

Canada National Cap-and-Trade System for Oil and Gas Emissions

General Information

ETS Description

In November 2024, the Government of Canada published draft “Oil and Gas Sector Greenhouse Gas Emissions Cap Regulations” for public consultation. The proposed regulations would establish a cap-and-trade system for GHG emissions from upstream oil and gas and LNG production, including both onshore and offshore oil production and natural gas production and processing.

The proposed system would cover all direct GHG emissions from all specified gases (including CO₂, CH₄, and N₂O) except for those from the production of electricity, with adjustments for transfers of thermal energy and hydrogen. It will be phased in between 2026 and 2029. Registration for existing operators would be required by January 2026, with reporting requirements beginning for large operators for 2026 and small operators for 2028.

Compliance periods, where the emissions cap would set a limit on covered emissions, would be three years in length, with the first compliance period set for 2030 to 2032. Operators would be responsible for ensuring compliance across all facilities under their control. The inclusion threshold would be based on an operator’s cumulative production across all industrial activities, with an annual threshold set at 365,000 barrels of oil equivalent. The emissions cap would be determined based on 2026 data, set at 27% below the reported emissions from reporting operators for that year, which is estimated to be 35% below 2019 levels. The regulations would be reviewed within 5 years of coming into force to revise the emissions cap level for subsequent compliance periods and ensure the sector remains on a path to net-zero by 2050.

The system would provide free, tradable emissions allowances to operators prior to each compliance year, with the first allowances for 2030 distributed by the end of 2029. Allowance distribution would be based on historical production and distribution rates by industrial activity based on 2019 estimates. These rates would be fixed in the proposed Regulations, and the final distribution of allowances would be pro-rated to the level of the emissions cap. Covered operators would be able to bank allowances for up to one subsequent compliance period and transfer allowances between registered operators. Allowances would not be able to be used for compliance under federal or provincial carbon pricing systems.

Operators would need to remit one compliance unit for each tonne of CO₂e emitted by their facilities, with interim requirements mandating coverage of at least 30% of emissions in each of the first two years of a compliance period. Eligible compliance units would include emissions allowances, recognized Canadian offset credits, and decarbonization units. Operators would be able to use offset credits and decarbonization units as compliance units to cover up to 20% of their obligations in total, while up to 10% could be covered by decarbonization units priced at CAD 50 (USD 36.50) per tCO₂e.

A review of the proposed regulations and the cap for the post-2032 period will be completed within five years of implementation, ensuring the system remains effective in reducing emissions post-2032 and that the sector remains on a path to net-zero by 2050.

ETS Status

under development

Jurisdictions

Canada

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

708 MtCO₂e (2022)

GHG reduction targets

By 2030: 40-45% below 2005 levels (NDC)

By 2035: 45-50% below 2005 levels (Canadian Net-Zero Emissions Accountability Act)

By 2050: Climate neutrality (Canadian Net-Zero Emissions Accountability Act)

Other Information

Institutions involved

Environment and Climate Change Canada (ECCC): Responsible for the design, coordination, implementation and monitoring of Canada's climate action plans and targets, and the implementation of the federal carbon pollution pricing backstop system; specifically, the federal carbon pricing system for industry (the Output-Based Pricing System) in provinces and territories where it applies; responsible for the development of the final regulations for the cap-and-trade system for oil and gas emissions.

Regulatory Framework

The regulations are currently in draft form. Final regulations would be published under the

[Canadian Environmental Protection Act, 1999 \(CEPA\)](#).

Evaluation / ETS review

The regulations are currently draft and published for public consultation. Final regulations are targeted for 2025. The Government of Canada has proposed to review the regulations within five years after they come into force.

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