

Canada's Climate Crossroads

An Evaluation of National Emissions Trajectories across Changing Policy Priorities

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Executive Summary

Since early 2025, Canada has been navigating a new economic and political environment defined by a shifting foreign policy relationship with the United States and new domestic leadership. Mark Carney, who replaced Justin Trudeau as the Prime Minister of Canada in March 2025, has attempted to manage these new dynamics by increasing energy independence and reducing reliance on American markets, which have significant energy and climate implications. This report examines such policy changes and their relevance to Canada's climate progress by developing several policy scenarios varying federal government leadership (*Trudeau* or *Carney*) and policy priorities (*Oil and Gas* or *Climate*) and evaluating their impacts on emissions pathways through 2035. In addition, these pathways are compared against scenarios where Canada's climate targets are met to identify areas for further action.

Our results indicate that Canada is not on track to meet its emissions reductions targets. Canada will likely miss the 2030 Nationally Determined Contribution (NDC) target by more than 150 million metric tonnes of CO₂-equivalent (MtCO₂e) across all scenarios evaluated. If existing policies of the current government are continued through 2035 (*Carney Policies* scenario), GHG emissions drop by only 25% from 2005 to 2035, falling short of the 45–50% reduction to which Canada committed in its 2035 NDC. However, even if certain federal climate policies from the Trudeau administration are reinstated, and existing federal clean fuel, electricity and methane regulations are strengthened (*Carney Prioritizing Climate* scenario), our results suggest that Canada could only achieve a 33% emissions reduction by 2035.

The remaining gap to Canada's 2035 NDC under the *Carney Prioritizing Climate* scenario is mostly from the oil and gas production sectors. At the federal level, additional policies are needed to limit oil and gas infrastructure expansion, promote electrification across key-emitting sectors (buildings, industry, and transportation), strengthen and expand clean fuel regulations, and implement electricity sector decarbonization strategies. Additionally, strong subnational action is needed to fill policy and implementation gaps to deliver emissions reductions particularly in the fossil fuel sectors. Provinces share jurisdiction of natural resources with the federal government in certain cases, and a number of subnational actors have economic and industrial interests that are closely tied with fossil fuel production. While this presents a challenge of managing competing provincial economic priorities versus binding national climate accountability frameworks in the near term, it also brings opportunities to diversify the fossil-dependent local economies for long-term prosperity. In order for Canada to remain on track with its emissions reduction goals and achieve sustained economic growth, Canadian leaders must identify opportunities for enhanced action at the federal level as well as opportunities for collaboration with key subnational actors.

Introduction

Mark Carney replaced Justin Trudeau as Prime Minister of Canada on March 9, 2025, and quickly implemented policies that will likely limit Canada's ability to achieve its climate goals. His first official act was to repeal the consumer carbon tax that had long been an unpopular policy amongst voters and was once the cornerstone of the Trudeau government's climate agenda.¹ The Carney government's first major piece of legislation—the *One Canadian Economy Act*—received royal assent on June 26, 2025, and includes the *Building Canada Act* that allows the federal government to bypass (fast-track) many regulatory and permitting procedures for major infrastructure projects that Ottawa designates as being in the country's national interest.² As of May 2026, Canada is moving forward with two tranches (sides) of major “nation-building” initiatives under this Act, representing investments of more than \$116 billion CAD.³ These projects are focused on expanding infrastructure, securing critical minerals, and facilitating a low-emissions energy transition. The Carney administration has prioritized these projects for fast-tracked approval, seeking to establish the country as an “energy superpower”.³ However, current high-priority developments include a set of significant fossil fuel and petrochemical ventures intended to enhance infrastructure and energy export capacity.⁴ For example, the current Phase 2 of the LNG Canada project is expected to double Canada's production capacity, potentially leaving an open channel for future LNG projects to be fast-tracked under the legislation.⁵ While these projects aim to bolster the economy, some initiatives have been met with resistance and climate advocates and First Nations have expressed concerns regarding their impact on Canadian climate goals.⁶

Furthermore, in February 2026, the Carney government announced it would abandon the Trudeau-era electric vehicle (EV) availability standard that set a minimum share of EV passenger vehicle sales and, instead, reinstate a \$5,000 tax credit for the purchase of a new EV alongside emissions standards for internal combustion vehicles.⁷ The previous regulatory framework established a detailed compliance schedule, mandating a transition for automakers through specific milestones: 20% by 2026, 60% by 2030, and a final 100% EV sales threshold by 2035.⁸ However, by substituting these quotas with broader emissions efficiency benchmarks, the new approach provides manufacturers with the flexibility to market internal combustion vehicles over an extended horizon. This strategic shift is largely motivated by the imperative to protect Canada's domestic auto industry from U.S. tariffs, implemented under the Trump administration.⁹

Conversely, the Carney government has extended market-based incentives to drive investment in the energy transition. The government's first budget that was tabled in November 2025 extended investment tax credits (ITCs) for carbon capture, utilization, and storage (CCUS), and expanded ITCs for clean electricity, clean hydrogen production, and clean technology manufacturing.¹⁰ The budget also included commitments to finalize the federal clean electricity regulations, strengthen industrial carbon pricing and abandon the long-planned cap on greenhouse gas (GHG) emissions from the oil and gas sector.

Shortly after the national budget was tabled, a memorandum of understanding (MOU) was signed by the federal government and the Alberta provincial government on a path forward for the energy industry.¹¹ The Canada-Alberta MOU resolves that new oil pipelines and LNG infrastructure should be built to provide Canada greater opportunities to diversify its export destinations for oil and gas. The MOU also exempts Alberta from its requirements under the clean electricity regulations and delays key milestones for the province under the federal oil and gas methane regulations.

It is reasonable to assume that other provinces will also demand these policy concessions apply to them, meaning there could be further weakening of these federal regulations.

In the days following the MOU signing, the long-awaited methane regulations for both oil and gas operations and landfills were finalized, targeting a 72% reduction in oil and gas methane emissions below 2012 levels by 2030, with compliance starting January 1, 2028.¹² Directives under these regulations include rigorous prohibitions on methane venting and mandate comprehensive protocols for leak detection and repair, specifically targeting upstream and midstream industrial sectors.¹² However, while Alberta remains subject to federal methane oversight, the province has secured an “agreement-in-principle” with federal authorities to implement its own provincial mandates in lieu of national standards. This equivalency agreement extends the timeline for Alberta to achieve a 75% reduction in oil and gas methane emissions relative to 2014 baselines, shifting the compliance horizon to 2035 from the original 2030 federal objective.¹³

Canada is navigating a new economic environment defined by shifting foreign policy dynamics under the second Trump administration, compelling the new government in Ottawa to mitigate what is viewed as an excessive reliance on the American market. Consequently, the government is prioritizing the diversification of its global trade partnerships and economic alliances to bolster national resilience. Several changes to Trudeau-era climate policies have been a side effect of these efforts by the Carney government to reduce dependence on the American market and enhance the resilience of the Canadian economy. However, the impact of the new government on climate efforts and future emission pathways for Canada is unclear, as several policies have been reverted, while others have been altered or extended.

Canada’s climate strategy remains in a period of significant transition, attempting to balance long-term net-zero commitments with pressing socioeconomic and political factors that have led to the suspension of various flagship climate action programs. Despite the availability of over \$100 billion CAD in incentives for clean transition technology and initiatives,¹⁴ recent federal directives appear to be tempering the nation’s clean energy trajectory. The analysis in this report aims to understand the impact of these policy changes on Canada’s GHG emissions trajectory and the dynamics of the energy transition.

Alternative energy and climate policy futures

Several Canadian climate policy scenarios were constructed and modeled using the Global Change Analysis Model (GCAM-v8.2) to examine potential GHG emissions trajectories and associated energy system changes (additional modeling details are included in the Modeling Appendix at the end of this report). The first scenario is the *Trudeau Policies* scenario that includes all federal climate policies in place at the time of Prime Minister Trudeau's resignation (March 9, 2025) that were modellable within GCAM (Table 1).

Table 1. Canadian federal climate policies modeled in the *Trudeau Policies* scenario.

CCUS = carbon capture, utilization, and storage. HFC = hydrofluorocarbon. ITC = investment tax credit. LDV = light-duty vehicle. ZEV = zero-emission vehicle. For additional information on what these policies entail and cover, please see Table A2 in the appendix.

Cross-cutting	Agricultural, industrial, and waste sectors
CCUS ITC	Agricultural clean technology program
Clean fuel regulations	Clean hydrogen production ITC
Fuel charge / consumer carbon tax	Clean technology ITC
HFC phasedown	Landfill methane regulations
Electricity	Net zero accelerator
Clean electricity ITC	Oil and gas methane regulations
Clean electricity regulations	Output-based pricing system
Coal phaseout	Transportation
Buildings	Electric vehicle availability standard
Building heat pump adoption	Freight truck emissions regulations
Building shell efficiency improvements	LDV emissions regulations
Greener homes program	ZEV incentives
Oil to heat pump affordability program	ZEV infrastructure program

Table 2. Bottom-up policy scenarios. All four policy scenarios noted in the table below were run with a top-down emissions constraint to achieve Canada's 2035 NDC target.

Policy agenda	Scenarios for federal government leadership	
Current / Existing Policies	Trudeau Policies Policies under Trudeau as of March 2025	Carney Policies Policies implemented/repealed in Carney's first year
Clean energy and energy transition	N/A	Carney Prioritizing Climate Carney's policies + reinstating and strengthening existing federal climate policies
Oil and gas	N/A	Carney Prioritizing Oil & Gas Carney's policies + less stringent federal climate policies

The *Carney Policies* scenario captures the evolution of Canada's federal climate policy portfolio during Carney's first year as Prime Minister. While there is considerable continuity of Trudeau-era policies, there are some notable changes. Specifically, the fuel charge (more commonly known as the consumer carbon tax) was repealed and the electric vehicle availability standard was replaced with the revival of the zero-emission vehicle (ZEV) incentives policy and stronger support for ZEV infrastructure. The CCUS ITC was extended and methane regulations for both landfills and the oil and gas sector were finalized after many years of development, signaling potential for increased national mitigation efforts.

Uncertainty over the direction of climate policy as a priority for the Carney government prompted examination of two additional policy scenarios as variations of the *Carney Policies* scenario: *Prioritizing Oil & Gas* and *Prioritizing Climate*.

In the *Carney Prioritizing Oil & Gas* scenario (*Prioritizing Oil & Gas*), the federal government fast-tracks new fossil fuel infrastructure projects like pipelines and LNG terminals, while implementation of existing climate policies lags as climate concerns are assumed to fall further down the government's list of priorities. Notably, some of the policy assumptions in this scenario are aligned with policy statements included in the Canada-Alberta MOU under the assumption that other provinces will seek the same policy concessions if its terms are fully implemented. The policies assumed to be impacted by the MOU in this scenario are the clean electricity regulations, output-based pricing systems, and oil and gas methane regulations. Federal regulations assumed to be less stringent in the *Prioritizing Oil & Gas* scenario include the clean fuel regulations, landfill methane regulations, and emissions regulations for LDVs and freight trucks. Other climate policies with weaker implementation assumptions in this scenario include coal phaseout in the electricity sector, building shell efficiency improvements, purchase incentives and infrastructure programs for ZEVs, and ITCs for CCUS, clean electricity, clean technology, and clean hydrogen production.

The *Carney Prioritizing Climate* scenario (*Prioritizing Climate*) assumes that several federal climate policies from the *Trudeau* scenario are reinstated, and several additional existing federal policies are even strengthened. This scenario assumes that the government fast-tracks major grid infrastructure projects to facilitate electrification, renewable energy buildout, and better interconnection between provincial electricity grids. Additionally, some repealed climate policies are reinstated in the *Prioritizing Climate* scenario similar to the *Trudeau* scenario, alongside stronger implementation assumptions for existing policies. Specifically, the government reinstates the greener homes program and the electric vehicle availability standard in this scenario, extending the latter to include separate ZEV sales targets for freight trucks. New industrial efficiency and passenger vehicle-miles-traveled (VMT) reduction programs are also enacted in this scenario. Several existing regulations are also strengthened including those for clean fuels, clean electricity, oil and gas methane, landfill methane, and freight truck emissions. Additionally, coal phaseout in the electricity sector is accelerated and several other policies are enhanced including the output-based pricing system, building shell efficiency improvements, purchase incentives and infrastructure programs for ZEVs, and ITCs for CCUS, clean electricity, clean technology, and clean hydrogen production. Furthermore, this scenario includes new policies in the form of VMT reductions, an industrial efficiency program, and inclusion of freight trucks for reinstated ZEV sales mandates.

A second variation of each of the four modeled bottom-up policy scenarios described above includes a top-down emissions constraint for achievement of Canada's 2035 NDC target of 45–50% below 2005 levels and, subsequently, net-zero GHG emissions by 2050. This will help identify gaps where

additional policy action is needed to achieve the NDC target. Notably, achievement of the 2030 NDC was not modeled given the government's recent admission of its thinking on the achievability of this target in the context of other policy imperatives: "Meeting Canada's 2030 greenhouse gas target 'at all cost' risks undermining Canada's broader economic and social objectives."¹⁵

Canada's GHG emissions trajectory

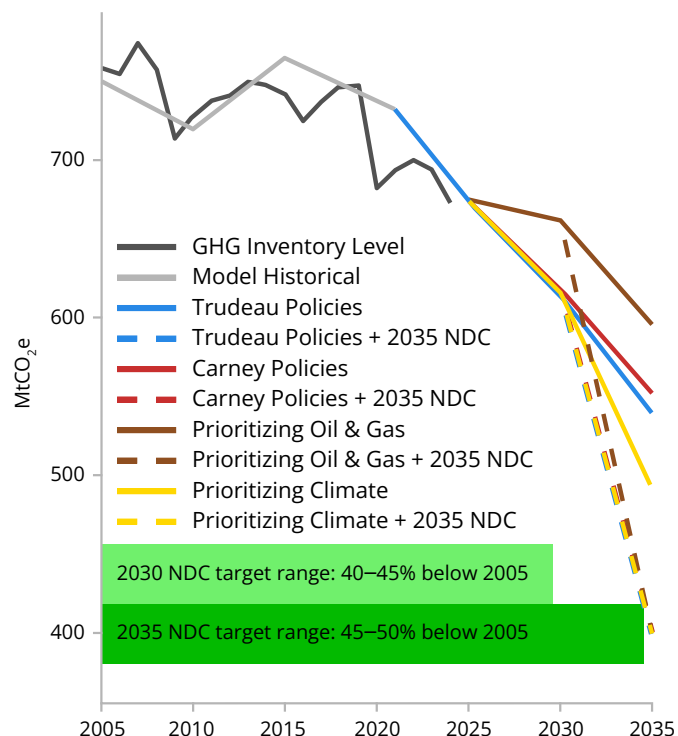
Our results suggest that while political leadership does slightly impact projected emissions reduction by 2035, the government's future prioritization of climate or oil and gas investments will play a bigger role in how close Canada comes to achieving its NDC. We find that GHG emissions are reduced by 27% from 2005 to 2035 in the *Trudeau Policies* scenario compared to 25% in the *Carney Policies* scenario (Figure 1A). Emissions reductions in both of these scenarios fall short of the 45–50% reduction needed to achieve the 2035 NDC target. If the Carney government were to prioritize oil and gas infrastructure development over the near term and allow climate policy to slide down its list of priorities, we find that emissions in the *Prioritizing Oil & Gas* scenario could be just 19% below 2005 levels by 2035. Alternatively, if the government were to strengthen existing climate policies, as modeled in the *Prioritizing Climate* scenario, we find that Canada could achieve emissions reductions commensurate with a 33% reduction from 2005 levels by 2035.

The gap in 2030 between GHG emissions in the *Carney Policies* scenario and the NDC target level shown in these results (Figure 1A) is aligned with the government's positioning and observations from other institutions that the 2030 target is likely to be missed by a significant margin.^{15,16} Accordingly, the gap in potential emissions between the NDC and all scenarios in 2030 is more than 150 MtCO₂e, highlighting a significant loss of potential emissions reductions in the *Prioritizing Climate* scenario due to rollbacks of key policies and lagging implementation of other policies.

All four federal policy scenarios modeled fall short of the 2035 NDC target of 45–50% reduction, highlighting a need for even more enhanced policy actions, especially in the industry sector (Figure 1B).

While all scenarios and sectors see more emissions reductions when the NDC target is met, the magnitude of the difference is much higher in the industry sector where emissions are nearly four times lower on average across scenarios with a fulfilled NDC. This underscores insufficiency of existing federal policies across industrial sectors (including Canada's large oil and gas sector) and the need for enhanced action. There is also a wide disparity between the *Prioritizing Oil & Gas* and *Prioritizing Climate* scenarios that don't achieve the NDC, as the level of emissions reductions in the *Prioritizing Climate* scenario is 5 times the *Oil & Gas* scenario.

A) Economy-wide GHG Emissions



B) Sectoral GHG Emissions, absolute change 2021–2035

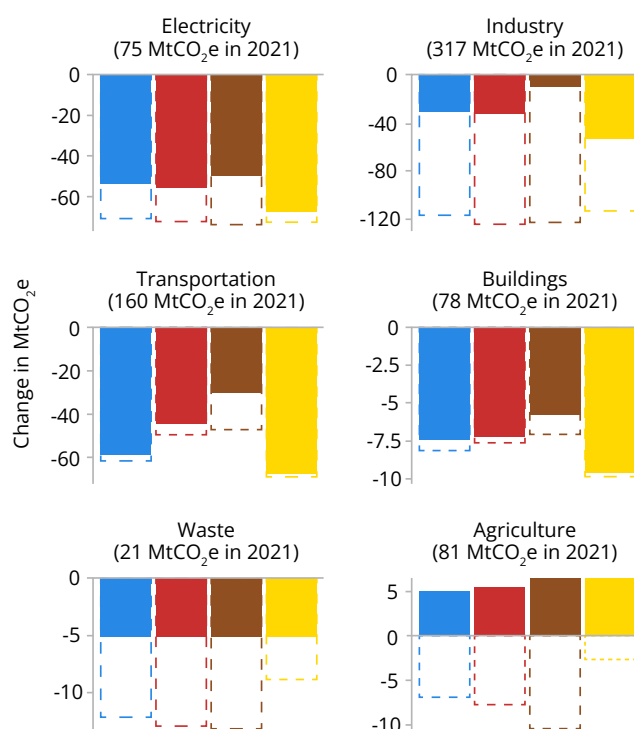


Figure 1. A) GHG emissions trajectories across modeled scenarios through 2035. Green bars show Canada's NDC targets for 2030 and 2035. **B)** Sectoral GHG emissions reductions across modeled scenarios from 2021 to 2035. Solid-colored bars show emissions reductions achieved from modeled federal policies across scenarios. Dash-outlined bars show emissions reductions achieved from modeled federal policies plus the additional reductions needed for achieving the 2035 NDC target.

Substantial emissions reductions across scenarios in the electricity sector highlight Canada's efforts to phase out coal and build out renewable energy capacity, though this is amplified in the *Prioritizing Climate* scenario (Figure 1B). Given that Canada already has a largely clean electricity grid (roughly 80% production from non-emitting sources), expansion and further investment in renewable energy, along with enhanced electrification infrastructure to decarbonize end-use sectors will be critical. The impact on transportation sector emissions from the government's decision to abandon the electric vehicle availability standard is evident in the difference between emissions reductions achieved in the sector between the *Trudeau Policies* and *Carney Policies* scenarios. The buildings sector represents a small amount of change over the 2021–2035 period because of the slow turnover in the sector.

While the *Prioritizing Climate* scenario falls short of emission reduction levels to meet the NDC target in the waste and agriculture sector, which weren't explicitly modeled in these scenarios and are a relatively small share of emissions, it does come very close to achieving similar levels of emissions reduction in the transportation, buildings, and electricity sectors. This suggests that further decarbonization beyond existing and strengthened federal policies in buildings, electricity and transportation sectors may be challenging, and that only with significant industrial decarbonization will the NDC target be met.

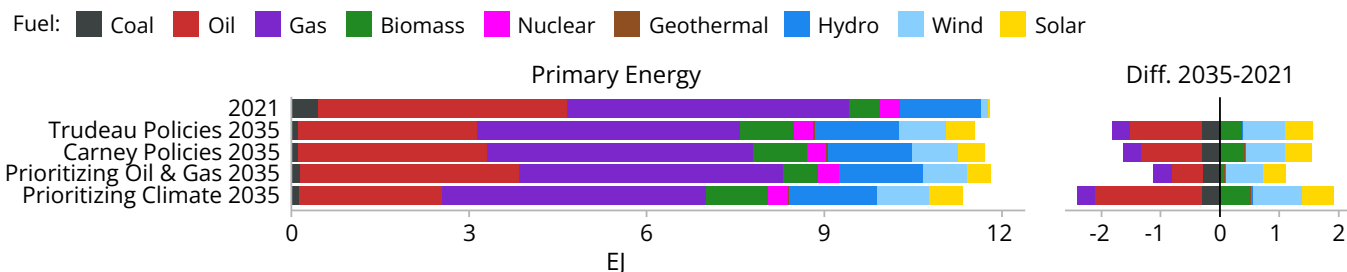
Canada's energy system evolution

The evolution of Canada's energy system through 2035 is evident across the four core scenarios modeled in this analysis.

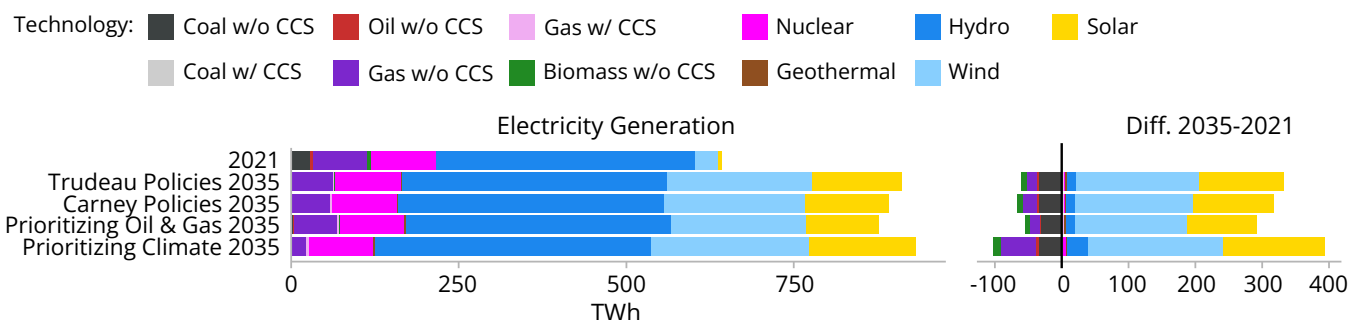
Using primary energy as a proxy for the scale of change in the energy system (Figure 2A), we observe variations in biomass growth and rate of oil and gas decline across scenarios. There is consistent growth in wind and solar energy and a decline in coal across the *Trudeau Policies*, *Carney Policies*, *Prioritizing Oil & Gas*, and *Prioritizing Climate* scenarios. By 2035, solar and wind are 25% and 14% higher, respectively, under the *Prioritizing Climate* scenario than under *Carney Policies*. Coal is 16% lower by 2035 in *Prioritizing Climate* than in the *Prioritizing Oil & Gas* scenario. Almost all scenarios see biomass growth, largely driven by the clean fuel regulations in the *Trudeau Policies*, *Carney Policies* and *Prioritizing Climate* scenario. Even under the *Prioritizing Oil & Gas* scenario, oil and gas declines from 2021 levels by 2035, though at a much lower rate (only 9% reduction) compared to a 32% decline under the *Prioritizing Climate* scenario. While growth in biofuels displaces some oil-derived liquid fuels, it is the adoption of electric vehicles that is responsible for most of the decline in oil consumption through 2035 across scenarios.

All scenarios show increasing electricity demand, but the rate of demand growth, wind and solar capacity additions and gas retirement vary across scenarios. Total electricity demand (Figure 2B) grows 42% and 39% in the *Trudeau Policies* and *Carney Policies* scenarios, respectively, from 2021 to 2035, with demand growth slightly greater in the *Prioritizing Climate* scenario and slightly lower in the *Prioritizing Oil & Gas* scenario. Build out of wind and solar capacity accounts for the overwhelming majority of new generation, across all scenarios, accompanied by smaller growth in hydro, nuclear, geothermal, and gas with CCS. This is most significant in the *Prioritizing Climate* scenario, as generation is about 25 times and 6 times greater by 2035 than in 2021 for solar and wind, respectively. Coal phaseout is effectively completed across all scenarios by 2035 and the variation in retirement of gas-fired generation is largely tied to the assumed stringency of the clean electricity regulations in each scenario, with *Prioritizing Climate* and *Prioritizing Oil & Gas* having 56% lower gas generation and 11% higher gas generation than the *Carney Policies* scenario in 2035, respectively.

A) Primary Energy by Fuel



B) Electricity Generation by Technology



C) Oil & Gas Exports by Type

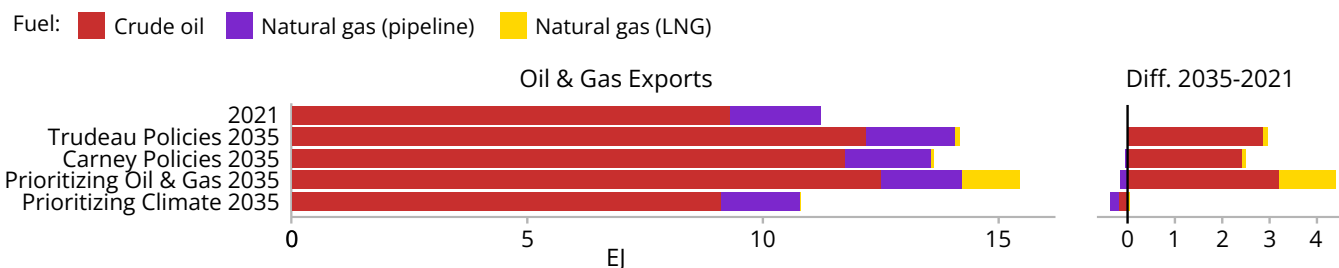


Figure 2. A) Primary energy by fuel in 2021 and across the four core scenarios in 2035 along with the difference between 2035 in each scenario from 2021. **B)** Electricity generation by technology in 2021 and across the four core scenarios in 2035 along with the difference between 2035 in each scenario from 2021. **C)** Oil and gas exports by type in 2021 and across the four core scenarios in 2035 along with the difference between 2035 in each scenario from 2021.

Almost all scenarios show increasing oil and gas exports by 2035. From 2021–2035, Canadian crude oil exports grow 31% in the *Trudeau Policies* scenario and 26% in the *Carney Policies* scenario, with very little change in natural gas exports via pipeline or LNG (Figure 2C). The *Prioritizing Oil & Gas* scenario shows a 34% increase in crude oil exports over the same period along with a huge expansion in LNG exports, which increases by over 1000%. This result rests on the assumption that LNG facilities currently under construction or in the planning phase become operational at full capacity on their intended timelines. However, under the *Prioritizing Climate* scenario, oil and gas exports decline slightly (2%) in 2035 compared to 2021.

Electrification increases significantly from 2021 to 2035 across buildings (Figure 3A), industry (Figure 3B), and transportation (Figure 3C). The overall level of change is comparatively smallest in buildings given the slow stock turnover in the sector, but electrification does increase by about 18% across scenarios. Gas increases across all scenarios except for *Trudeau Policies*, and is actually highest in the *Prioritizing Climate* scenario. Varying rates of growth in biofuel consumption driven by the

clean fuel regulations is evident in both the industry and transportation sector where biomass liquid fuels account for a much greater share of energy consumption in 2035 (over 100% in both industry and transportation) than in 2021. A small reduction in overall growth of industrial energy demand in the *Prioritizing Climate* scenario from 2021 compared to in the *Trudeau Policies*, *Carney Policies*, and *Prioritizing Oil & Gas* scenario is partly attributable to the modeled industrial efficiency program and a higher benchmark carbon price for the output-based pricing system. Electrification in industry increases 28–42% across scenarios. In the transportation sector, all scenarios see significant reduction in oil consumption from 2021 (9–31%), due to EV deployment. The reduction in oil consumption from 2021 to 2035 shrinks across the *Trudeau Policies* and *Carney Policies* scenarios with the repeal of the electric vehicle availability standard and decreases even further in the *Prioritizing Oil & Gas* scenario with further rollbacks of EV adoption under existing policies. Conversely, the *Prioritizing Climate* scenario shows that reinstating the electric vehicle availability standard plus strengthening the clean fuel regulations and other transportation-focused policies can drive further decarbonization of the sector.

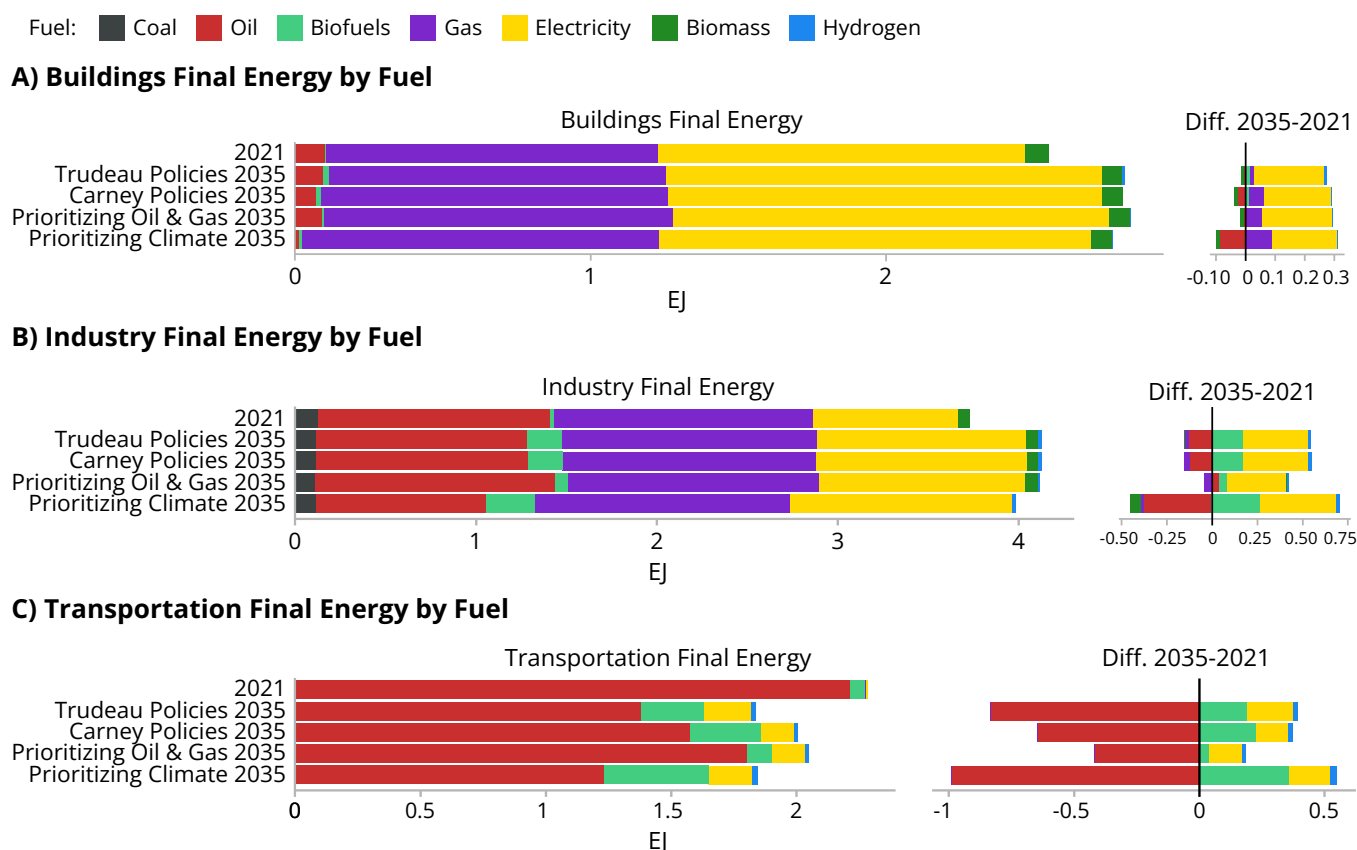


Figure 3. A) Buildings final energy by fuel in 2021 and across the four core scenarios in 2035 along with the difference between 2035 in each scenario from 2021. **B)** Industry final energy by fuel in 2021 and across the four core scenarios in 2035 along with the difference between 2035 in each scenario from 2021. **C)** Transportation final energy by fuel in 2021 and across the four core scenarios in 2035 along with the difference between 2035 in each scenario from 2021.

Opportunities and challenges for Canadian energy and climate policy

Our results suggest that current and strengthened federal policy measures are insufficient for achieving the 2035 NDC target, an outcome the government has already acknowledged.¹⁷ To bring the 2035 NDC into reach, federal authorities must focus on both the implementation of new climate strategies and the reinforcement of existing ones.¹⁸ Across all modeled scenarios, electrification represents the most considerable change across buildings, industry, and transportation, while wind and solar account for nearly all of the growth in electricity generation. These results point toward a need for continued policy focus on efforts to accelerate electrification and facilitate infrastructure development to maximize renewable energy potential. However, emission reduction levels in the electricity, transportation and building sectors under the *Prioritizing Climate* scenario with and without the NDC target achievement were similar, suggesting that identifying additional decarbonization opportunities beyond strengthened existing policies in these sectors may be challenging. The largest emissions gap between scenarios came from the industry sector, where *Prioritizing Climate* with the NDC target enables a 36% emissions reduction versus only 17% without the NDC target. Canada will need a robust policy strategy to reduce emissions from industry and the oil and gas sector.

The Carney government has steered climate policy away from the Trudeau-era regulatory framework, opting for a market-oriented approach. This model replaces mandatory carbon taxes and rigid emissions limits with sustainable finance tools, tax breaks, and industrial investments.^{19,20} The approach follows from Carney's background in central banking and climate finance, providing context to the current treatment of capital reallocation, not regulatory command, as the preferred lever of decarbonization. Our results suggest that while this regulatory approach does not lead to greater emissions reductions by 2035, the difference between the *Trudeau Policies* and *Carney Policies* scenarios is limited due to market forces continuing the expansion of renewable energy and EVs as policies are repealed. Moreover, Canada's abundance of critical minerals, hydropower, and a relatively clean electricity grid position it well to benefit from a global clean energy transition - an incentive that the government can use to expand market-based policies towards a cleaner energy transition.²¹

However, our results find that existing policies alone using this market approach are extremely insufficient for achieving the 2035 NDC target. The central vulnerability for this approach is the accountability gap. Without binding near-term emission targets, the current policy agenda amounts to a long-horizon aspiration backed by private investment promises and voluntary incentives, which have historically underdelivered when unaccompanied by enforceable floors.²² Research highlights that current federal and provincial policies will likely only meet half of the emissions reductions needed to reach the 2030 NDC target.^{15,23} Therefore, consistent policies that bridge the gap between provincial and federal emissions targets are needed to accelerate the rate of change.²³ The government dropping the consumer carbon tax, pausing the oil and gas cap, and deferring key milestones to the late 2030s risks missing a narrow window for meaningful emissions reductions. Whether market-driven green growth can move fast enough without a coercive regulatory backstop is the current dilemma that faces a clean energy transition in Canada.

Several ongoing policy discussions and political events may provide windows of opportunity for the Carney government to further clarify its intentions on domestic climate policy. Several projects have been referred to the Major Projects Office for review;²⁴ some more closely aligned with our

Prioritizing Oil & Gas scenario and others with our *Prioritizing Climate* scenario. Some projects expand oil and gas, such as the now-operational Trans Mountain Expansion that is driving increased oil sands production, LNG Canada's \$47.9 billion CAD Phase 1 facility that is set to begin exporting to Asia, and newer projects like Cedar LNG, Woodfibre LNG, and oil sands upgrades at Mildred Lake and Blackrod which will continue to extend and grow Canada's fossil fuel footprint,⁴ even if some are designed to be lower-emitting by industry standards. Furthermore, by suspending strict emission caps for the oil and gas industry in favor of prioritizing innovation through long-term carbon capture technologies,^{25,26} the government has signaled a clear preference for technological advancement over regulatory constraints. At the same time, up to \$60 billion CAD in federal tax credits and investments are backing a parallel wave of clean energy development, such as Ontario's Darlington Small Modular Reactor, utility-scale wind and solar expansion in Alberta and Ontario, geothermal projects in Saskatchewan, and major CCUS investments aimed at decarbonizing industrial processes.^{4,27} The result is a portfolio that does not yet reflect a clear transition away from fossil fuels so much as a simultaneous bet on an approach that both highlights energy security through fossil fuel infrastructure yet still promotes clean energy projects that can accelerate Canada's climate commitments.

Achieving Canada's 2035 NDC requires the full prioritization and implementation of federal climate strategies throughout all sectors alongside Canadian subnational ambition. Central to this transition is the *Canadian Net-Zero Emissions Accountability Act*, a legislative mandate requiring the nation to reach net-zero greenhouse gas emissions by 2050.²⁸ This framework uses legally binding five-year milestones to provide a clear reduction pathway and outlines the specific obligations of both federal and provincial governments.²⁸ However, the execution of these policies faces substantial obstacles. The Commissioner of the Environment and Sustainable Development has identified a significant "implementation gap," noting that critical mitigation measures are frequently delayed or lack sufficient priority, which threatens the attainment of national targets.²⁹ Moreover, deep decarbonization within the building, transportation, and industrial sectors is hindered by ongoing financial, regulatory, and behavioral challenges.³⁰

A primary complicating factor in the implementation gap is that the *Constitution Act* does not explicitly assign authority over the "environment" or "climate change" to either level of government. Consequently, the Supreme Court of Canada ruled on environmental regulation as a shared, or concurrent, jurisdiction.³¹ Under Sections 92 and 92A, provinces maintain exclusive control over local works and the management of natural resources, including timber, oil, and gas.^{31,32} While the federal government may intervene in matters of "national concern" using its "Peace, Order, and Good Government" (POGG) power, as seen in the upholding of the *Greenhouse Gas Pollution Pricing Act*, the Court has limited federal authority to setting minimum national standards.³³ Therefore, the federal government is prohibited from using this power to displace the provinces' broad environmental management responsibilities.³³ Ultimately, fulfilling the gap in Canada's NDC commitments depends on federal-provincial cooperation to increase the ambition of climate strategies, particularly in those sectors requiring the most significant decarbonization efforts.

Decarbonizing industry emissions will be critical for Canada to achieve its NDC and make significant emissions reductions. This difficulty stems from the absence of aggressive policy execution at the national level and the slow stock turnover rates. Other factors, such as the oil and gas sector emissions, account for a massive share of the national total, but federal policy measures to reduce these emissions are minimal. Moreover, the federal government does not have jurisdiction over

natural resource production, a right granted to provinces under the *Constitution Act*³⁴, which limits federal capacity to implement policy in those sectors.

Conversely, ongoing negotiations between the federal government and the Alberta government over the implementation of the *Canada-Alberta MOU* may solidify prospects for new oil and gas infrastructure and further weaken climate policy stringency as explored in the *Prioritizing Oil & Gas* scenario herein. Led by the Carney government and Premier Danielle Smith, these discussions seek to move past a historically “toxic” relationship and address provincial grievances regarding federal net-zero regulations and emissions caps.³⁵ To stabilize the relationship and temper separatist sentiment, the two sides reached an initial agreement in the November 2025 MOU that balanced Alberta’s industrial priorities with federal objectives,¹¹ notably trading project approvals for raising the industrial carbon price from current levels – though not quite to the level originally planned by the federal government.^{36,37}

However, the progress of ongoing dialogues between federal and provincial governments is not translating to domestic stability. In the current political environment, the integrity of Canadian federalism is being tested as Canada now faces the prospects of two referendums in Québec and Alberta, stemming from two separatist movements bolstered by divergent motivations. Québec’s movement is fundamentally rooted in the protection of its distinct francophone culture and linguistic identity.^{38,39} In contrast, Alberta’s movement is fueled by a feeling of political alienation and economic grievances, frequently manifesting as opposition to federal environmental policies that impact the province’s oil-centric economy.^{35,40} While neither of these are expected to deliver a result in favor of separation from Canada, it is certain that federal policy decisions of all kinds will attract greater scrutiny by those in different regions of the country.

Given the current political environment, policy initiatives that simultaneously improve the resiliency of the Canadian economy and enhance climate ambition are expected to receive the greatest support. Understandably, national unity and nation building may be the key focus of the current government moving forward, and this may prove to be a core driver of climate policy development in the coming years.

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Modeling Appendix

Modeling analysis in this study was conducted using the Global Change Analysis Model (GCAM) v8.2 and builds off of our previous research.^{41–43} Modeling assumptions pertaining to non-policy parameters are described in Table A1 and those pertaining to how policies were represented in GCAM v8.2 are described in Table A2.

Table A1. Modeling assumptions included to either tailor GCAM parameters to the Canadian context, limit the growth of emerging technologies with uncertainties concerning their scalability, or improve the internal consistency of assumptions in a given scenario. These assumptions are identical across all scenarios unless specified otherwise.

Sector	Parameter	Modeling Assumptions
Socioeconomics	Population	Population growth for Canada follows the M1 medium growth projection from Statistics Canada.
	GDP growth	GDP growth for Canada follows GDP growth rate in the <i>Current Measures</i> scenario in the Canada Energy Regulator's 2023 <i>Canada's Energy Future</i> report.
Electricity	Hydropower	Trudeau Policies: Exogenously specified to match growth rates in the Global Energy Monitor's 2025 <i>Global Hydropower Tracker</i> database, reaching 1.422 EJ of electricity generation by 2035. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>. Prioritizing Climate: Same as in <i>Trudeau Policies</i> through 2030 but reaching 1.479 EJ by 2035.
	Existing nuclear capacity	Exogenously specified to match generation levels from existing nuclear plants in the <i>Current Measures</i> scenario in the Canada Energy Regulator's 2023 <i>Canada's Energy Future</i> report.
	New nuclear capacity	New nuclear capacity is not allowed until the 2035 model period.
	New CCS capacity	New fossil or biomass capacity with CCS is not allowed until the 2035 model period.
	New oil capacity	New oil capacity is not allowed after the 2021 model period.
Industry	Grey hydrogen production	Hydrogen production from gas w/o CCS is not allowed in any model period.
Buildings	Hydrogen consumption in residential buildings	Hydrogen consumption in residential buildings is not allowed in any model period.

Sector	Parameter	Modeling Assumptions
Global	Rest-of-world climate policy	Scenarios with Canada achieving its 2035 NDC: GCAM regions in the rest of the world are assumed to be on track to achieve net-zero GHG emissions in either 2050 (Argentina, Australia_NZ, EU-12, EU-15, European Free Trade Association, Japan, South Korea, and USA), 2060 (Brazil, China, Colombia, Europe_Non_EU, Mexico, South Africa, and Taiwan), or 2070 (Africa_Eastern, Africa_Northern, Africa_Southern, Africa_Western, Central America and Caribbean, Central Asia, India, Indonesia, Middle East, Pakistan, Russia, South Asia, South-east Asia, South America_Northern, South America_Southern, and Ukraine) Scenarios with Canada not achieving its 2035 NDC: GCAM regions in the ROW are assumed to achieve only half of the emissions reductions in each period through 2050 that they would be assumed to achieve in scenarios with Canada achieving its 2035 NDC.
	DACCS growth limit	Growth in carbon dioxide removals from DACCS is limited to 375 MtCO ₂ e/year globally by 2035, with a 6.25 MtCO ₂ e/year carve-out for Canada by 2035.
	Bioenergy growth limit	Growth in primary energy from biomass is limited to 56.77 EJ/year globally by 2035, with a 0.76 EJ carve-out for Canada by 2050.

Table A2. Input assumptions for all Canadian federal climate policies modeled in GCAM.

Sector	Policy	Modeling Assumptions
Cross-Cutting	Economy-wide GHG emissions constraints	Scenarios with Canada not achieving its 2035 NDC: An economy-wide carbon tax of \$68/tCO₂ is applied in all periods through 2035 as this is the level of carbon price needed for the economy-wide GHG emissions in 2025 to be 675 MtCO₂e. Scenarios with Canada achieving its 2035 NDC: An economy-wide carbon tax of \$68/tCO₂ is applied in all periods through 2030 as this is the level of carbon price needed for the economy-wide GHG emissions in 2025 to be 675 MtCO₂e. In the 2035 model period, a binding GHG emissions constraint is added to ensure that Canada reduces emissions to at least 406 MtCO₂e in 2035 – 45% below 2005 levels.
	LULUCF	Scenarios with Canada not achieving its 2035 NDC: Based on values from Environment and Climate Change Canada's 2025 <i>Progress Report</i> , net LULUCF emissions are assumed to be -41.5 MtCO ₂ in 2035 with -29.6 MtCO ₂ coming from the LULUCF accounting contribution and -11.9 MtCO ₂ coming from nature-based climate solutions.

Sector	Policy	Modeling Assumptions
Cross-Cutting	LULUCF	Scenarios with Canada achieving its 2035 NDC: Based on values from Environment and Climate Change Canada's 2025 <i>Progress Report</i> , net LULUCF emissions are assumed to be -53.4 MtCO ₂ in 2035 with -29.6 MtCO ₂ coming from the LULUCF accounting contribution and -23.8 MtCO ₂ coming from nature-based climate solutions (the amount from nature-based climate solutions in these scenarios is double the value assumed in the <i>Progress Report</i>).
	Fuel charge	Trudeau Policies: Tax on end-use consumption of fuels reaching \$170/tCO ₂ e in 2030 and holding constant at that level through 2035. Applicable sectors include agriculture, buildings, construction, and transportation. Carney Policies: Tax on end-use consumption of fuels reaching \$80/tCO ₂ e in 2025 before being repealed. Applicable sectors include agriculture, buildings, construction, and transportation. Prioritizing Oil & Gas: Same as in <i>Carney Policies</i> . Prioritizing Climate: Same as in <i>Carney Policies</i> .
	Clean fuel regulations	Trudeau Policies: 5% minimum biofuels share of refined liquids production in 2025, rising to 15% in 2030, and holding constant through 2035. Carney Policies: Same as in <i>Trudeau Policies</i> . Prioritizing Oil & Gas: 5% minimum biofuels share of refined liquids production in 2025 through 2035. Prioritizing Climate: 5% minimum biofuels share of refined liquids production in 2025, rising to 15% by 2030, and 25% by 2035.
	CCUS investment tax credit	Trudeau Policies: The effective value of the tax credit results in a 50% non-energy cost reduction for CCUS equipment in the electricity sector and industrial sectors in the 2025 and 2030 model periods (60% for DACCS), and 25% cost reduction in the 2035 model period (30% for DACCS). Carney Policies: Same as in <i>Trudeau Policies</i> , but the effective value of the tax credit is doubled in the 2035 model period to match the level in the 2025 and 2030 model periods. Prioritizing Oil & Gas: Same as in <i>Carney Policies</i> , but the effective value of the tax credit is halved in all model periods. Prioritizing Climate: Same as in <i>Carney Policies</i> .

Sector	Policy	Modeling Assumptions
Electricity	Coal phase-out	Trudeau Policies: Based on announced retirement dates for existing unabated coal-fired power plants, a limit is placed on electricity generation from coal of 0.047 EJ in 2025, 0.012 EJ in 2030, and zero in 2035. Additionally, no new unabated coal-fired power plants are assumed to come online. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i> but the 0.012 EJ limit in 2030 remains through 2035. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but unabated coal is fully phased out by 2030.
	Clean electricity investment tax credit	Trudeau Policies: The effective value of the tax credit is assumed to be 30% of capital cost for new wind, solar, nuclear, or geothermal capacity from 2023 to 2033 and 15% in 2034. Implemented as a weighted average for applicable years within each of the 2025 through 2035 model periods. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but the effective value of the tax credit is halved in all model periods. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but the full 30% value of the tax credit is available through 2035.
	Clean electricity regulations	Trudeau Policies: Implemented as a constraint on unabated gas generation equal to 0.225 EJ in 2035. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Not modeled in this scenario. Prioritizing Climate: Same as in <i>Trudeau Policies</i>.
Industry	Clean technology investment tax credit	Trudeau Policies: The effective value of the tax credit is assumed to be 30% of capital cost for new energy service powered by electricity or hydrogen in agricultural, construction, and mining sectors from 2023 to 2033 and 15% in 2034. Implemented as a weighted average for applicable years within each of the 2025 through 2035 model periods. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but the effective value of the tax credit is halved in all model periods. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but the full 30% value of the tax credit is available through 2035.

Sector	Policy	Modeling Assumptions
Industry	Hydrogen production investment tax credit	Trudeau Policies: The effective value of the tax credit is assumed to be 40% of capital cost for green hydrogen production and 15% for other non-emitting hydrogen production pathways (i.e., gas w/ CCS) from 2023 to 2034. Implemented as a weighted average for applicable years within each of the 2025 through 2035 model periods. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but the effective value of the tax credit is halved in all model periods. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but the full 30% value of the tax credit is available through 2035.
	Output-based pricing system	Trudeau Policies: Implemented as a carbon tax on industrial activities based on benchmark carbon price levels of \$95/tCO₂e in 2025 and \$170/tCO₂e in 2030 and 2035 with reductions accounting for whether an industrial sector falls under the 80% emissions-intensity benchmark with 2% annual tightening, the 90% emissions-intensity benchmark with 2% annual tightening, or the 95% emissions-intensity benchmark with 1% annual tightening. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but with a benchmark carbon price level of \$130/tCO₂e in 2030 and 2035. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but with the benchmark carbon price increasing annually by \$15/tCO₂e after 2030, reaching \$245/tCO₂e by 2035.
	Oil and gas methane target	Trudeau Policies: A methane fee is imposed on oil and gas production within the model to trigger reductions on exogenously specified marginal abatement cost (MAC) curves (calculated by the EPA) at or below \$10/tCO₂e in 2025 through 2035. Carney Policies: Same as in <i>Trudeau Policies</i> through 2025, but with additional reductions to include those achievable at or below \$66/tCO₂e in 2030 and at or below \$1,092/tCO₂e in 2035. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i> through 2030, but with additional reductions to include those achievable at or below \$66/tCO₂e in 2035. Prioritizing Climate: Same as in <i>Carney Policies</i> through 2030, but with additional reductions to include those achievable at or below \$4,852/tCO₂e in 2035.

Sector	Policy	Modeling Assumptions
Industry	Increased oil and LNG exports	Trudeau Policies: Not modeled in this scenario. Carney Policies: Not modeled in this scenario. Prioritizing Oil & Gas: A binding floor is imposed on Canadian crude oil exports of 12.5 EJ in the 2030 and 2035 model periods. A binding floor is imposed on Canadian LNG exports of 0.81 EJ in the 2030 model period and 1.22 EJ in the 2035 model period. Prioritizing Climate: Not modeled in this scenario.
	Net Zero Accelerator and Strategic Innovation Fund	Trudeau Policies: Accelerated retirement of older and less efficient industrial equipment. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>. Prioritizing Climate: Same as in <i>Trudeau Policies</i>.
	Industrial efficiency program	Trudeau Policies: Not modeled in this scenario. Carney Policies: Not modeled in this scenario. Prioritizing Oil & Gas: Not modeled in this scenario. Prioritizing Climate: Efficiency in GCAM's "other industrial energy use" sector improves by 1% annually from the 2025 level through 2035.
Transportation	LDV ZEV mandate	Trudeau Policies: ZEV sales shares of new LDVs reach 60% by 2030 and 100% by 2035. Carney Policies: Not modeled in this scenario. Prioritizing Oil & Gas: Not modeled in this scenario. Prioritizing Climate: ZEV sales shares of new LDVs reach 60% by 2035. Policy extended to freight trucks with ZEV sales shares of new medium-duty freight trucks reaching at least 9% by 2035 and ZEV sales shares of new heavy-duty freight trucks reaching at least 4.5% by 2035.
	LDV emissions regulations	Trudeau Policies: Internal combustion engine efficiency modeled to improve at a rate consistent with the EPA's 2024 GHG emissions standards. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but the annual improvement in internal combustion engine efficiency is modeled to match the EPA regulations that were in place prior to the 2024 regulations. Prioritizing Climate: Same as in <i>Trudeau Policies</i>.

Sector	Policy	Modeling Assumptions
Transportation	ZEV incentives	Trudeau Policies: A \$5,000/vehicle ZEV tax credit is modeled for new LDVs in the 2025 model period. For freight trucks, the level of the ZEV tax credit is \$10,000/vehicle, \$40,000/vehicle, or \$200,000/vehicle depending on weight class through 2026. Implemented as a weighted average for applicable years within each of the 2025 through 2035 model periods. Carney Policies: Same as in <i>Trudeau Policies</i>, but the \$5,000/vehicle ZEV tax credit for new LDVs is extended through the 2030 model period. Prioritizing Oil & Gas: Same as in <i>Carney Policies</i>. Prioritizing Climate: Same as in <i>Carney Policies</i>, but the \$5,000/vehicle ZEV tax credit for new LDVs is extended through the 2035 model period.
	ZEV infrastructure program	Trudeau Policies: A \$250/vehicle reduction in capital infrastructure cost is modeled for new ZEV LDVs in the 2025 model period and through 2027 in the 2030 model period. Carney Policies: Same as in <i>Trudeau Policies</i>, but the \$250/vehicle reduction in capital infrastructure cost for new ZEV LDVs is extended through the 2030 model period. Prioritizing Oil & Gas: Same as in <i>Carney Policies</i>. Prioritizing Climate: Same as in <i>Carney Policies</i>, but the \$250/vehicle reduction in capital infrastructure cost for new ZEV LDVs is extended through the 2035 model period.
	VMT reduction	Trudeau Policies: Not modeled in this scenario. Carney Policies: Not modeled in this scenario. Prioritizing Oil & Gas: Not modeled in this scenario. Prioritizing Climate: An annual reduction in total per capita passenger transport demand is assumed to be 0.25% in the 2035 model period.
	Freight truck emissions regulations	Trudeau Policies: Internal combustion engine efficiency for new freight trucks improves by 10% from the 2021 to 2025 model period, by 15% from the 2021 to 2030 model period and then at the default improvement rates in GCAM from 2030 through 2035. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but additional improvements in efficiency cease after 2030. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but efficiency improves at twice the default improvement rates in GCAM from 2030 through 2035.

Sector	Policy	Modeling Assumptions
Buildings	Greener homes program	Trudeau Policies: Represented as modest reductions in non-energy costs for electrified energy service in residential buildings in the 2025 model period. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>. Prioritizing Climate: Same as in <i>Trudeau Policies</i>, but extended through the 2035 model period.
	Building shell efficiency improvements	Trudeau Policies: For the 2030 model period, average building shell efficiency improves at 2 times the default incremental improvement rate in GCAM from the 2025 model period. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>, but the improvement rate from the 2025 model period to the 2030 model period is only 1.5 times the default incremental improvement rate in GCAM. Prioritizing Climate: Same as <i>Trudeau Policies</i>, but the average building shell efficiency continues to improve at 2 times the default incremental improvement rate in GCAM from one model period to the next through 2035.
Waste	Landfill methane reduction target	Trudeau Policies: A methane fee is imposed on oil and gas production within the model to trigger reductions on exogenously specified marginal abatement cost (MAC) curves (calculated by the EPA) at or below \$0/tCO₂e in 2030 and 2035. Carney Policies: Same as in <i>Trudeau Policies</i>, but with additional reductions to include those achievable at or below \$10/tCO₂e in 2030 and 2035. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i> through 2030, but with additional reductions to include those achievable at or below \$10/tCO₂e in 2035. Prioritizing Climate: Same as in <i>Carney Policies</i> through 2030, but with additional reductions to include those achievable at or below \$32/tCO₂e in 2035.
Agriculture	Agricultural clean technology program	Trudeau Policies: Accelerated retirement of older and less efficient industrial equipment. Carney Policies: Same as in <i>Trudeau Policies</i>. Prioritizing Oil & Gas: Same as in <i>Trudeau Policies</i>. Prioritizing Climate: Same as in <i>Trudeau Policies</i>.