

Rethinking Canada's Energy Future

Canada's Energy Future 2026 shows
good policy can support economic
prosperity and reduce emissions

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Key takeaways

- Under Canada's current policies and without stronger climate action, emissions reductions slow and plateau. This leaves Canada off track to meet its 2030 and 2035 climate commitments.
- While other industries show progress, the oil and gas sector remains Canada's primary source of emissions; curbing these requires stronger, more durable industrial policy to drive absolute reductions.
- A net-zero pathway shows Canada can achieve deep emissions reductions while delivering economic growth and greater climate competitiveness.

The Canada Energy Regulator's (CER) latest *Canada's Energy Future* report examines how Canada's economy and energy system may evolve under different policy scenarios, raising important questions about long-term emissions trajectory.¹ The report uses scenarios—not forecasts—to explore how Canada's energy system may evolve under different policy and market conditions. It includes three current policy scenarios and a net-zero pathway to 2050.

The results of the CER report highlight two central tensions in Canada's energy outlook under current policy scenarios. First, emissions reductions slow and ultimately stall, falling short of the pace required to meet Canada's climate commitments. Second, economic growth continues to be implicitly tied to expanding oil and gas production — reinforcing the assumption that stronger climate action comes at the expense of economic performance. The Canada Net-zero pathway challenges this framing, demonstrating that these tensions can be resolved. It suggests that aligning emissions reductions with long-term economic growth does not require sacrificing prosperity, but rather strengthening climate policy in ways that decouple economic performance from rising fossil fuel production to align with global trends towards energy transition.

Scenarios

Scenarios are a core feature of the analysis, offering a structured way to explore how Canada's energy system could evolve under different assumptions. They are not forecasts or predictions, but analytical tools used to examine how energy supply and demand may respond to changes in policy, technology, markets, and broader economic conditions. This report contains three scenarios based on current climate and energy policy: the baseline Current Measures plus two scenarios that reflect key drivers of Canada's energy system, like data centre development,

¹ Canada Energy Regulator, *Canada's Energy Future 2026: Energy Supply and Demand* (2026). <https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2026/>

trending Higher or Lower (Figure 1). It also includes the Canada Net-zero scenario which is distinct in that it sets net-zero emissions in 2050 — Canada’s legislated emissions target, aligned with science-based goals in the international Paris Agreement to prevent the worst impacts of climate change — as a predetermined goal and explores what a plausible pathway to that outcome might look like. Appendix A includes descriptions of the scenarios.

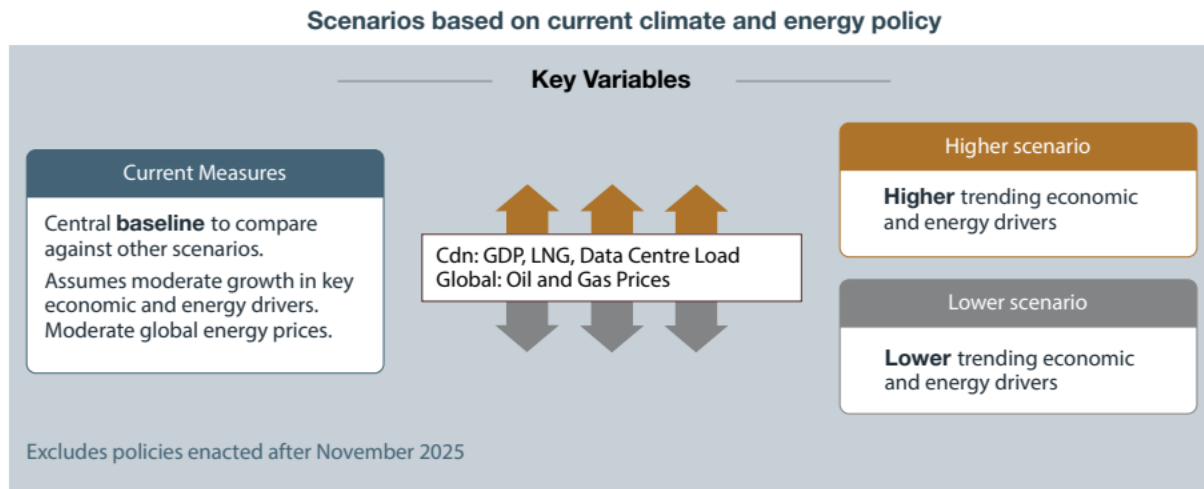


Figure 1. Scenarios based on current climate and energy policy

Source: Canada Energy Regulator²

Results

Emission reductions plateau without further policy action

Greenhouse gas emissions initially fall in all scenarios, but under current policy assumptions (Current Measures, Higher, Lower) reductions largely plateau around 2035 (Figure 2). All scenarios miss both 2030 and 2035 climate targets, achieving just half of pledged emissions reductions by 2030 in the Current Measures scenario. Even in the Net-zero scenario, emissions overshoot the 2035 pledge by 28 megatonnes of carbon dioxide equivalent (MtCO₂) but the scenario still achieves net-zero by 2050. This indicates that for Canada’s credibility around climate pledges to be maintained, policies need to be improved. This aligns with findings from Environment and Climate Change Canada’s own emissions projections that show Canada is not on track to reduce its emissions commensurate with its goals.³

² Canada’s Energy Future 2026, 27.

³ Environment and Climate Change Canada, “Greenhouse gas emissions projections,” March 10, 2026. <https://www.canada.ca/en/environment-climate-change/services/climate-change/greenhouse-gas-emissions/projections.html>

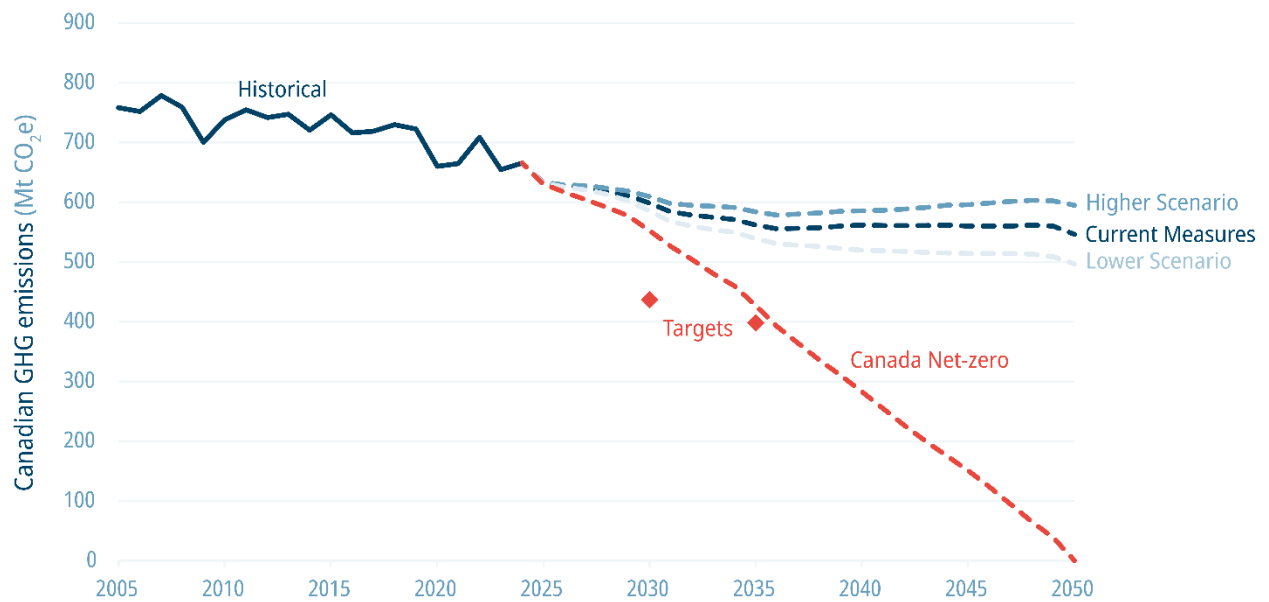


Figure 2. Canadian GHG emissions by scenario

Data source: Canada Energy Regulator⁴

Oil and gas sector drives emissions under current scenarios

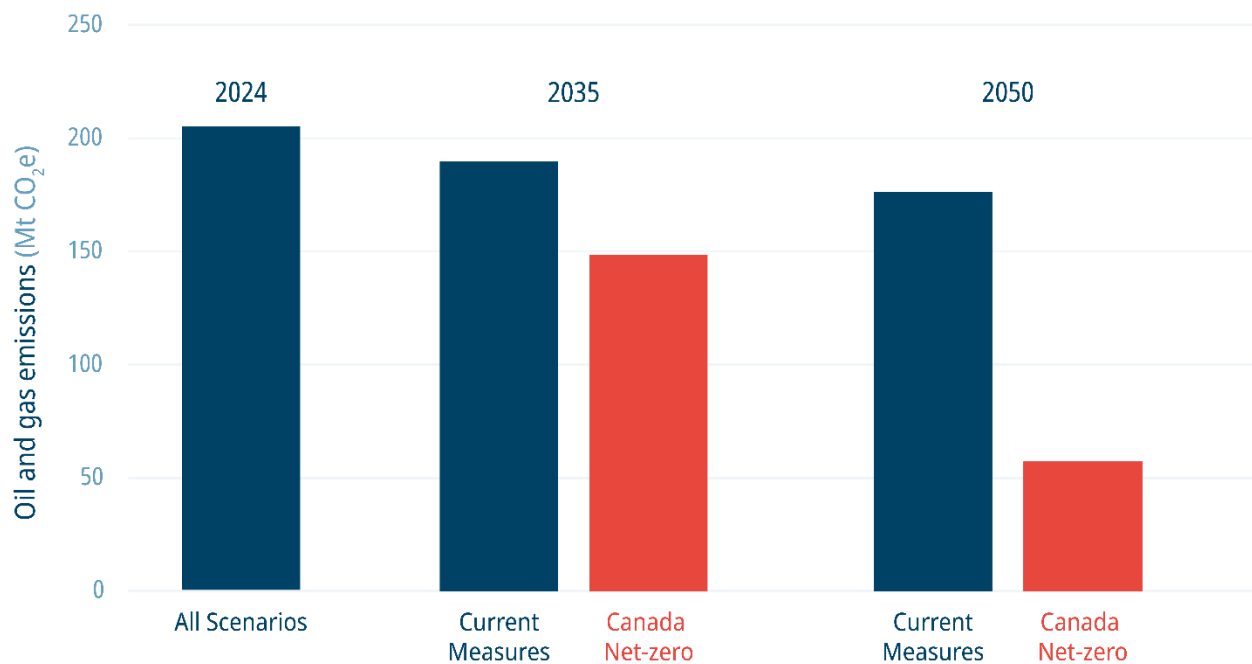


Figure 3. Oil and gas emissions under Current Measures and Canada Net-zero scenarios

Data source: Canada Energy Regulator

⁴ Data from all charts comes from *Canada's Energy Future 2026*, available at <https://www.cer-rec.gc.ca/en/data-analysis/canada-energy-future/2026/access-and-explore-energy-future-data.html>

The oil and gas sector continues to be the largest emitter across economic sectors as a result of oilsands output and increasing natural gas production to feed proposed LNG terminals. In the absence of an increasing price on carbon post-2030, only small reductions in emissions occur by 2050 (Figure 3). Only in a Net-zero scenario where carbon prices continue to rise is there a significant build-out of carbon capture and storage (CCS), commensurate with the “decarbonized barrels” that have been touted.⁵

Strong policy decouples oil and gas production from emissions

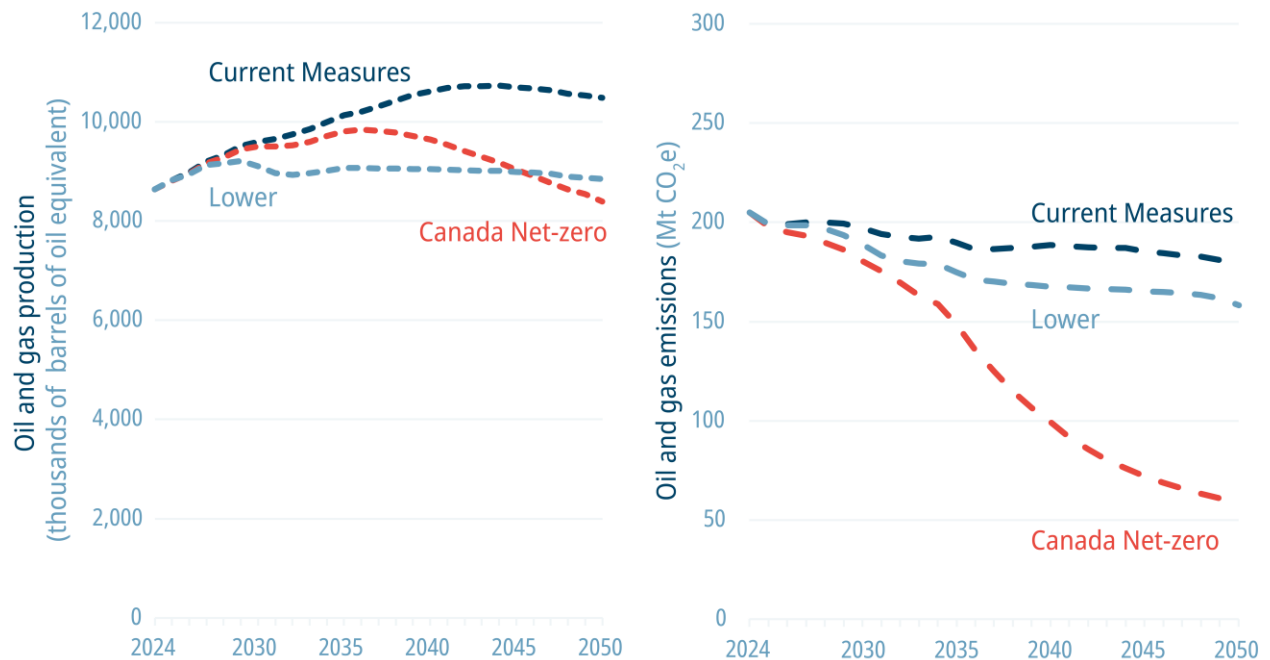


Figure 4. Canada oil production and emissions by scenario

Data source: Canada Energy Regulator

In the Net-zero scenario, faster progress on the energy transition leads to lower domestic energy demand as electrification expands and energy efficiency increase with new technologies. Globally, oil and gas prices decline as economies shift off of fossil fuels. Against this backdrop, one of the more striking findings in the 2026 report is that oil and gas production does not decline sharply in the Net-Zero pathway, remaining above the Low scenario until the late 2040s (Figure 4). This result hinges on rapid declines in oilsands emissions intensity, driven by large-scale deployment of carbon capture and storage which is highly policy-dependent and uncertain. While production levels are relatively similar across scenarios, emissions outcomes diverge dramatically. As Figure 4 illustrates, emissions under current measures are more than

⁵ Canada’s First Ministers, “First Ministers’ statement on building a strong Canadian economy and advancing major projects,” news release, June 2, 2025. <https://www.pm.gc.ca/en/news/statements/2025/06/02/first-ministers-statement-building-strong-canadian-economy-and-advancing-major-projects>

three times higher than in the Net-zero pathway, despite production only being 20% lower. This divergence underscores the crucial point about emissions intensity, which is driven by policy strength and technology deployment. Under current policy assumptions, emissions reductions plateau even as production continues, reflecting stalled improvements in emissions intensity. This outcome highlights the limits of incremental or voluntary approaches to decarbonization. Without stronger policy signals, most notably a rising and durable carbon price, there is little incentive for large-scale investment in decarbonization infrastructure. The result is a Canadian energy system that continues to operate at high emissions intensity.

By contrast, the Net-zero scenario demonstrates that it is technically possible for Canada to deliver energy at a fraction of today’s emissions. But this outcome is highly conditional. It rests on the rapid and widespread deployment of emissions abatement technologies, particularly CCS, alongside stronger industrial policy. In the oilsands, the Net-zero pathway requires the capture of roughly 41 MtCO₂ annually by mid-century — an emissions reduction on the order of magnitude proposed under the full build-out of the Oil Sands Alliance’s Pathways project.

The economy does not shrink under Net-zero

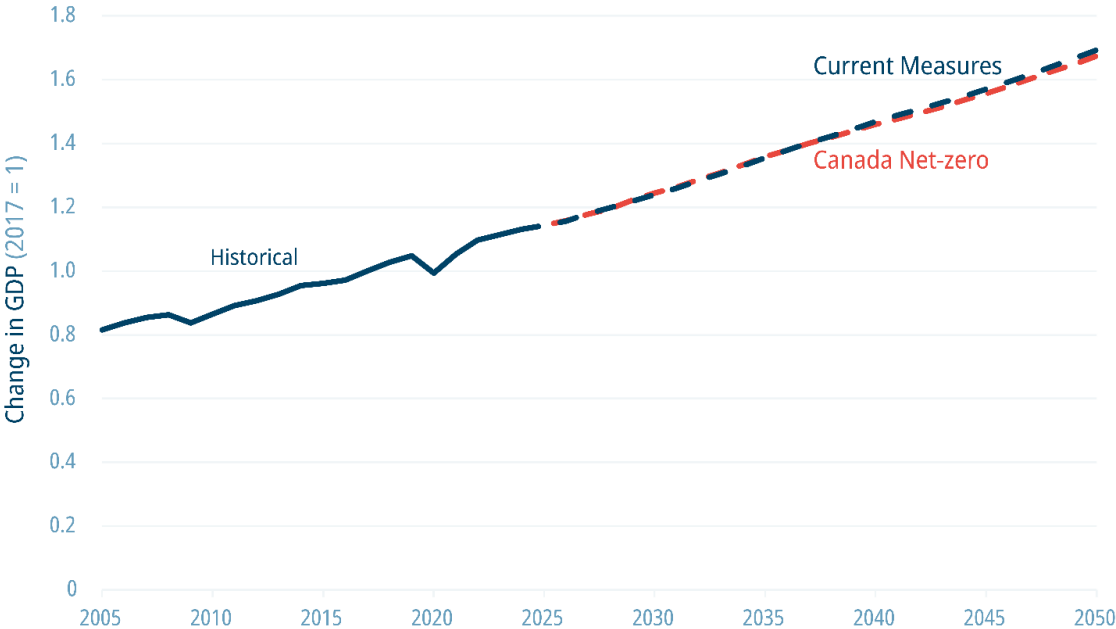


Figure 5: Change in real GDP (2017 = 1)

Data source: Canada Energy Regulator

A persistent argument against ambitious climate policy is that emissions reductions come at the cost of economic prosperity.⁶ The CER's own modelling does not support this. Across scenarios, including Canada Net-zero, GDP follows a broadly similar upward trajectory to 2050. The Canadian economy does not shrink under Net-zero; it grows, at a pace comparable to current measures even in a low oil and gas price environment. This signifies that the economic cost of climate ambition, at least as modelled by the CER, is not a foregone conclusion. And this is to say nothing of the significant costs of runaway climate change, which represent billions in health and infrastructure costs, and lost GDP and income. The composition of the economy changes — less combustion, more electrification, more clean technology deployment — but the size of the economy does not meaningfully differ between a high-emissions future and a low-emissions one.

The report does not disclose in detail what is driving the economy in each scenario. What we do know is that research from the IEA and others shows that global clean energy investment has now surpassed fossil fuel investment for the first time, suggesting the economic tailwinds are shifting.⁷ Canada, with its renewable resources, existing industrial base, and skilled workforce, is well positioned to capture that opportunity — but only if policy ambition matches the scale of the transition.

Stronger policy needed

It is clear that Canada's current policy framework is insufficient to deliver sustained emissions reductions, particularly from the high-emitting oil and gas sector, or to align the economy with its climate commitments. Under existing measures, emissions plateau within the next five years rather than continue to decline, driven largely by continued growth in oil and gas production and limited incentives to accelerate decarbonization. Hoping that the private sector will prioritize deep emissions reductions without appropriate regulation does not constitute a strategy. Meaningful emissions reductions require deliberate, credible policy choices that shift investment decisions across the economy. Carbon pricing that weakens or flattens after 2030, as assumed in the Current Measures scenario, fails to achieve this.

The CER's results clearly illustrate the need for Canada's industrial carbon pricing systems to work effectively. This means the Government of Alberta's ongoing negotiations with the federal government will have a significant impact on Canada's ability to keep pace with the global energy transition. The acute problems with Alberta's pricing system, precipitated by years of

⁶ Julio Mejia and Elmira Aliakbari, "Mounting evidence suggests emissions cap will harm Canadians," *Fraser Institute*, May 21, 2025. <https://www.fraserinstitute.org/commentary/mounting-evidence-suggests-emissions-cap-will-harm-canadians>

⁷ IEA, *World Energy Investment 2025* (2025). <https://www.iea.org/reports/world-energy-investment-2025>

watering down by the provincial government, need to be solved as soon as possible, not decades down the line.⁸ This modelling from the CER provides the clearest illustration of weakened ambition on this key industrial and climate policy: higher emissions that have a real cost to Canadians, plus no meaningful bump to our economy.

Ultimately, the CER's modelling reveals a meaningful path forward for Canada to act as an energy superpower in a decarbonizing world. This path is only possible if governments at all levels strengthen climate policy and create the conditions for large-scale clean technology investment. Encouragingly, the announcement of Canada's Climate Competitiveness Strategy in Budget 2025 promises to strengthen climate policy, particularly industrial carbon pricing.⁹ This is crucial not only to reduce emissions, but to strengthen Canada's competitive advantage in a world that is increasingly searching for low-carbon solutions. Notably, the CER's modelling challenges a persistent narrative that ambitious climate policy necessarily comes at the expense of economic growth. The economy does not shrink under stronger climate policy; rather, it changes from one reliant on fossil fuel extraction and export to one on electrification, clean technology deployment, and capital investment in low-carbon infrastructure. Canada's climate future is not a question of production versus prosperity, but of policy.

⁸ Janetta McKenzie, "The magic of \$130 by 2030," *Pembina Institute*, March 12, 2026. <https://www.pembina.org/blog/magic-130-2030>

⁹ Government of Canada, *Canada Strong: Budget 2025 (2025)*. <https://budget.canada.ca/2025/report-rapport/chap1-en.html#a20>

Appendix A. Key information from *Canada's Energy Future*

Policies

This information is summarized from Appendix 1: Domestic Climate Policy Assumptions of *Canada's Energy Future 2026*.

Policies included in the Current Measures, Higher, and Lower scenarios are those enacted before the end of November 2025. The Enhanced Methane Regulations, published in December 2025, are therefore excluded from these three scenarios.

- 1. Industrial Carbon Pricing** Assumes industrial carbon prices rise in line with the federal benchmark to \$170/tonne (nominal) by 2030, remain fixed in nominal terms thereafter, and decline to roughly \$100/tonne in 2025 dollars by 2050 due to inflation.
- 2. Clean Electricity Regulations** The Clean Electricity Regulations set an annual emissions limit for electric power generating units that burn any amount of fossil fuels.
- 3. Electric Vehicle Availability Standard (EVAS)** The EVAS is a regulated sales target for zero-emission vehicles that auto manufacturers and importers must meet. The modelling includes targets of 60% for 2030 and 100% by 2035, and reflects the pause in the 2026 target (20%) announced in September 2025. Notably, the Government of Canada announced in February 2026 that it would repeal the EVAS — this change will be reflected in future editions.
- 4. Clean Economy Investment Tax Credits** These include various investment tax credits that reduce clean technology costs, covering CCUS, clean technology, clean hydrogen, and clean technology manufacturing. The expanded Investment Tax Credits for CCUS and the Clean Electricity Investment Tax Credit, as announced in the Federal Budget 2025, are reflected.
- 5. Removal of Consumer Carbon Pricing** The modelling reflects the removal of the consumer carbon price effective April 2025

Scenarios

This information is summarized from the Scenarios and Assumptions section of *Canada's Energy Future 2026*.

Scenario	Description
Current Measures	<p>Baseline scenario reflecting policies already in place, moderate economic growth and energy prices, and incremental technological progress; broadly comparable to ECCC's With Measures and the U.S. EIA's Reference Case.</p> <p>Used primarily as a benchmark for comparing other scenarios rather than a prediction of the most likely outcome.</p>
Higher	Explores a future where key drivers exceed Current Measures, resulting in higher energy production, consumption, and emissions across the economy.
Lower	Examines the opposite set of conditions leading to lower energy production, consumption, and emissions than under Current Measures.
Canada Net-zero	A scenario that achieves net-zero GHG emissions by 2050, requiring additional climate policy, widespread deployment of low-carbon technologies (including CCUS) and emissions reductions well beyond those delivered under current policies.