A Not-so-Grand Bargain

The quest for “decarbonized barrels” in the oilsands

October 2025

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These acknowledgements are some of the beginning steps on a journey of several generations. We share them in the spirit of truth, justice, reconciliation, and to contribute to a more equitable and inclusive future for all of society.

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Executive summary

Discussion of a "grand bargain" between the Government of Canada and the Government of Alberta has emerged in recent months. We ascertain this is a deal whereby the federal government fast-tracks a new bitumen pipeline through federal environmental assessments, while the Pathways Alliance of oilsands companies builds its carbon capture and storage project. This has been characterized by both governments as a scenario that would result in "decarbonized barrels" of oil from the oilsands, and a "climate competitive" major project for Alberta under the auspices of nation-building.

The prospect of a pipeline is still entirely hypothetical, with neither a private sector proponent nor evidence of substantive plans from oilsands companies to markedly increase their production to fill such a pipeline. Nevertheless, given these live discussions it is worthwhile to articulate the potential emissions impacts of such a project. To explore these concepts of "decarbonized barrels" and the "grand bargain" further, this report examines three scenarios:

- **Current Measures scenario:** Using the Canada Energy Regulator's Current Measures scenario, which foresees growing oilsands production out to 2035, we forecast emissions to 2035 if current emissions trends were to continue.
- **Current Measures plus Pathways scenario:** We then re-examine how oilsands emissions would evolve if the Pathways carbon capture project were also completed and operational, starting in 2030.
- **Grand Bargain scenario:** Finally, we model a "grand bargain," where a one-million-barrel-per-day pipeline is built, major new oilsands developments are built to fill said pipeline, and the Pathways carbon capture project is realized in full.

Of these three scenarios, the Grand Bargain, far from resulting in "decarbonized barrels", actually results in the highest absolute oilsands emissions — reaching 89 megatonnes (Mt) CO_2e annually by 2035. Crucially, however, the Current Measures plus Pathways scenario does result in both increased oilsands production and significant emissions reductions, and therefore appears most congruent with the objectives of both Alberta and the federal government.

Overall, we suggest that the "grand bargain," in which a theoretical pipeline is offered in return for large-scale carbon capture deployment, is a poor way to achieve a decarbonized oilsands, or even substantial emissions reductions from the sector. Rather, regulation could be used to further de-risk the Pathways project and ensure private investment moves ahead.

On this, we suggest industrial carbon pricing should be strengthened to send an investment signal to the oilsands companies to move forward with Pathways. If done in conjunction with

finalized methane regulations (which mainly work to spur investment in decarbonization of the conventional oil and gas sector), this would also render the proposed federal oil and gas emissions cap — to which Alberta has voiced considerable opposition — redundant.

If this can be achieved, Alberta and Canada will have facilitated a major influx of private investment in the oilsands, in a way that can be fairly characterized as “climate competitive”.

1. Introduction

1.1 "Nation-building" and pipelines

Over the past several months, the Government of Canada has outlined its intention to fast-track major infrastructure projects through assessments in the name of "nation-building". Among other criteria, it has outlined that such projects would need to "contribute to clean growth and meeting Canada's objectives with respect to climate change."[1] Via statements made by the prime minister and others, the government has also begun to outline a vision for achieving a "climate competitive" Canadian economy.[2]

Given the stage of the global energy transition that the world is currently at, where two out of every three dollars being invested in energy globally are now going towards clean energy projects,[3] aligning Canada's economic future with the global energy transition is a prudent choice. The Pembina Institute has long advocated for recognizing that climate policies — those that work to reduce emissions while also creating the conditions in which low-carbon industries can thrive — are inextricably linked with economic planning and future prosperity, and we welcome this approach.

Nevertheless, this nation-building agenda has also re-awakened long-running discussions in Canada, especially in Alberta, about the need for additional oil and gas infrastructure that will, in theory, increase Canadian fossil fuel exports. For example, the premier of Alberta has repeatedly stated a preference for designating new oil and gas pipelines to tidewater as nation-building projects. More specifically, the Alberta government claims it is actively working to find a private proponent for a new bitumen pipeline to the west coast, capable of shipping up to one million barrels per day.[4] The provincial government has announced that it plans to be the initial proponent for this pipeline project, contributing $14 million to design and engineering work.[5] However, it should be emphasized that at the time of writing, no private sector proponent exists.

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[1] Government of Canada, "Implementation of Bill C-5: One Canadian Economy," June 26, 2025 https://www.canada.ca/en/intergovernmental-affairs/news/2025/06/implementation-of-bill-c-5-one-canadian-economy.html

[2] Inayat Singh, "In an unprecedented warning, leading climate think-tank says Canada won't meet 2030 climate target" *CBC News*, September 18, 2025. https://www.cbc.ca/news/science/canada-2024-report-card-1.7636792

[3] International Energy Agency (IEA), *World Energy Investment 2025,* 6. https://www.iea.org/reports/world-energy-investment-2025/executive-summary

[4] Emma Graney, "Alberta working with oil companies on proposal for pipeline to B.C." *Globe and Mail,* August 21, 2025. https://www.theglobeandmail.com/business/article-alberta-oil-companies-pipelines/

[5] Government of Alberta, "Alberta leads as proponent for West Coast pipeline", October 1 2025, https://www.alberta.ca/release.cfm?xID=9402446DF7F78-BE10-9A06-93CA2221F089D626

The premier of Alberta and some others have suggested that a proponent has not materialized due to regulatory concerns; that the Canadian oil and gas sector's growth is being constrained by federal climate policies, and this has dampened investor confidence in a new pipeline. However, deeper, longer-term trends around the global outlook for oil and gas are more likely to be having an impact.

1.2 Oilsands production in a changing world

Since the Trans Mountain Expansion was completed in May 2024 there has been a surplus of pipeline capacity from Alberta, exceeding the volume exported on average by 400,000 barrels per day (b/d).[6] A new pipeline proponent is therefore unlikely to come forward unless it is clear that oilsands companies intend to significantly increase production levels in the immediate future. This is a scenario that appears doubtful given, for the last decade, the sector has focused on maximizing production at existing facilities rather than new sources of greenfield investment. The last large new oilsands project was completed in 2018.[7]

Globally, the International Energy Agency projects oil demand will plateau this decade if countries continue to implement their announced climate policies, rising just 2.5 million b/d over the next five years, while production capacity is expected to increase by 5.1 million b/d. These combined effects will depress prices and further limit upstream investment.[8] Demand in key markets like China and the European Union is already decelerating, driven largely by stagnating gasoline consumption.[9]

This reality faced by the Canadian oilsands — where new production is both more expensive and more carbon-intensive than for global competitors[10] — should give decision-makers pause when considering the "climate competitiveness" of any new oil pipeline. Further, it underscores that commonly held assumptions about the economic benefits of the oil and gas sector should be re-

[6] Robert Tuttle, "Canadian oil industry has extra pipeline space amid push for new routes, report says," *Bloomberg News*, September 3, 2025. https://financialpost.com/commodities/energy/oil-gas/canadian-oil-industry-has-extra-pipeline-space-push-new-routes?tbref=hp

[7] Joel Dryden, "Oil industry continues focus on returning cash to investors over new big projects," *CBC*, July 16, 2025, https://www.cbc.ca/news/canada/calgary/alberta-jackie-forrest-charles-st-arnaud-oil-and-gas-1.7584486

[8] IEA, *Oil 2025* (2025), 9. https://www.iea.org/reports/oil-2025

[9] Eurostat, *Oil and petroleum products - a statistical overview,* Final consumption of petroleum products for energy use, May 04 2025. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Oil_and_petroleum_products_-_a_statistical_overview#Final_consumption_of_petroleum_products_for_energy_use

Ciarán Healy, Rebecca McKimm, Ivo Walinga, "Oil demand for fuels in China has reached a plateau," *IEA,* March 11, 2025. https://www.iea.org/commentaries/oil-demand-for-fuels-in-china-has-reached-a-plateau

[10] Janetta McKenzie, Scott MacDougall, Eyab Al-Aini, *Survival of the Cleanest: Assessing the Cost and Carbon Competitiveness of Canada's Oil* (Pembina Institute, 2023). https://www.pembina.org/pub/survival-cleanest

examined, based on the way industry is now behaving. As our recent analysis shows, post-2014 global oil price crash, Canadian companies have adopted shorter-term outlooks, bolstering their market positions through mergers, acquisitions, and share re-purchases, and cutting costs by consolidating workforces and automating some roles. As a result, even as the oil price rebounded several times in the last decade, production of oil and gas grew, but jobs in the sector no longer grew at the same rate. Nationally, in the decade to 2023, the number of jobs per barrel of oil (and natural gas equivalent) fell by 43%, while production increased by 47%.[11] This trend — the decoupling of oil price rises from long-term investment and jobs — is also playing out in Texas,[12] indicating that Canadian climate policies are not underlying it, but rather a general hesitancy on the part of oil and gas companies to invest in big future sources of production, likely owing to global demand outlooks.

1.3 The quest for "decarbonized barrels"

Though a pipeline did not materialize on the Government of Canada's initial list of major projects, proponents remain optimistic that it will be on the next list expected in November.[13] The federal government appears to be articulating this through the Pathways Plus project, which it says would consist of the Pathways Alliance carbon capture and storage project (first proposed more than four years ago by the six largest oilsands companies)[14] which would be twinned with a new bitumen pipeline. Together, these would facilitate "low-carbon oil exports from the Alberta oil sands to a variety of potential markets."[15] This appears to build off earlier statements from the Government of Canada, where it suggested that for a pipeline to be fast-tracked it would need to be filled with "decarbonized barrels" of oil and aligned with Canada's climate commitments.[16] This situation — the federal government apparently seeking "decarbonized

[11] Janetta McKenzie, Megan Gordon, *Drilling Down: Oil and gas jobs in transition* (Pembina Institute, 2025), 1. https://www.pembina.org/pub/drilling-down

[12] Max Fawcett, "The 'de-manning' of Canada's oilsands sector," *Canada's National Observer*, August 29, 2025. https://www.nationalobserver.com/2025/08/28/opinion/canada-oilsands-employment-declining

[13] The Government of Canada, "Prime Minister Carney announces first projects to be reviewed by the new Major Projects Office," media release, September 11, 2025. https://www.pm.gc.ca/en/news/news-releases/2025/09/11/prime-minister-carney-announces-first-projects-be-reviewed-new

[14] Jan Gorski and Eyab Al-Aini, *Waiting to Launch: The Gap Between Canadian Oilsands Companies' Climate Pledges and Actions* (Pembina Institute, 2022). https://www.pembina.org/pub/oilsands-waiting-launch

[15] Government of Canada, "Prime Minister Carney Announces First Projects to Be Reviewed Under New Climate Competitiveness Strategy," media release, September 11, 2025. https://www.pm.gc.ca/en/news/news-releases/2025/09/11/prime-minister-carney-announces-first-projects-be-reviewed-new

[16] Tyler Dawson, "Alberta and Ottawa Are Touting a Grand Bargain on Decarbonized Oil — but Some Are Skeptical," *National Post*, August 21, 2025. https://nationalpost.com/news/canada/alberta-and-ottawa-are-touting-a-grand-bargain-on-decarbonized-oil-but-some-are-skeptical

We presume "decarbonized" oil means that there are no upstream emissions associated with each barrel shipped.

barrels" while the Alberta government seeks the fast-tracking of a new bitumen pipeline — has been framed as a "grand bargain" between the two.

The oilsands industry, via the Pathways Alliance, has previously made promises of delivering a substantively lower-carbon barrel by 2050. There is little evidence, however, that companies are on track to achieve this. It should also be noted that the Pathways Alliance has for the last few years been consistently lobbying for additional government subsidies for its project (on top of the existing 50% federal investment tax credit, 12% Alberta grant and other incentives available through industrial carbon pricing and potential carbon contracts for difference).[17] Furthermore, in early 2025, the Canadian Association for Petroleum Producers (which includes all members of the Pathways Alliance) called for the industrial carbon price to be repealed. Doing so would completely undermine the business case for all carbon capture projects, including Pathways. Immediately following the first list of major projects announcement in September, — and amidst heightened talk of a "grand bargain" — the Government of Alberta took steps to further weaken its industrial carbon pricing system, the Technology Innovation and Emissions Reduction regulation (TIER).[18]

In light of the "grand bargain" conversation, this report investigates upstream emissions from oilsands production and how they might evolve in different scenarios. It explores the likelihood that "decarbonized barrels" can be achieved and the trade-offs involved, including potential lost opportunities for projects that would more obviously be aligned with long-term economic growth and the federal government's stated aspiration of a climate-competitive Canadian economy.

[17] Carl Meyer, "Inside the Canadian oilsands lobby's request to fast-track a major project," *The Narwhal*, May 27, 2024. https://thenarwhal.ca/pathways-alliance-project-request/

[18] Pembina Institute, "Alberta's move to undermine industrial carbon pricing challenges integrity of 'grand bargain'," media release, September 20, 2025. https://www.pembina.org/media-release/albertas-move-undermine-industrial-carbon-pricing-challenges-integrity-grand-bargain

Pembina Institute, "Alberta's continued weakening of industrial carbon pricing makes Canada less climate competitive," media release, September 21, 2025. https://www.pembina.org/media-release/albertas-continued-weakening-industrial-carbon-pricing-makes-canada-less-climate

2. Emissions and the "decarbonized barrel"

2.1 Current state of oilsands emissions

Absolute emissions from Alberta's oilsands have consistently increased every year since records began (except in 2020, due to significantly lower production during the height of the COVID pandemic). While there have been some improvements to emissions intensity (emissions per barrel), these gains have been effectively wiped out by increased levels of production (Figure 1). In fact, intensity improvements have essentially flat-lined since 2019. If production continues to increase, emissions intensity will need to decline much more dramatically than the recent trend in order to achieve absolute emissions reductions.

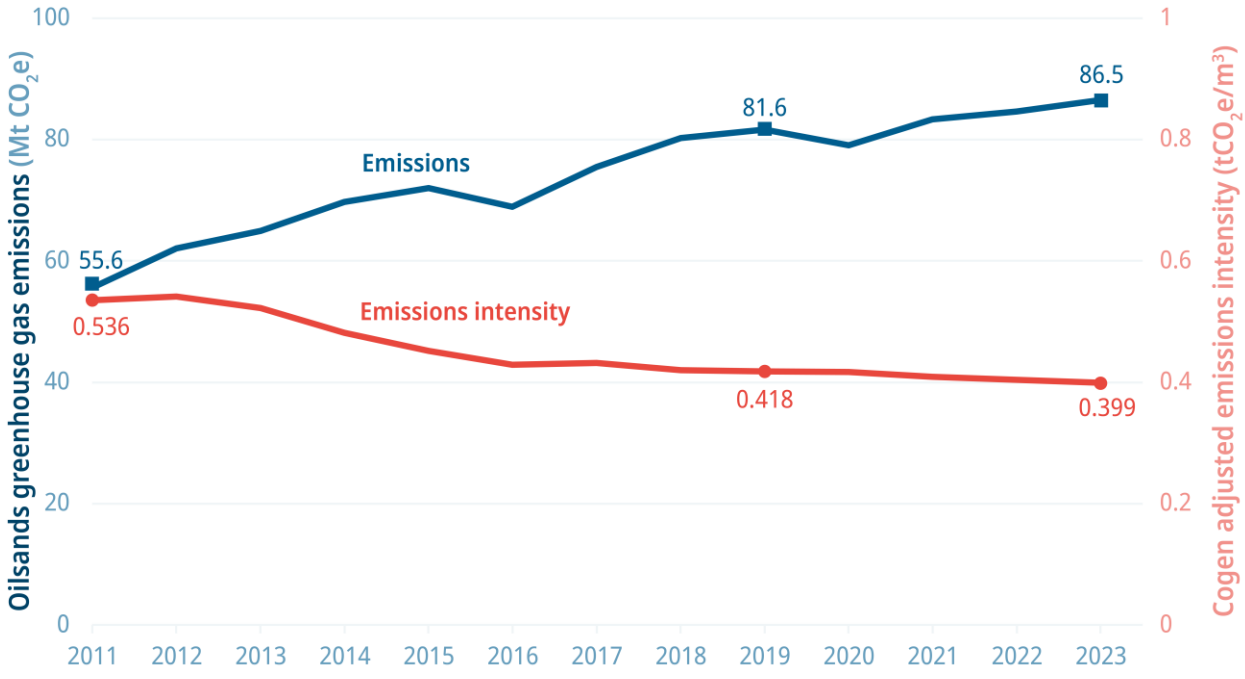

Figure 1. Historic oilsands greenhouse gas emissions and emissions intensity

Note: Emissions intensity data only began to be published in 2011, and the latest available data is from 2023.

Data source: Government of Canada[19]

[19] Government of Canada, *National Inventory Report 1990–2023: Greenhouse gas sources and sinks in Canada* (2025), Part 3, Annex 10: Canada's Greenhouse Gas Emission Tables by Canadian Economic Sector, 1990–2023, Table A10-2 and Table A12-10. Available at Environment and Climate Change Canada Data Catalogue, "Canada's Official Greenhouse Gas Inventory." https://data-donnees.az.ec.gc.ca/data/substances/monitor/canada-s-official-greenhouse-gas-inventory/B-Economic-Sector/?lang=en

The decline in emissions intensity since 2011 (the first year that the Government of Alberta published the data) is partly due to the adoption of abatement technologies in the sector. These include the use of solvents, optimized water usage (meaning less energy is required to heat water for steam), electrification of some processes, and cogeneration of electricity and steam on site. In addition, as some emissions coming from the oilsands are fixed (do not vary with production), increasing production alone can have the effect of causing emissions intensity to improve while absolute emissions are nevertheless increasing.

As Figure 1 shows, improvements in emissions intensity have slowed as lowest-cost abatement technologies and efficiency improvements have already been deployed. As well, carbon credit prices have crashed, due to the Government of Alberta's lack of action to strengthen its TIER market, meaning the industrial carbon pricing system is no longer working effectively to induce companies to make further investments in emissions reduction projects.

2.2 Scenario forecasts

To investigate the implications of current emissions trends in relation to achieving the stated goal of decarbonized barrels, we explore three scenarios:

- **Current Measures scenario:** Using the Canada Energy Regulator's (CER) Current Measures scenario for oilsands production, we forecast emissions to 2035 if current emissions trends were to continue.[20] This scenario sees production growing to 2034, even without a new pipeline.
- **Current Measures plus Pathways scenario:** We then look at how oilsands emissions would evolve if the Pathways Alliance carbon capture project were built.
- **Grand Bargain scenario:** Finally, we model the "grand bargain," or Pathways Plus scenario, where a pipeline is built in conjunction with the Pathways carbon capture project.

In all scenarios, we assume that emissions intensity trends from 2019-2023 continue, meaning emissions intensity declines on average 1% per year over the forecast period. We believe this to be an optimistic assumption given that, as outlined, firms have likely exhausted cheaper abatement technologies, and recent moves by the Government of Alberta have further weakened the TIER market.[21]

[20] Canada Energy Regulator, "Canada Energy Futures Data Appendices." https://doi.org/10.35002/zjr8-8x75 This scenario includes both consumer and industrial carbon pricing but no oil and gas emissions cap (see Table 1 for full policy overview).

[21] We view this as a lower bound of total emissions based on optimistic assumptions in intensity improvements and underlying policy assumptions in the CER Current Measures scenario. This scenario assumes that the federal fuel

2.2.1 Scenario 1: Current Measures

The CER Current Measures scenario (which is the CER’s least ambitious in that it assumes minimal efforts to reduce emissions beyond existing measures already in place, as well as the slowest pace of technological development) has annual oilsands production steadily increasing by 1% on average out to 2034 before plateauing, reaching over 5 million b/d. This production scenario does not require a new pipeline to be built and could be satisfied with an expansion of the Trans Mountain Pipeline to 1.2 million b/d.[22] If emissions intensity improvements continue at the current pace, we expect essentially no progress towards achieving a decarbonized barrel by 2035, as growth in production over the period would largely outpace improvements in emissions per barrel.

As shown in Figure 2, the oilsands would continue to emit more than 85 Mt of carbon dioxide equivalent (CO_2e) per year, meaning it would remain one of Canada’s highest-emitting subsectors. The oilsands alone is currently responsible for 13% of Canadian emissions; this proportion would likely grow further as other sectors decarbonize.

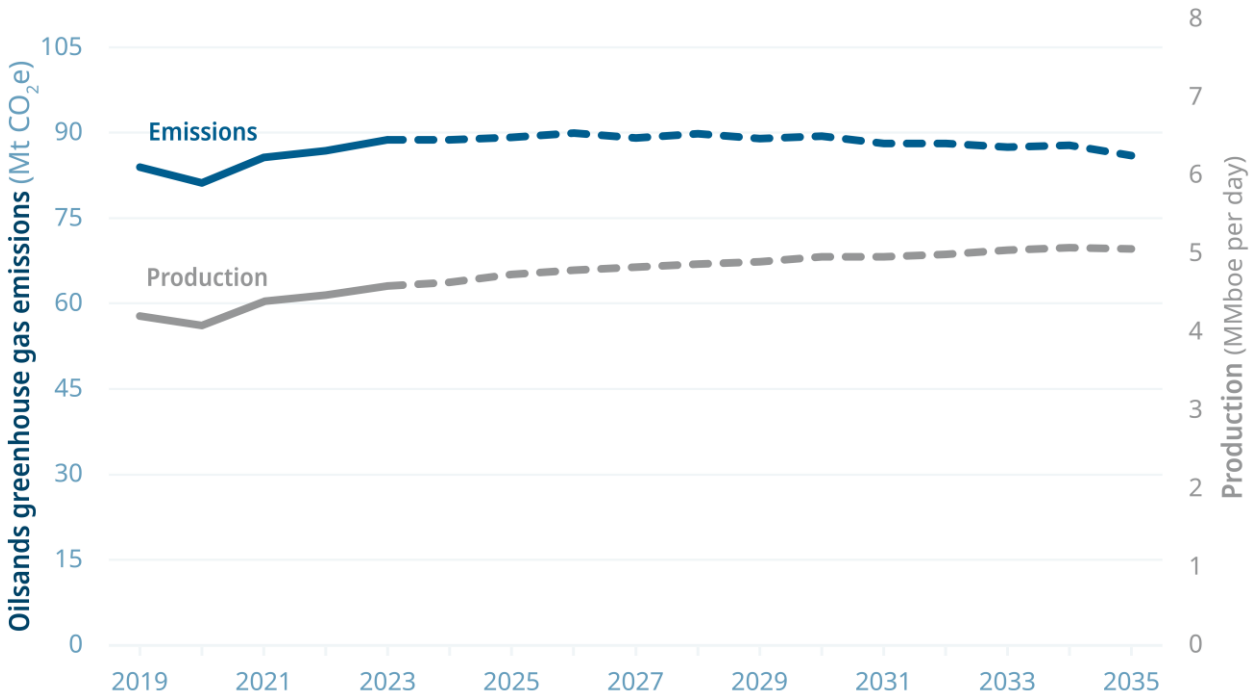

Figure 2. Oil production and emissions forecast under Current Measures scenario.

Data sources: Modelled using Environment and Climate Change Canada, Canada Energy Regulator (see Appendix A)

charge is still legislated and provincial output-based pricing systems, such as TIER in Alberta, are functioning and clearing at the appropriate price level.

[22] This could include upgrading pump and compressor stations to allow more oil to go through the pipeline.

2.2.2 Scenario 2: Current Measures plus Pathways

Under this scenario, we assume that production follows the CER Current Measures scenario, and the Pathways carbon capture and storage project is completed and operational by 2030.

The Pathways companies previously stated that their carbon capture project would reduce emissions by 12 Mt CO_2e per year by 2030.[23] We assume an 80% capture rate in 2030 as the project begins operation, increasing to 90% thereafter.[24]

In this scenario, oilsands emissions decline for the first time (Figure 3). Compared with our Current Measures scenario, annual emissions fall by 10.8 Mt CO_2e per year once the Pathways project is fully operational. By 2035, total emissions from the oilsands would still be 75 Mt CO_2e per year, which would still be the second-largest emitting subsector (based on 2023 data).

This scenario demonstrates the possibility of achieving increased bitumen production without needing to construct a new pipeline, while also seeing oilsands emissions decline. Nonetheless, it also highlights the fact that the Pathways project alone will not achieve a fully decarbonized barrel, where production emissions are at net-zero. To reach this, a significant extra investment would be required, amounting to eight times the capacity of the Pathways project.

The fact that a decarbonized barrel won't be achieved immediately is not a reason not to move ahead with the Pathways project as currently proposed; rather, it underscores the need for strengthened industrial carbon pricing which, if effectively implemented, will continue to incentivize further emissions reductions in the oilsands for decades to come.

[23] Pathways Alliance, *The Pathways Alliance Vision* (2023), 10. https://s203.q4cdn.com/951837217/files/doc_downloads/res_library/meg/PA_Vision_deck_revised_Nov-2023.pdf

[24] Natural Resource Canada, “Canada’s Carbon Management Strategy.” https://natural-resources.canada.ca/energy-sources/carbon-management/canada-s-carbon-management-strategy

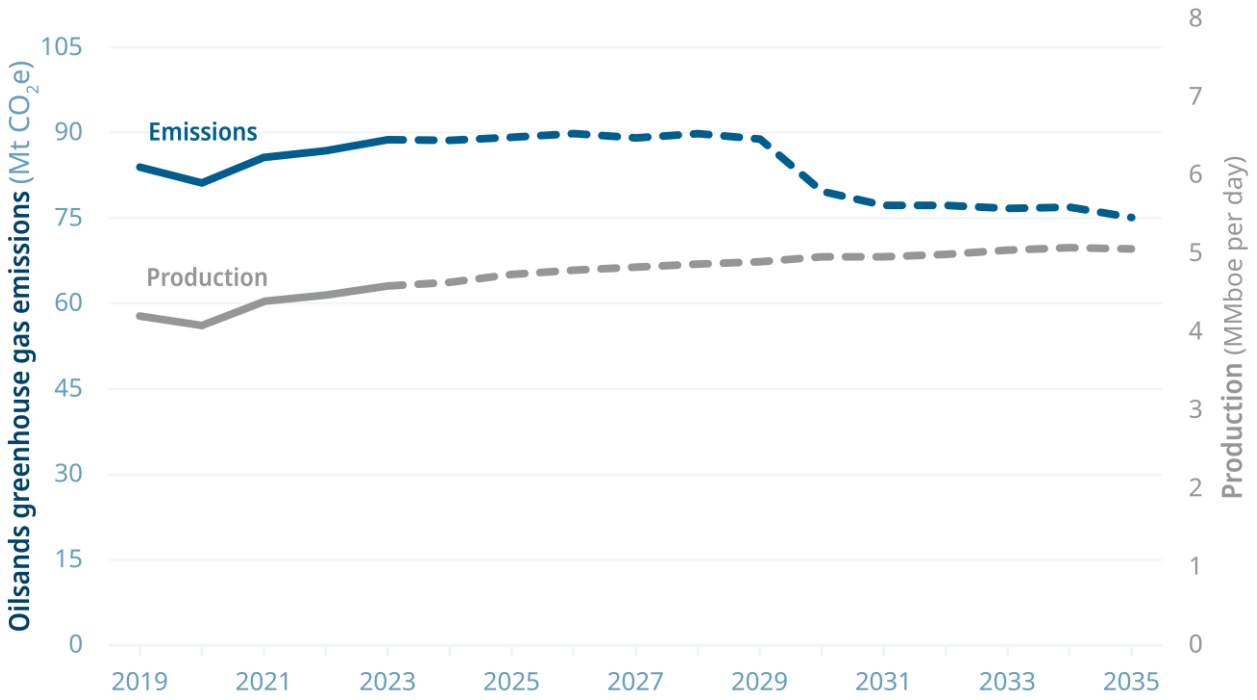

Figure 3. Oil production and emissions under Current Measures plus Pathways scenario

Data sources: Modelled using Environment and Climate Change Canada, Canada Energy Regulator (see Appendix A)

2.2.3 Scenario 3: Grand Bargain

Under this scenario, we assume a 1 million b/d pipeline is built, large new sources of oilsands production are developed in order to fill said pipeline, and the Pathways Alliance carbon capture project is also built. We conservatively assume an 80% utilization of the pipeline, with supply gradually increasing by 200,000 b/d between 2030-2034, eventually reaching 800,000 b/d in 2034 and 2035.

Oilsands emissions peak at over 90 Mt CO2e in 2034, with production reaching 5.88 million b/d. (Figure 4). Emissions only begin to decline in 2035, as production plateaus under the CER Current Measures scenario. Emissions are higher under this scenario than under a scenario where the Pathways project does not get built, and it would be difficult to characterize this as a scenario where “decarbonized barrels” have been achieved.

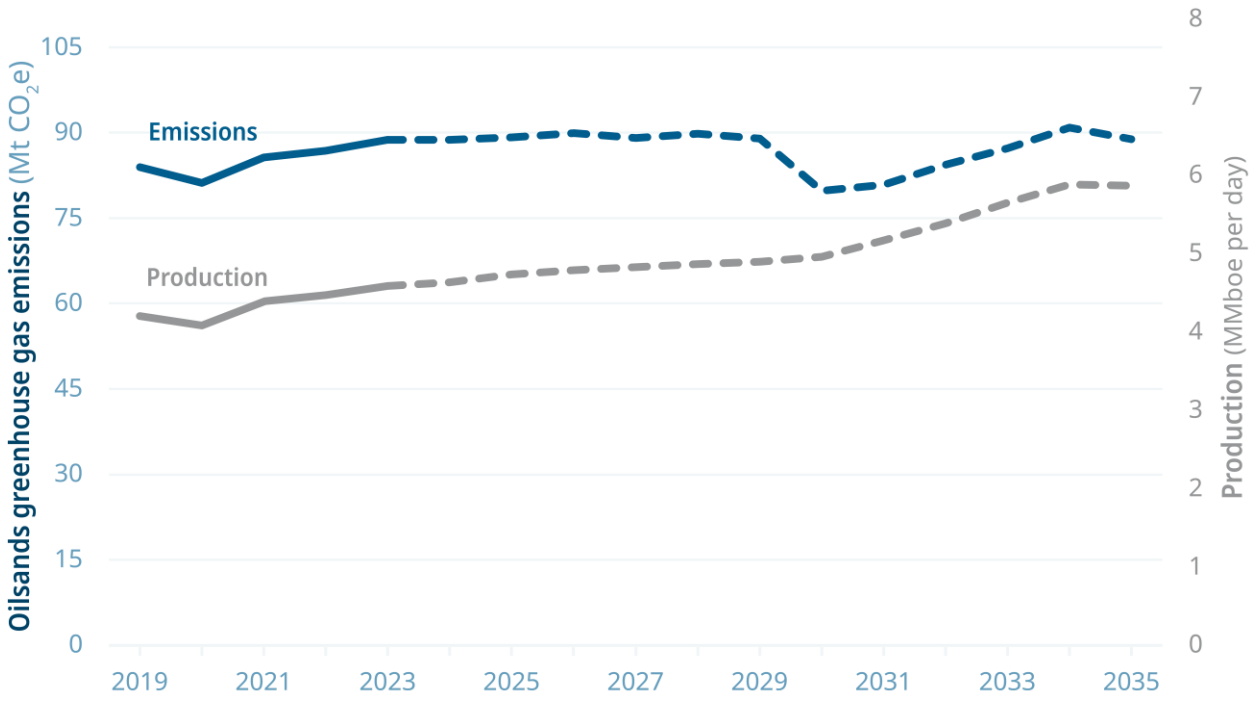

Figure 4. Oil production and emissions forecast under Grand Bargain scenario

Grand Bargain scenario: CER Current Measures scenario with additional pipeline capacity and Pathways Alliance carbon capture project realized in full.

Data sources: Modelled using Environment and Climate Change Canada, Canada Energy Regulator (see Appendix A)

2.2.4 Scenario comparison

The oilsands remains the highest emitting sector in Canada, now responsible for close to double the greenhouse gases of the country’s entire electricity sector.[25] As this report has explored, the Pathways project will not achieve a fully decarbonized barrel in any of the likely production scenarios. Nevertheless, there are considerable emissions benefits to building large-scale carbon capture in the oilsands; see Figure 5, which has a truncated y-axis to clearly illustrate these benefits, given the overall scale of oilsands emissions.

By 2035, under the Current Measures plus Pathways scenario, oilsands emissions are at 75 Mt CO_2e, compared with 89 Mt under the Grand Bargain. This difference of approximately 14 Mt is roughly equivalent to the emissions generated by all iron and steel production in Canada today (14 Mt), and is more than the entire mining sector (9.5 Mt) or cement production (10 Mt). All of these sectors also produce key Canadian exports, for which global demand is likely to outlast that of the bitumen produced in Alberta’s oilsands. This should be taken into consideration when weighing the relative emissions impacts and economic benefits of the Grand Bargain.

[25] Canadian Climate Institute, “Early Estimate of National Emissions.” https://440megatonnes.ca/early-estimate-of-national-emissions/#estimate-table-2

In addition to the emissions reductions that could be achieved, the Current Measures plus Pathways scenario also allows for oilsands production to marginally increase in a way that is aligned with reasonable market demand expectations (noting that oil demand is already softening in key markets like China).[26] The likely result would be additional bitumen being exported using existing pipeline infrastructure, rather than a potential stranded asset (a new pipeline) being created.

This underscores the importance of focusing on policies that will incentivize oilsands emissions reductions, including inducing investment in large-scale carbon capture. The Pathways project alone would result in billions of dollars of private investment flooding into Alberta. This arguably could be regarded as a nation-building project that is aligned with the federal government’s stated objective of climate competitiveness in that it would result in the first-ever absolute emissions reductions from the oilsands, and allow Canada to offer a significantly lower-carbon barrel of oil on the global market than the bitumen being exported today.

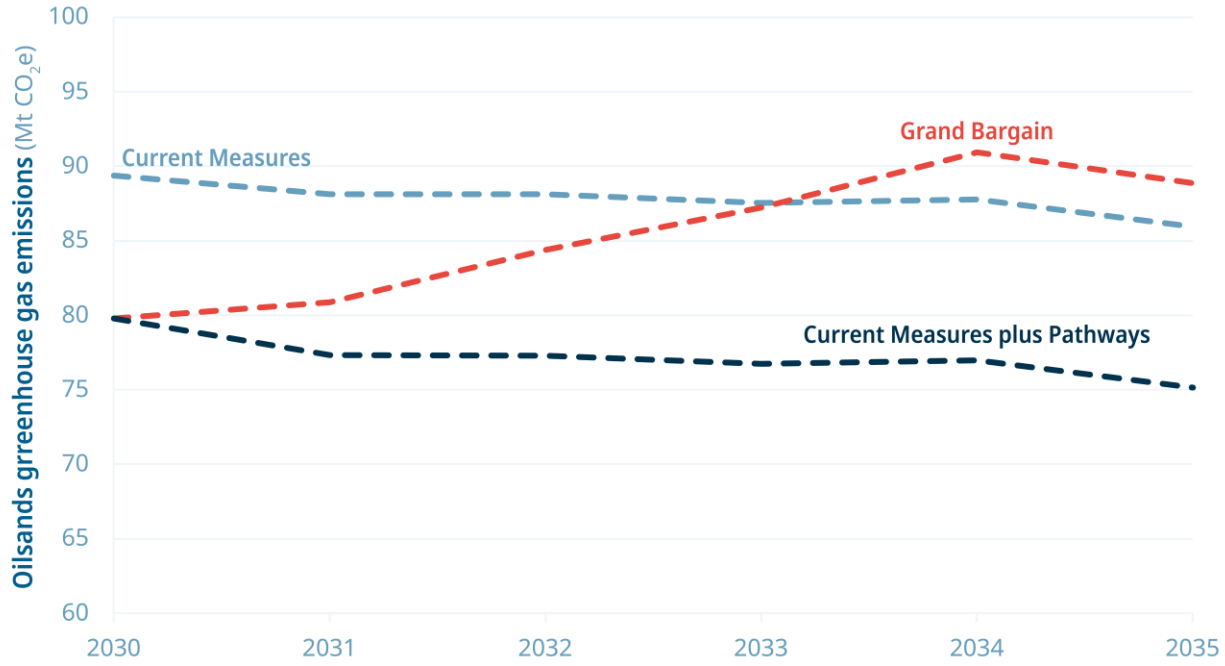

Figure 5. Forecasted oilsands emissions under the three scenarios

[26] Viktor Tachev, “China’s Oil Demand Dropped: Experts See Start of a Trend” *Energy Tracker Asia*, May 1, 2025, https://energytracker.asia/china-oil-demand-dropped/

3. TIER considerations

For the last three years, the Pathways Alliance project has been widely understood to be contingent on the following mixture of public subsidies and regulations that both de-risk and provide investment certainty for the project's proponents:

- The federal Carbon Capture Utilization and Storage Investment Tax Credit, which covers 50% of companies' eligible expenses for capture equipment and 37.5% of eligible expenses for transportation and storage equipment.
- The Alberta Carbon Capture Incentive Program, which provides a further 12% grant for new eligible CCUS capital costs to approved projects.
- Offset credits generated through compliance with Alberta's industrial carbon pricing system (TIER) — assuming that the price on carbon rises to $170/t CO_2e by 2030, and federal requirements that offsets and credits maintain that price signal are fulfilled.
- In addition, some oilsands companies (not Pathways members) have struck deals with the Canada Growth Fund for carbon contracts for difference, which essentially provide further certainty on the stability of the TIER market into the future.

Nevertheless, for much of the last three years, the Pathways Alliance companies have lobbied for additional public financial support for the project. They have, for example, asked for partial coverage of operating costs, in addition to upfront expenditure.[27]

More recently, the companies have also lobbied for both the federal and Alberta industrial carbon pricing systems to be weakened or scrapped.[28] This is a position that undermines the very policy that would provide firms the certainty they need to move forward with this multi-year, multi-billion dollar investment and, crucially, would ensure their project actually results in the significant emissions reductions that they have repeatedly claimed are achievable.

So, regardless of which of the investigated scenarios plays out, a strong TIER will be vital to achieving further emissions reductions in the oilsands. In the absence of any such regulatory backstop, it is unclear how the "grand bargain" situation could work in practice to reduce oilsands emissions. Earmarking a pipeline project for accelerated approvals still would not, on its own, incentivize or indeed ensure those emissions reduction investments.

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[27] Chris Varcoe, "Varcoe: 'Fish or cut bait' — Critical year ahead for Pathways Alliance's $16.5B carbon capture network," *Calgary Herald*, September 21, 2023. https://calgaryherald.com/opinion/columnists/varcoe-pathways-alliance-carbon-capture-network-critical-year

[28] Anderson, et al, *Build Canada Now: An Open Letter To The Prime Minister Of Canada*, September 15, 2025 https://www.capp.ca/wp-content/uploads/2025/09/Build-Canada-Now-3.0_Final-1.pdf

Furthermore, the weakening of TIER which the companies have lobbied for is already underway. TIER credits have consistently been trading under the headline price for the past two years. Credits prices recently fell to $24.50/Mt CO_2e, a 55% decline from the previous year, while the headline price is $95/Mt CO_2e.[29] This has been caused by credit oversupply and wider uncertainty about the program's future. Recent actions by the Government of Alberta, such as the announcement to continue the credit price freeze at $95/t CO_2e, as well as the introduction of new compliance pathways where firms receive credits for allocating funding for future emissions reductions,[30] suggest TIER will be neither strong nor predictable enough to incentivize investment in carbon capture.

Set against the backdrop of the "grand bargain" concepts that are being publicly discussed, this weakening of TIER appears as evidence of bad faith negotiation on the part of the Government of Alberta. Most concerningly, it opens the door to using yet more public funding to de-risk the Pathways project, in lieu of a functioning TIER market. This, we would argue, goes against the federal government's repeated commitments to nation-building projects that "catalyze" private capital, rather than being paid for by Canadian taxpayers. Therefore, in order to achieve the federal government's objectives of attracting private capital and creating jobs in oil and gas decarbonization, a strengthened TIER and updated 2030 methane regulations need to be the minimum cornerstones of a "grand bargain" between Ottawa and Alberta. If this is done, the proposed oil and gas sector pollution cap would become redundant.[31]

[29] Madeline Ryan, David Lademan, "Alberta carbon market grapples with sustained oversupply, 2026 review on horizon," *S&P Global,* August 4, 2025. https://www.spglobal.com/commodity-insights/en/news-research/latest-news/energy-transition/080425-alberta-carbon-market-grapples-with-sustained-oversupply-2026-review-on-horizon

[30] Government of Alberta, "Modernizing TIER to secure tomorrow," media release, September 16, 2025. https://www.alberta.ca/release.cfm?xID=9394747127445-C0F9-96A7-43804C08764CE1D4

[31] Government of Canada, "Oil and gas sector greenhouse gas pollution cap," March 14, 2025. https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/oil-gas-emissions-cap.html

4. Recommendations

As the federal government considers which major projects to accelerate, possibly including pipelines, we recommend that it include an assessment of associated upstream emissions from the oil and gas sector against its stated criteria that fast-tracked projects must "contribute to clean growth and to meeting Canada's objectives with respect to climate change," as included in Bill C-5.

The federal government must also proceed with caution to ensure that public funding is not over-extended onto carbon capture projects in the oilsands, especially in the pursuit of a "decarbonized barrel", which our analysis has shown would not be delivered under the Grand Bargain scenario.

We recommend several changes to the TIER market to ensure sufficient incentives are in place for companies to act on emissions reductions. To ensure this occurs, the federal government should quickly proceed with an in-depth review of the federal benchmark criteria and output-based pricing systems nationally to establish a credible backstop, with which provincial systems (such as TIER) much comply. This is particularly important in light of the recent price freeze in the TIER program, additional compliance pathways announced, and ongoing review being undertaken by the Government of Alberta, which risks significantly undermining the credit market.

Appendix A. Methodology

We have estimated oilsands emissions by first forecasting emissions intensity to 2035 and then applying that to projected oilsands production. Historical emissions intensity is determined using oilsands (mining, in-situ, upgrading) emissions from the National Inventory Report[32] and total bitumen production from the Canada Energy Regulator's (CER) Canada Energy Future 2023 Current Measures scenario.[33] Total bitumen production for this analysis includes mined bitumen, in-situ bitumen, and upgraded bitumen.[34] We forecasted emissions intensity to 2035 by using an exponential triple smoothing method based on the last five years of available oilsands emissions (2019-2023). Oilsands production to 2035 is based on the CER's Current Measures scenario.

In our Grand Bargain scenario, we have added 800,000 b/d of production in 200,000 b/d increments between 2031-2034. This is to represent the construction of a 1 million b/d pipeline running up to 80% capacity by 2034. Emissions intensity estimates remain constant between scenarios.

Table 1 provides a breakdown of the policy assumptions incorporated in the CER's Current Measures scenario.

Table 1. Policy assumptions in the CER Current Measures scenario

Key Assumptions	Description
Backstop carbon price	The fuel charge rises from $50 per tonne ($50/t) by 2022, then to $140/t ($170/t in nominal dollars, not adjusted for inflation) by 2030. It remains constant in nominal terms from 2030 to 2050 or $95/t in inflation-adjusted terms by 2050. CER modelling assumes most provincial systems follow this schedule, and by 2030 all provinces and territories match the federal price.
Output-based pricing system (OBPS)	Most industrial sectors are required to reduce their emissions intensity by 20% relative to their 2014 to 2016 average from 2020 to 2050.
Oil and gas emissions cap	Not included.

[32] Environment and Climate Change Canada, *National Inventory Report 1990–2023: Greenhouse Gas Sources and Sinks in Canada 1990-2023* (2025), Annex 10. https://publications.gc.ca/site/eng/9.506002/publication.html

[33] Canada Energy Regulator, "Canada Energy Futures Data Appendices." https://doi.org/10.35002/zjr8-8x75

[34] We include upgraded bitumen in total production when calculating emissions intensity, since upgrading is part of the oil sands emissions (mining, in-situ, upgrading) reported in the NIR.

Oil price	Brent crude oil prices are assumed to be 2022US$72.50/bbl in 2030 and remains at that level through projection period.

Source: Canada Energy Regulator[35]

[35] Canada Energy Regulator, "Appendix 1: Domestic Climate Policy Assumptions," July 10, 2025. https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2023/appendix-1/

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