

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

General Information

ETS Description

In December 2023, Canada announced the development of a federal cap-and-trade system for the oil and gas sector in order to achieve net-zero emissions by 2050, and released a Regulatory Framework to Cap Oil and Gas Sector Greenhouse Emissions. The system is aimed at reducing GHG pollution from the oil and gas sector, which is Canada's largest source of GHG emissions, and will play a critical role in meeting Canada's climate targets. The framework is based on a discussion document on options to cap and cut oil and gas sector GHG emissions, which was published by the Canadian government in July 2022 as part of the country's broader 2030 Emissions Reduction Plan.

The regulatory framework outlines key design details of the proposed approach and is currently undergoing public consultation. The government expects to publish these draft regulations of the oil and gas emissions cap in mid-2024 with final regulations planned for 2025.

The regulatory framework proposes a number of design details, including that the emissions cap for the oil and gas sector would be phased in between 2026 and 2030, and decrease over time to be consistent with Canada's 2050-emissions goal of net-zero. The framework proposes that the 2030 emissions cap would be in the range of 106 to 112 MtCO₂e. The government would allocate emission allowances equal to the emissions cap. The maximum level of annual emissions from the sector would be limited to a legal upper bound, which would take into account the use of flexibility provisions. This legal upper bound would include the total number of emission allowances allocated plus the maximum allowable quantity of other eligible compliance units under the cap-and-trade system, namely offset credits and contributions to a decarbonization fund. The legal upper bound would be set between 131 and 137 MtCO₂e for 2030. In the framework, the 2030 emissions cap and legal upper bound are expressed as ranges, but will be set at a specific level when the cap-and-trade regulations are finalized.

The proposed key components of the emissions cap-and-trade system include:

- The cap-and-trade system would apply to liquid natural gas and upstream oil and gas facilities;
- Petroleum refining would be excluded;
- The system would cover all direct GHG emissions: CO₂, CH₄, N₂O and others;
- The system would account for transfers of thermal energy, hydrogen, CO₂, and electricity to ensure that all GHG emissions that relate to the production of oil and gas are covered;
- Compliance periods would span three years;
- Reporting, quantification, and verifications regulations would apply for covered entities;
- Free allocation would be granted at the beginning of the first compliance period based on a baseline production level and a free allocation rate for a given product or activity;
- Auctioning of allowances might be considered in later compliance periods;
- Each allowance would be equivalent to one tCO₂e;
- Trading of emissions allowances would only be allowed among covered entities;
- Banking would be allowed for up to two compliance periods (six years);
- Payments into a decarbonization fund and domestic offset credits are being considered as compliance options;
- The emissions cap would decline at a pace and scale consistent with meeting net zero by 2050;
- The regulation would be designed to complement and leverage other federal and provincial regulations.

- Cap-and-trade regulations would be subject to ongoing monitoring and regular reviews.

ETS Status

under development

Jurisdictions

Canada

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

670 MtCO₂e (2021)

GHG reduction targets

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

By 2050: Net zero (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 OBPS), 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

[Regulatory Framework to Cap Oil and Gas Sector Greenhouse Gas Emissions](#)

[Options to Cap and Cut Oil and Gas Sector Greenhouse Gas Emissions to Achieve 2030 Goals and Net-Zero by 2050](#)

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

[Greenhouse Gas Pollution Pricing Act \(GGPPA\)](#)

[2030 Emissions Reduction Plan](#)

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