a live poll taken during the roundtable indicated they believe Canada will be extracting and using fossil fuels in a net-zero economy. Given the importance of the sector to Canada's overall economy and the long-term, capital-intensive nature of the low-carbon transition, all levels of government should implement coordinated policies designed to support capital flows to finance the Canadian oil and gas sector's efforts. • A thoughtful approach to regulation could reduce investor uncertainty and address current gaps in demand (e.g., Sweden's introduction of a government-mandated sustainable aviation fuel target, uptake of electric vehicles through investments in large-scale charging infrastructure). Well-crafted regulation would help strengthen the investment case for Canadian oil and gas companies and their capital providers. |
| <p>Canadian oil and gas companies must strive for industry collaboration to define a consistent transition approach.</p> | <ul style="list-style-type: none"> • There are currently many competing voices seeking to represent Canada's oil and gas sector (e.g., companies, industry associations, governments) and preventing clear and consistent signaling to global investors. Companies' transition approaches also differ based on their size – large, integrated companies have committed to net zero and have more resources to achieve these goals. In contrast, smaller and medium-sized companies are resource-constrained and focused on core business operations to survive during a challenging period for the sector. • A coherent narrative from industry needs to reliably signal how the sector intends to compete globally in a low-carbon future. Communicating a coherent narrative can be facilitated through increased industry collaboration. |
| <p>Investors are interested in participating in a low-carbon transition in Canada's oil and gas sector alongside a competitive risk-return profile and greater transparency.</p> | <ul style="list-style-type: none"> • There is an appetite from the investor community to be involved in a low-carbon transition for Canadian oil and gas. However, the risk-return profile of investments must make sense for investors to provide capital to Canadian oil and gas companies. The majority of respondents (53 per cent) to a live poll taken during the session indicated an interest in engaging and investing in the sector during a transition to a low-carbon economy. • To best position themselves to attract such capital, Canadian oil and gas companies are encouraged to increase the quality of disclosure of their short- and long-term strategies to compete in a low-carbon future. Investors need detailed disclosures that outline emission reduction targets and implementation plans, together with a diversification plan for growth beyond combustible fossil fuels. Investors noted that the Task Force on Climate-related Financial Disclosures (TCFD) recommendations are the leading disclosure framework for reporting this information. |

Interviews with senior management of Canadian oil and gas companies

Canadian oil and gas companies support net-zero aspirations but require a plan.

- There is general acceptance and alignment with the Paris Agreement.
- A majority of oil and gas companies are not making commitments to net-zero targets without a clear plan to achieve this goal.
- Many companies have set emissions reduction targets and are defining a pathway to net zero.

Canada's oil and gas sector is subject to stringent ESG regulations, thus ensuring global demand for decades to come.

- Oil and gas remains a significant part of the global energy mix in all the scenarios presented in the International Energy Agency's *World Energy Outlook 2020*. Oil and gas maintains prevalence in the global energy mix in even the most ambitious, Paris-aligned scenarios (i.e., the Sustainable Development Scenario and Net Zero Scenario).
- [Oil sands emissions intensity](#) has fallen approximately 30 per cent since 2000. Now, oil sands emissions intensity is almost on par with conventional oil. Canadian companies create safer and cleaner products than international competitors from all three ESG angles: environmental, social and governance performance.
- Given high ESG performance, Canadian oil and gas companies aim to produce oil and gas resources during and beyond the net-zero transition while recognizing they must be cost- and carbon-competitive to do so.

Reducing or eliminating emissions and the transition away from fossil fuel extraction and use are two distinct strategies and pathways to achieving net-zero emissions.

- Two transitions are occurring:
 1. A transition to net-zero emissions is focused on reducing the emissions intensity of oil and gas exploration, production and use through emissions management. This pathway allows oil and gas companies to continue extracting fossil fuel for decades to meet global energy demand through 2050.
 2. A transition away from fossil fuel extraction and production is focused on diversifying into renewable energy and other non-emitting energy sources. This pathway only applies to a few oil and gas companies in Canada.
- The immediate focus for all oil and gas companies is on the first transition. It is an emissions reduction transition, not an "off oil and gas" transition, with the understanding that oil and gas will be a part of our Canadian economy for decades beyond 2050.
- Both pathways support Canada's net-zero emissions goal.

Oil and gas companies are seeking industry collaboration supported by government policy and incentives.

- Collaboration across the Canadian oil and gas sector and alignment toward net zero by 2050 will help lay the groundwork for consistent industry-wide reporting and disclosure.
- Clear policy and incentives for investing in research and development for net-zero emissions technologies are needed to provide certainty to companies. With industry collaboration and alignment and government incentives and policies, Canada will generate revenue from its fossil fuel resources for decades to come.

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| <p>Canadian oil and gas companies continue to look for ways to address Scope 3 emissions.</p> | <ul style="list-style-type: none"> • Emissions data collection remains a challenge for the industry, especially for the measurement and management of Scope 3 emissions, particularly downstream Scope 3 emissions from Canadians' end-use of oil and gas products. • Larger players are making efforts to collaborate and work with other industries (e.g., transportation) to develop multi-sector solutions and find a common pathway; however, this remains a challenge due to competing options for these industries (e.g., the transportation industry shifting to electric vehicles is more straightforward than working with the oil and gas sector to develop the technology to capture tailpipe emissions). |
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CPA Canada Oil and Gas Conference Roundtable (operational teams)

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| <p>The oil and gas sector needs to be a partner to accelerate the low-carbon transition.</p> | <ul style="list-style-type: none"> • Canada's low-carbon transition requires a plan, approach and collaboration on a nationwide scale. The economic significance of Canada's low-carbon transition requires all stakeholders within the oil and gas sector to be engaged and aligned to create a new narrative that inspires national prosperity. • As part of a national approach, the oil and gas sector must be involved and viewed as a partner to the transition. If enabled, the sector can drive the transition forward by bridging the gap between various government levels and providing valuable policy recommendations. |
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| <p>Greater government involvement is crucial to turn risks into opportunities for growth.</p> | <ul style="list-style-type: none"> • To provide clarity and direction, there is a call for the government to play a larger role in Canada's transition. A large majority (87 per cent) of respondents to a live poll agreed that Canada will be extracting and using fossil fuels in a net-zero economy beyond 2050. However, only 47 per cent of respondents stated that their organization has a climate strategy that includes emissions reduction targets. Absent government direction, there remains a fragmented and misaligned approach to the net-zero transition. • Canadian cleantech innovation presents a sizable opportunity to work with existing and emerging technologies that have the potential to be scaled and exported. However, limited access to capital remains a significant barrier. As such, there is an opportunity for the government to implement policies that incentivize innovation and support the scaling of innovative solutions. |
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| <p>CPAs play a supportive and complementary role in the transition to net zero.</p> | <ul style="list-style-type: none"> • In collaboration with other essential stakeholders in the transition, CPAs can accelerate the net-zero transition by supporting companies' identification, assessment and disclosure of climate- or transition-related risks. Within this role, there is an opportunity for CPAs⁵ to collaborate to develop frameworks and processes to provide transparency in carbon-intensive sectors, organizations and activities. |
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5 For the role of CPAs in other CPA Canada materials, refer to **Appendix C**.

Joint Investor and Oil and Gas Leadership Roundtable (mixed audience)

Canada's oil and gas sector's low-carbon transition is a matter of national interest.

- As a sector that supports a significant portion of the Canadian economy and its institutions,⁶ the oil and gas sector's low-carbon transition is a matter of national interest. There is a need to expand the dialogue beyond oil and gas to include other high-emitting and key economic sectors such as transportation, utilities, buildings, manufacturing, mining and agriculture. Moreover, there is a role for consumers to play in the transition to address the demand for fossil fuels.
- As an issue of national interest, federal and provincial / territorial governments need to facilitate the low-carbon transition by providing a clear and consistent policy. Almost two in three respondents (64 per cent) indicated in a live poll taken during the session that they agree that a plan to provide policy certainty on the price of carbon and related emissions regulation is the top priority to support the oil and gas sector's transition to net zero by 2050. In this low-carbon future, there is an opportunity for Canada to be a leader in exports of cleantech solutions by leveraging its world-class skills and experience and strong financial institutions.

Canada's oil and gas industry is well-positioned to be a low-carbon leader.

- There is a consensus that there is a place for Canadian oil and gas in a low-carbon future. Most respondents (80 per cent) to a live poll conducted during the session agreed that Canada has some of the most stringent ESG standards for fossil fuel extraction and production. Therefore, it should strive to be the most cost- and carbon- competitive supplier to meet global oil and gas demand in a low-carbon future.
- The global narrative on Canadian oil and gas has mainly been "lost" because of a decline in investor support for the sector over the past few years. However, Canada has an opportunity to develop a new narrative to showcase the role of Canadian oil and gas in a low-carbon future. Crafting this new narrative requires industry alignment and cross-sectoral, multi-stakeholder collaboration.

There are mixed views on whether emissions reduction or transition away from fossil fuels should be the pathway to Canada's net zero.

- A strong foundation of work exists to understand how the oil and gas sector, and Canada more broadly, can transition to net zero by 2050. A pragmatic implementation roadmap focused on real action that includes specific metrics and targets across stakeholder groups is needed.
- There are mixed views on the focus of Canada's net-zero pathway and Implementation Roadmap for the Canadian energy sector. A significant proportion (40 per cent) of respondents to a live poll believe that Canada's net-zero pathway should jointly focus on 1) decarbonizing oil and gas while continuing to invest in the sector, and 2) transitioning away from fossil fuel extraction. A similar proportion (44 per cent) believe that the sole focus should be on decarbonizing oil and gas while investing in the sector.

⁶ According to the Canadian Association of Petroleum Producers (CAPP), Canadian oil and natural gas provided \$110 billion to Canada's GDP in 2019, supporting almost 550,000 jobs across the country in 2018.

Common Themes

Table 3 provides the common themes identified in the viewpoints expressed above, along with gaps between current and desired states. The Implementation Roadmap will offer more substantive insights and recommendations to address the gaps identified in this section.

TABLE 3: COMMON THEMES - CURRENT STATE, DESIRED STATE AND GAPS TO ADDRESS

| <p>1. Canada's net-zero transition is an issue of national interest. Collaboration between stakeholders and sectors is essential to achieving national prosperity in the long term.</p> | <p>2. Innovation and technology offer Canada an opportunity to be a global leader in a low-carbon future.</p> | <p>3. There is a collective call from companies and investors for increased regulatory certainty and clear policy incentives for net-zero investments.</p> |
|---|--|--|
| <p>Current State</p> | | |
| <p>The current narrative on Canadian oil and gas has led to declining investor support for the sector. Without continued access to capital, the sector cannot finance the significant annual investments required to reduce emissions and diversify. A new narrative focused on a low-carbon transition is essential. Currently, the focus of the discourse on Canada's low-carbon transition is mostly on the oil and gas sector's role. However, the low-carbon transition requires action from other high-emitting key economic sectors and other stakeholder groups. Absent an integrated, cross-sector approach, Canada risks lagging behind other countries around the world that have established clear and detailed implementation roadmaps to achieve net zero by 2050 (e.g., the United Kingdom).</p> | <p>Canada's oil and gas sector has been in a state of constant innovation for many decades. The sector's focus on and investments in research and innovation have produced many viable technologies to reduce oil and gas exploration and production emissions. While demonstrating great potential, these technologies are still in the early phases of adoption and require significant amounts of capital to pilot and scale up to commercially viable solutions. Networks such as the Canadian Oil Sands Innovation Alliance (COSIA), Clean Resource Innovation Network (CRIN) and Alberta Innovates, play a critical role in working with Canada's oil and gas industry to commercialize emission reduction technologies. However, increased capital is required to achieve emissions reductions at the necessary pace and scale across Canada's economy.</p> | <p>There is a collective call from corporate directors, senior management, operational teams and investors for clear and consistent policy signals from all Canadian governments and key regulatory bodies. Without stable signposts and direct incentives via policy and regulation, many Canadian oil and gas companies have been hesitant to make the significant capital investments and long-term R&D spending required to scale up emissions reduction efforts in a meaningful way. Companies need to make the business case for capital and operating expenditures. Investors require a stable regulatory and legal landscape to place large amounts of capital for longer time horizons.</p> |

1. Canada's net-zero transition is an issue of national interest. Collaboration between stakeholders and sectors is essential to achieving national prosperity in the long term.

2. Innovation and technology offer Canada an opportunity to be a global leader in a low-carbon future.

3. There is a collective call from companies and investors for increased regulatory certainty and clear policy incentives for net-zero investments.

Desired State

Canada broadens the low-carbon transition to include other key economic sectors (e.g., transportation, electricity, construction and buildings, manufacturing, mining and agriculture) and the behaviour of individual Canadian consumers. Canada develops a national energy plan that leverages its unique economic advantages in the global low-carbon transition. Alongside a new narrative for Canadian oil and gas and other key economic sectors, renewed investor confidence creates a scenario where the sector can maximize CO₂ abatement with minimal adverse economic consequences and potentially net positive economic benefits.

Canada is a global leader in developing, commercializing and exporting innovative cleantech and emissions reduction solutions. Successful R&D programs, in combination with productive partnerships with cleantech ventures, lead to the adoption of technologies that decrease both costs and carbon emissions for oil and gas companies, as well as other key economic sectors. Innovation networks, such as COSIA, CRIN and Alberta Innovates, are fully leveraged and utilized to scale and export Canada's cleantech solutions successfully by working with industries and governments.

Federal, provincial and territorial governments and regulators work in an integrated and collaborative way by aligning goals for policy and regulation that collectively provide clear near-term and long-term signposts for the trajectory of regulations to reduce GHG emissions (e.g., commitment to net zero by 2050). Thoughtful, well-crafted regulation strengthens the investment case for Canadian oil and gas companies and their capital providers, thus enabling the scale of investments required to help the sector transition to net zero by 2050.

1. Canada's net-zero transition is an issue of national interest. Collaboration between stakeholders and sectors is essential to achieving national prosperity in the long term.

2. Innovation and technology offer Canada an opportunity to be a global leader in a low-carbon future.

3. There is a collective call from companies and investors for increased regulatory certainty and clear policy incentives for net-zero investments.

Gap

Canada's oil and gas sector needs a forum to collaborate with other key sectors to establish an integrated set of sector-based transition plans to cover Canada's highest-emitting industries. This cross-sectoral initiative needs a conduit to articulate its recommendations to different levels of government and regulators responsible for setting policies and regulations across sectors. Policies should help the public understand the impact of their purchasing decisions on their carbon footprints (e.g., emissions labelling on products, reporting of Scope 3 emissions) and provide economic incentives to purchase lower-carbon goods and services, including fuel and electricity.

Canadian oil and gas companies should seek strategic partnerships with Canadian cleantech ventures to create mutually beneficial business arrangements where it makes sense to do so. Cross-sectoral partnerships and participation in innovation hubs are also essential requirements to achieve the level of collaboration required to transition at the pace and scale needed to achieve net zero by 2050. Investors should find innovative ways to provide financing to Canadian oil and gas companies to help finance investments in low-carbon products and solutions, particularly those with significant export growth potential.

Canadian oil and gas companies need policy certainty from governments to make the R&D and capital investments required to transition to net zero by 2050. Economic incentives for companies (e.g., tax credits, funding programs, favourable interest rates) will help finance these investments. Governments and regulators need to actively utilize the foundational work completed in Canada, and leverage the world-class knowledge, skills and desire of Canadian industries to realize net-zero ambitions by consulting with industry in designing effective policies and regulations.

Next Steps

As evidenced in this *Report*, Canada's pursuit of net-zero emissions by 2050 is a matter of national interest. All stakeholders need to act together for Canada to achieve this aspirational goal. This *Report* is the beginning of a dialogue and offers a starting point for future conversations on this important topic. CPA Canada will continue to convene conversations with its stakeholders in the public and private sectors.

The next step is to publish an Implementation Roadmap, which will provide actionable recommendations to address the gaps identified in this *Report*. Using these recommendations, the stakeholder ecosystem in key economic sectors (see **Appendix B**) can help the country thrive and stay competitive in the global low-carbon transition.

CPA Canada recognizes that the low-carbon transition will take decades; achieving net zero by 2050 is a complex and multi-faceted undertaking. As a national body focused on the public interest and contributing to social and economic development, CPA Canada intends to continue collaborating with other key players in Canada's ecosystem to ensure alignment and complementary approaches.

The Call to Action

Stakeholder feedback is essential to capture viewpoints from the various key stakeholders in this sector and to address the gaps identified in this *Report* in moving from the current to the desired narrative. To help inform the discussion, we invite you to respond to the following consultation questions and provide any other relevant feedback in your response:

Question 1

What should be the roles of CPA Canada and individual professional accountants in helping organizations transition to net zero? What are the emerging challenges and opportunities for CPAs?

Question 2

Does the desired narrative about the role of the Canadian oil and gas sector in the net-zero transition resonate with you? If not, what should be added or changed?

Question 3

Are there any other stakeholders who should be engaged in the development of an implementation roadmap?

Question 4

What specific mechanisms (e.g., roundtables, forums, task forces, coalitions, etc.) would be most effective in enabling public and private partnerships and cross-sectoral collaboration?

Appendix A – Domestic and International Drivers for Net-Zero Transition

TABLE 4: SELECTED KEY DRIVERS IN THE LOW-CARBON TRANSITION⁷

| International | |
|---|---|
| <u>Paris Agreement</u> | Adopted by 196 parties, the Paris Agreement is an international treaty on climate change to limit global warming to 2 degrees Celsius above pre-industrial levels, with a stretch goal to limit global warming to 1.5 degrees Celsius. |
| <u>TCFD Recommendations Report</u> | The Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) released its recommendations on climate-related financial disclosures, which has garnered the support of some of the world's largest investors and companies and continues to gain momentum. |
| <u>IFRS Foundation Consultation Paper and Comment Letters: Sustainability Reporting</u> | The IFRS [®] Foundation published a consultation paper ⁸ on sustainability reporting to determine whether there is a need for global sustainability standards, whether the IFRS Foundation should play a role, and what the scope of that role could be. |
| <u>UN Principles on Responsible Investing (UN PRI)</u> | The UN PRI is the world's leading proponent of responsible investment, with over 3,000 signatories committed to developing a more sustainable global financial system. |
| <u>Net-Zero Asset Owner Alliance</u> | This is an international group of 33 institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050. |
| <u>Net Zero Asset Managers Initiative</u> | This group of 30 asset managers, representing over \$9 trillion assets under management (AUM), is dedicated to achieving a target-based net-zero goal by 2050 or sooner. |
| <u>Climate Action 100+</u> | Climate Action 100+ is an investor initiative committed to advancing the global clean energy transition by ensuring the world's largest greenhouse gas emitters act on climate change. |
| <u>Network for Greening the Financial Systems (NGFS)</u> | This is a coalition of central banks and supervisors dedicated to realizing a sustainable economy by sharing best practices and contributing to the development of climate-related risk management in the financial sector. |

⁷ This is not intended to be an exhaustive list.

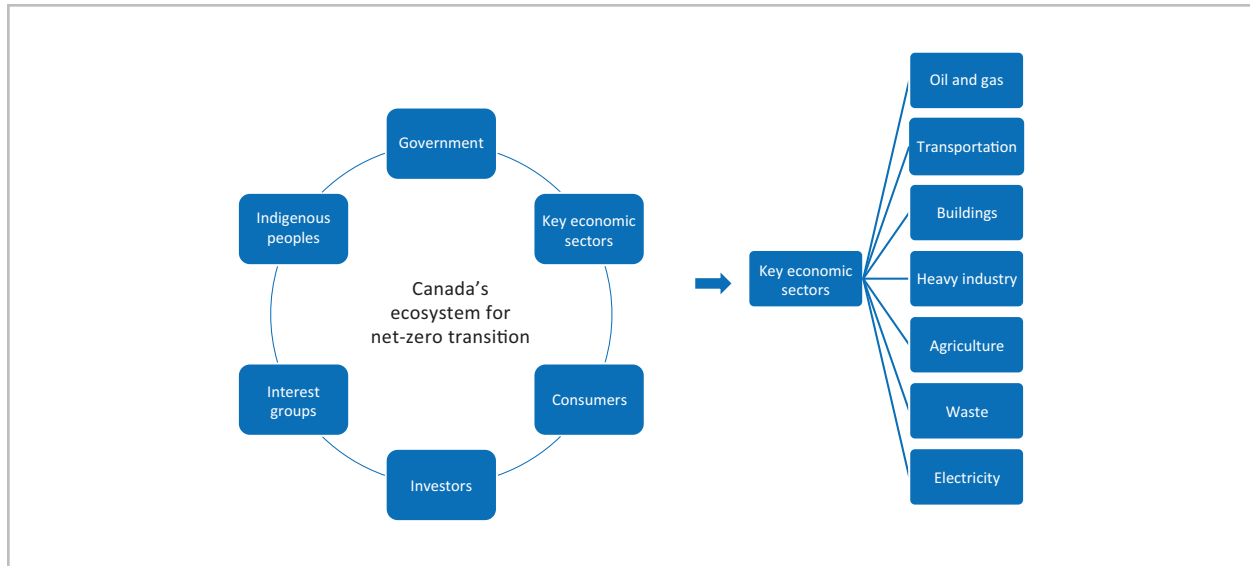
⁸ Comments were due to be received by December 31, 2020.

| | |
|--|---|
| <u>European Union (EU) Taxonomy</u> | The EU Taxonomy is a tool to help investors understand environmentally sustainable economic activities and navigate the transition to a low-carbon economy. |
| <u>Conference of the Parties (COP) 26</u> | This annual meeting convenes parties to the United Nations Framework Convention on Climate Change to discuss climate-related issues, including GHG emissions and climate change. COP 26 will be held in November 2021 in Glasgow in partnership with Italy. |
| <u>Youth Action</u> | Youth globally express opposition to economic and environmental activities and policies that contribute to climate change and have acted (e.g., via climate strikes, grassroots initiatives etc.) to voice their political agency and address climate change. |
| <u>International Capital Market Association (ICMA) Climate Transition Finance Handbook</u> | This publication provides the International Capital Market Association's guidance and expectations on actions and disclosures when raising funds in debt markets for climate- and transition-related purposes. |
| Canadian | |
| <u>Significance of oil and gas in the Canadian economy</u> | The Canadian oil and gas sector is foundational to Canada's economy. In 2019, the oil and gas sector contributed \$110 billion to Canada's gross GDP and supported approximately 550,000 jobs nationally. |
| <u>Canada's low carbon electricity generation</u> | Canada boasts low-carbon electricity generation, with 67 per cent and 82 per cent of electricity generated from renewable sources and non-GHG emitting sources, respectively. |
| <u>Canadian Securities Administrators (CSA) Staff Notice 51-358</u> | This guidance is issued by the CSA on the disclosure of material climate-change-related risks, including board and management responsibilities. |
| <u>TCFD support from investors and companies</u> | The consideration of climate-related risk through TCFD-aligned disclosure is gaining significant momentum globally, with a growing number of supporters and increased adoption by investors and companies. |
| <u>Mobilizing Finance for Sustainable Growth</u> | Released in 2019, this <i>Final Report of the Expert Panel on Sustainable Finance</i> presents practical recommendations focused on facilitating essential market activities, behaviours and structures required to spur sustainable finance in Canada. Recommendation 12 is to "support Canada's oil and natural gas industry in building a low-emissions, globally competitive future." |

| | |
|---|--|
| <u>Capital Mobilization Plan for a Canadian Low Carbon Economy</u> | This comprehensive, fact-based blueprint for the low-carbon transition in Canada is produced by The Institute for Sustainable Finance in response to the <i>Final Report of Canada’s Expert Panel on Sustainable Finance</i> . |
| <u>CSA Transition Taxonomy</u> | Currently in development, Canada’s transition taxonomy scopes “transition-oriented” activities that do not meet international green criteria to unlock capital (e.g., transition bonds) for transitional economic activities. |
| <u>Carbon pricing</u> | The federal carbon pollution pricing system came into force in June 2018 under the <i>Greenhouse Gas Pollution Pricing Act</i> . With a starting price of \$20 per tonne, the price of carbon is planned to increase to \$170 per tonne by 2030. |
| <u>A Healthy Environment, and a Healthy Economy</u> | There is an increasing focus of government policies on climate-related issues and Canada’s net-zero transition, including the tabling of the <u>Canadian Net Zero Emissions Accountability Act</u> and a renewed climate plan titled, <i>A Healthy Environment, and a Healthy Economy</i> . |
| <u>Public Policy Forum (PPF)</u> | <p>The PPF is an independent, non-partisan, non-profit organization that contributes to policy-making processes by facilitating public-private dialogue. In 2020, the PPF held a series of sustainable finance roundtables, one of which was focused on <i>Supporting Canada’s Oil and Gas Industry Through Sustainable Finance</i>.</p> <p>A PPF report released in September 2020 by David Dodge, former Governor of the Bank of Canada, called <u>Two Mountains to Climb: Canada’s Twin Deficits and How to Scale Them</u>, makes a strong case for the importance of oil to our balance of trade and economic growth. He discusses the twin challenge of reducing emissions while preserving export revenues and why these actions matter.</p> |
| <u>Sustainable Finance Action Council</u> | The Sustainable Finance Action Council is tasked to develop a well-functioning sustainable finance market in Canada. Once formed, the group will make recommendations on market infrastructure gaps, enhancing climate-related financial disclosures, data access, and sustainable investment standards. |
| <u>Clean Energy Canada and Abacus data survey of Canadians</u> | Research finds that two out of three people in Canada would like to see Canada as a leader on the shift toward clean energy and clean technology. Also, the <u>Canadian Labour Congress (CLC)</u> , representing over three million workers nationwide, has expressed support for the government’s climate-reduction emissions plan. |
| <u>Canadian Centre for Climate Information and Analytics (C3IA)</u> | Based on the Expert Panel’s recommendation, C3IA was established as an authoritative, interoperable portal to Canada’s consortia of public and private climate-related and financial data centres. The C3IA will curate user-based data sets and decision tools that bridge the gap between data and intuitive analysis. |

Appendix B – Canada’s Ecosystem for the Net-Zero Transition

FIGURE 1: OVERVIEW OF CANADA’S ECOSYSTEM AND KEY ECONOMIC SECTORS CRITICAL TO CANADA’S LOW-CARBON TRANSITION



Interest groups include industry and professional associations, cleantech and innovation hubs, non-governmental organizations, not-for-profits, and local communities.

Key economic sectors are based on Canada’s [national emissions by sector](#) according to Statistics Canada.

Appendix C – Additional Resources

CPA Canada Resources

- [A primer on greenhouse gas emissions management](#)
- [Climate Change Briefing: Questions for Directors to Ask](#)
- [Climate-Related Reporting in the Energy Sector – Joint roundtable report with TSX Group](#)
- [Climate Risk: Is it on Your Radar?](#)
- [Collaboration with Natural Resources Canada \(NRCan\) on climate change training and climate-related disclosure](#)
- [CPA Practical Experience: Competency Requirements](#)
- [Environmental and Social Risks and Opportunities: Questions for Directors to Ask](#)
- [Investor interviews on climate disclosure and decision-making: Key findings](#)
- [Investor Trends and Perspectives on TCFD Recommendations](#) – Webinar
- [Management Accounting Guideline® and accompanying case study – GHG Emissions Management: Linking GHG Emissions Management to Corporate Strategy, Risk and Performance](#)
- [The Prince of Wales’s Accounting for Sustainability \(A4S\) Canadian Chapter of the CFO Leadership Network](#)

Oil and Gas Innovations and Technologies

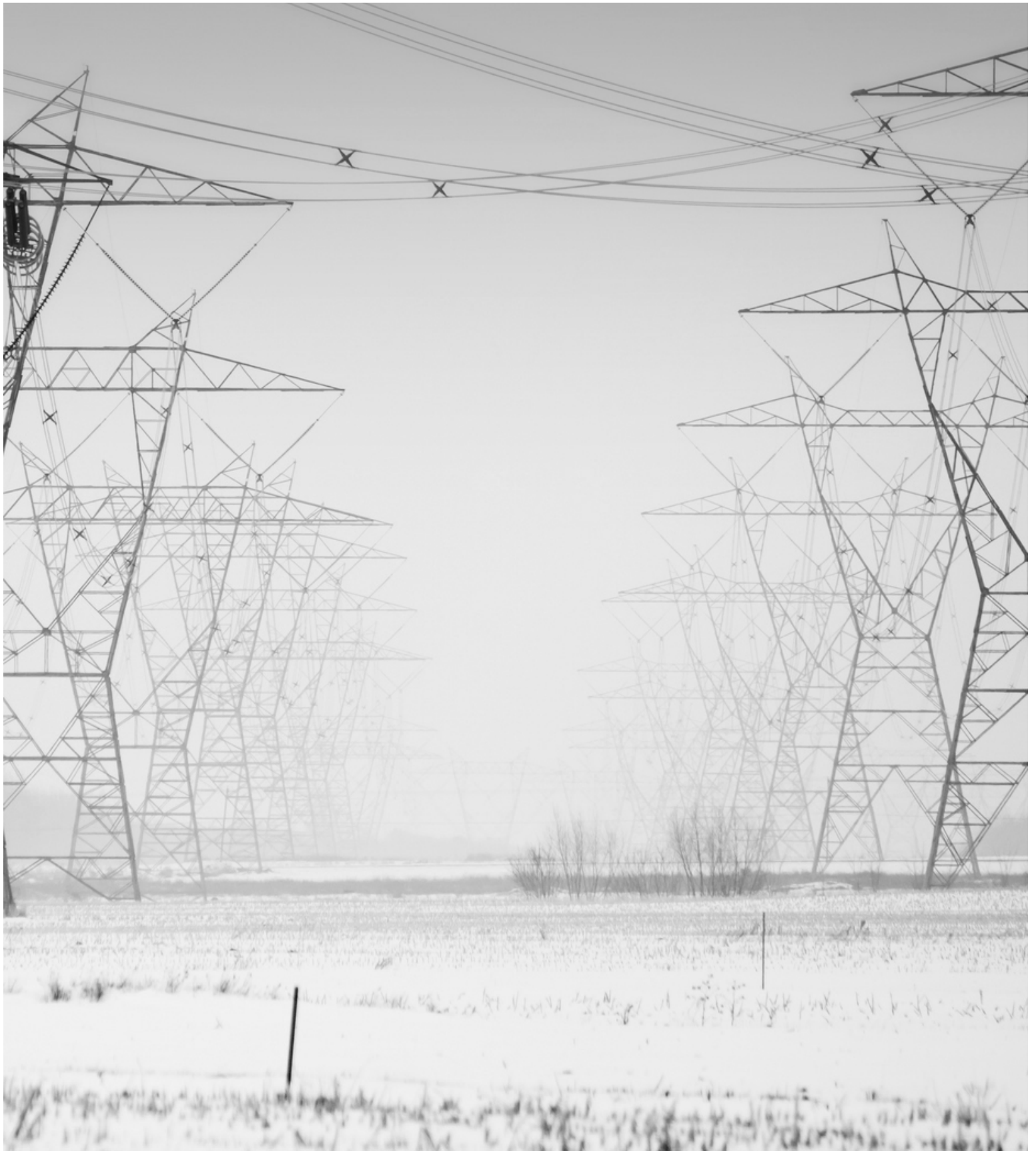
- [Alberta Carbon Trunk Line](#)
- [Bitumen Beyond Combustion – Phase 2 Report – by Stantec Construction for Alberta Innovates](#)
- [Boundary Dam Carbon Capture Project](#)
- [Canadian Innovation in the Oil and Gas Sector](#) – by Connect 2 Canada
- [Natural Gas Vision and Strategy – discusses hydrogen as a key growth area](#)
- [Quest Carbon Capture and Storage](#)

Stakeholder Partnerships and Alliances

- [Alberta Innovates](#)
- [Canada's Oil Sands Innovation Alliance \(COSIA\)](#)
- [Canadian Association of Petroleum Producers \(CAPP\)](#)
- [Clean Resource Innovation Network \(CRIN\)](#)
- [Energy Futures Lab](#)

Other

- [Drive Carbon Neutral Program](#) – Shell Canada
- [Economic Strategy Tables](#) – Government of Canada
- [Four valleys of death and why we must build a bridge – Climate Tech](#)
- [Pan-Canadian Framework on Clean Growth and Climate Change](#) – Government of Canada
- [World Energy Outlook 2020](#) – International Energy Agency



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