CAPP

January 30, 2026

The Honourable Julie Dabrusin
Minister of Environment and Climate Change Canada (ECCC)
125 Zaida Eddy Private,
Ottawa ON K1R 0E3
(via email: ec.ministre-minister.ec@canada.ca)

Dear Minister Dabrusin:

Re: Driving Effective Carbon Markets in Canada

The Canadian Association of Petroleum Producers (CAPP) appreciates the Government of Canada is actively consulting on its industrial carbon system and offering the opportunity to comment on *"Driving Effective Carbon Markets in Canada"* (the discussion paper). Over the past years, CAPP and its members have consistently advocated for unwinding the increasing policy complexity, density, and uncertainty developed over the last decade. It has led to delayed investments, lost opportunities, and a competitive disadvantage on the global energy stage. Key to this effort are major changes to the industrial carbon pricing system under the *Greenhouse Gas Pollution Pricing Act* (GGPPA).

World events over the past year have substantially altered Canada's economic and geopolitical circumstances. The GGPPA and its provincial equivalents for large emitters are not globally cost competitive for the upstream oil and natural gas industry. **Major change is required to strengthen Canada's economic sovereignty, attract the investment needed to create high-quality jobs, support provincial leadership, and maintain investor confidence in Canadian industry during times of low commodity prices.**

CAPP's members share the goals identified by Prime Minister Carney: to grow production, build infrastructure to access markets, protect competitiveness, and reduce greenhouse gas emissions. Budget 2025 outlines a plan to mobilize $1 trillion in total investment over the next five years. These commitments, in combination with the recently signed Canada-Alberta Memorandum of Understanding (MOU), represent critical steps to unlock Canada's world class oil and natural gas resources.

In his speech to the World Economic Forum, the Prime Minister recognized that this is an era of significant geopolitical and geoeconomic rupture and risk. This is the time to be ambitious about strengthening Canada's resilience, sovereignty, and economy by protecting and growing our key industries. It is not the time to burden industry with additional costs, discouraging investment. As the Prime Minster stated, "Sovereignty [...] was once grounded in rules, but will increasingly be anchored in the ability to withstand pressure."[1] A strong Canadian economy, supported by key industries, including the oil and natural gas sector, is critical to securing our sovereignty, maximizing the value of our resources, and ensuring prosperity for future generations.

We agree that Canada's industrial carbon system must "protect competitiveness" as described in the discussion paper: "Protect Canadian industry against adverse competitiveness impacts and carbon leakage by keeping compliance costs low." The content of the discussion paper is fundamentally misaligned with this principle, the direction of the Prime Minister, and commitments in the Canada-Alberta MOU to deliver globally competitive industrial carbon policy.

Higher costs for carbon directly reduce Canada's competitiveness. In this new era of economic nationalism, jurisdictions that compete with Canada for hydrocarbon market share, and for investment capital to build export infrastructure, bear little to no burden for carbon compliance.

It is a challenging period for the oil and natural gas industry, with forecasts projecting increasingly lower prices due to an abundance of supply in global markets. The United States, the world's largest producer and consumer of oil and natural gas, is actively working to simplify regulation, attract investment, and lower consumer prices for oil and natural gas for American consumers to address inflation challenges.[2] Recent events in Venezuela, and other international positioning, have illustrated U.S. willingness to leverage all tools at their disposal to achieve geopolitical and energy goals along with domestic political imperatives. Adding regulatory complexity and increased compliance costs to Canadian industry will undermine the economic objectives the Prime Minister has articulated to the country.

In response to national and global pressures, now is the time for a holistic assessment of Canada's industrial carbon pricing. Provinces have shown how industrial carbon pricing and free credit markets can deliver emissions reductions. Canada should work with those provinces to leverage the solutions in their systems that make them more competitive. Measures such as the 100,000 tonne threshold in Alberta's Technology Innovation and Emissions Reduction (TIER) regulation address the majority of emissions while allowing flexibility for smaller facilities with fewer emission reduction options. The discussion paper does not do that; instead, it proposes to constrain provincial systems, increase compliance costs, eliminate free credit markets, and repeal programs that incentivize emission reduction projects. An assessment of key proposals in the discussion paper is appended to this letter. **CAPP recommends that the proposals in the ECCC discussion paper should not proceed.**

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[1] Prime Minister Carney at the World Economic Forum, January 20, 2026.
[2] FACT SHEET: Delivering On U.S. Oil And Natural Gas Production | Department of Energy

Instead, we are urgently seeking a senior-level, multi-ministerial forum to discuss industrial climate policy through a global competitiveness and growth perspective. This approach would recognize existing provincial commitments and regulations to reduce emissions. Existing regulations place a significant cost on Canadian oil and gas producers, challenging their ability to attract capital and limiting Canada's ability to position itself as a global energy superpower. This work would include finalizing:

- The industrial carbon commitments identified in the Canada-Alberta MOU**.** The MOU identifies multiple potential pivotal changes to Alberta's industrial carbon pricing system such as developing globally competitive effective carbon prices, carbon levy recycling protocols, and sector-specific stringency factors for large Alberta emitters. These and other changes will have major impacts on our sector. Canada can support this work as a replacement for, not in addition to, any national industrial carbon pricing scheme.

- Methane equivalency agreements with provinces to fully assess the compliance costs of achieving the 2035 target and competitiveness impacts on the conventional oil and natural gas industry. The recently published amendments to the federal methane regulations place an incremental $14.6B compliance cost on industry.[3] They also include requirements that, as written, are incompatible with upstream oil and gas operations. The draft regulations were identified by industry as unworkable, and insufficient amendments were adopted in the final regulation to address these concerns. **To develop a compliance pathway, Canada will need to solely rely on high-quality provincial emissions data to recognize historic provincial methane emissions abatement and to identify provincially optimized, efficient, and cost-effective regulations.** The ultimate impact of the amended methane regulations on our industry's competitiveness is difficult to quantify, but it will be significant.

The Prime Minister recognizes that we need to "take on the world as it is, not wait around for a world we wish to be."[4] For the oil and natural gas sector, this means supporting Canada in its ambition to become a global energy superpower through increased and diversified exports. To compete in the global energy market, we need Canada to be competitive in all policy areas, including climate.

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[3] As per the *Regulatory Impact Analysis Statement* of the Regulations Amending the Regulations Respecting Reduction in the Release of Methane and Certain Volatile Organic Compounds (Upstream Oil and Gas Sector): SOR/2025-280

[4] Prime Minister Carney at the World Economic Forum, January 20, 2026.

To summarize our position: CAPP submits that the ECCC discussion paper proposals do not reflect an understanding of the global competitive challenge that Canada is facing and should not be pursued. The proposals will result in increased compliance costs, negatively impacting our industry's competitiveness, and constraining Canada's ability to meet its economic growth and diversification goals.

The consequences of uncompetitive and punitive carbon policy are production decline and lower investment, contrary to the Government's stated goal of becoming an energy superpower and the fastest growing economy in the G7. The dissonant signals to investors from Canada's national economic vision articulated over the last several months and from the release of the ECCC discussion paper need to be urgently reconciled. Further, the projects being identified by the Major Projects Office will be significantly impaired by an uncompetitive carbon policy.

CAPP calls for **Canada to urgently convene a senior-level, multi-ministry forum with industry – including the Privy Council Office and Finance – to discuss industrial climate policy through a global competitiveness and growth perspective.**

CAPP would welcome the opportunity to meet with you and your team to discuss industrial carbon policy and opportunities to improve our sector's competitiveness and ability to realize the Prime Minister's objectives.

Thank you

Lisa Baiton
President & Chief Executive Officer

Cc: Hon. François-Philippe Champagne, Minister of Finance and National Revenue
Hon. Tim Hodgson, Minister of Energy and Natural Resources
Hon. Dominic Leblanc, President of the King's Privy Council for Canada and Minister responsible for Canada-U.S. Trade, Intergovernmental Affairs, Internal Trade and One Canadian Economy
Michael Sabia, Clerk of the Privy Council and Secretary to the Cabinet
Marc-André Blanchard, Chief of Staff, Office of the Prime Minister

CAPP Appendix 1:

Canada needs clear, practical policies to reduce regulatory burden, reduce costs, increase production, and expand pipeline capacity while addressing emissions reductions. Conversely, the discussion paper proposes changes that would increase compliance costs and regulatory burden. These include expanding the number of facilities captured by industrial carbon pricing, establishing controls to eliminate free carbon markets, and unwinding compliance pathways that incentivize industrial decarbonization.

Impacts of the Discussion Paper's Three Main Proposals

The first major recommendation in the discussion paper is to increase the number of facilities subject to industrial carbon pricing with the aim of bringing smaller, lower-emitting facilities into the program. In practice, this would expand industrial pricing to potentially thousands of conventional oil and natural gas facilities. This directly conflicts with the MOU's commitment to focus industrial pricing on large emitters and would add significant and complex regulatory and administrative burdens. In the upstream oil and natural gas sector, it would increase operating costs but would not efficiently target emissions reductions.

Conventional oil and gas facilities have significantly reduced their methane emissions under current regulations and are poised to make further major reductions. Appropriately designed methane emissions abatement programs are the best way to reduce emissions from the conventional oil and gas industry. Bringing small emitters into the large emitter program will primarily serve to increase costs, negatively impact competitiveness, and increase administrative burden for both industry and government.

CAPP recommends that no changes be made at this time to the facility or emissions coverage of the industrial carbon pricing system.

The second recommendation of the discussion paper is to implement various prohibitions, predictive models, and triggers to mandate carbon market manipulation by government to artificially control the carbon credit price and eliminate the free market. Provincial carbon markets have driven an array of emissions reductions encouraging early action and low-cost abatement opportunities. Regulated manipulation of the market to control pricing by forcing credit demand on industry will have unintended consequences.

- The discussion document proposes regular modelling to estimate credit demand, supply, banking, and a demand "buffer" and would mandate market manipulation based on this modelling. Systems with the size and complexity of provincial carbon markets will be difficult to accurately model in practice. Any regulatory amendments based on modelling results have a high potential for disrupting markets and reducing predictability.

- A system that singularly focuses on maintaining a credit market price will provide surety of value to non-obligated voluntary credit creators at the expense of Canada's existing industry. It would not provide predictable value or certainty to support decarbonization investments for current emissions at active facilities as major industry investment in decarbonizing operations could drive down the demand for credits. As the discussion document clearly proposes, insufficient demand for credits (even if achieved through industrial emissions reductions) would trigger obligatory market intervention to force industry to buy credits to prop up the market. This reality could disincentivize the emissions reductions that should be the goal of industrial carbon policy.

CAPP recommends that provincial credit markets should be subject to minimal market manipulation, especially over the short-term, to allow credits prices to stabilize based on market forces and to ensure long-term investment certainty.

The third major proposal in the discussion paper serves to disincentivize emissions reductions by eliminating provincial compliance pathways based on proven investments in industrial decarbonization (referenced in the discussion paper as an "Emissions Reductions Account", but also known as "revenue recycling", or "direct investment"). This proposal stands in stark contrast to the MOU which commits to develop carbon levy recycling protocols, not prohibit them.

Industrial carbon policy should seek to encourage industry operators to invest in major decarbonization projects and to support the predictable value of those investments. An efficient way to do this is to allow operators to leverage multiple years' compliance obligations and to direct that funding at specified emissions reductions projects, rather than paying smaller annual compliance obligations into an industry fund with hope to regain some of that capital through grants. The discussion document's assertion that this form of emissions reduction investment is incompatible with Canada's industrial carbon pricing system should trigger a review of the current policy objectives, and not, as proposed, a prohibition on this activity to artificially prop up the credit market.

CAPP recommends providing federal policy support and provincial discretion over programs that encourage industrial operators to invest in decarbonization, including emissions reductions accounts.