

# Government of Canada publishes final Clean Fuel Regulations

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The federal government has published the final [Clean Fuel Regulations](#) (CFR) under the *Canadian Environmental Protection Act, 1999*. The CFR sets increasingly stringent requirements on producers and importers of liquid fossil fuels to reduce the carbon intensity of gasoline and diesel.

## What you need to know

- The CFR replaces the current federal *Renewable Fuels Regulations* (RFR). Only liquid fossil fuels (gasoline and diesel) are covered under the CFR. This differs from [the initial CFR design proposed in 2016](#), which applied more broadly to liquid, gaseous and solid fuels.
- The CFR will require gasoline and diesel primary suppliers (i.e., producers and importers) to reduce the carbon intensity (CI) of the fuels they produce in or import into Canada. Relative to 2016 levels, the required reduction is 3.5 grams of carbon dioxide equivalent per megajoule (gCO<sub>2</sub>e/MJ) in 2023, increasing to 14 gCO<sub>2</sub>e/MJ in 2030.
- The CFR will also establish a credit market in which the annual CI reduction requirement could be met through the following categories of credit creating actions: (1) reducing the CI of the fossil fuel throughout its lifecycle, (2) supplying low-carbon fuels, and (3) supplying fuel or energy to advanced vehicle technologies.
- Credit creators will be able to register and start creating credits once the CFR comes into force, which is expected to be on or before December 1, 2022. To address concerns regarding the timing of the CI reduction requirements, those will now come into force on July 1, 2023.
- The Government of Canada is projecting the CFR will help cut up to 26.6 million tonnes of greenhouse gas emissions by 2030.

## Highlights of final CFR

### Repeat of RFR

The CFR replaces the RFR, but it maintains the minimum volumetric requirements currently set out in the RFR: 5% low CI fuel content in gasoline and 2% low CI fuel content in diesel fuel and light fuel oil. The final compliance period for the RFR is 2022, with the final reporting and true-up period for the RFR occurring in 2023. The RFR will subsequently be repealed in its entirety in September 2024.

## Liquid fossil fuels

The CFR covers gasoline and diesel. While initially proposed to be within scope, the gaseous and solid streams, and other liquid fuels, were removed during the regulation design process. Fuel used in space heating and liquid fossil fuels used for power generation in remote communities are also excluded.

## Carbon intensity

Under the CFR, gasoline and diesel primary suppliers (i.e., producers and importers) are required to reduce the CI of the gasoline and diesel they produce in, and import into, Canada from 2016 CI levels by 3.5 grams of carbon dioxide equivalent per megajoule (gCO<sub>2</sub>e/MJ) in 2023, increasing by 1.5 gCO<sub>2</sub>e/MJ per calendar year to 14 gCO<sub>2</sub>e/MJ in 2030. These lifecycle CI reduction requirements will come into force on July 1, 2023. The final CI requirements are more stringent than the earlier announced CI reduction target, which was 2.4 gCO<sub>2</sub>e/MJ in 2022, increasing annually by 1.2 gCO<sub>2</sub>e/MJ to 12 gCO<sub>2</sub>e/MJ in 2030.

## Compliance with CFR

Suppliers can comply in a variety of ways, including by reducing their own emissions from the production of fuels or purchasing credits created by other parties who reduce the lifecycle emissions of the fuels. For each compliance period, a primary supplier of gasoline and diesel must demonstrate compliance with the CFR by creating credits or acquiring credits from other creators, and then using the required amount of credits for compliance.

## Credit market

The CFR will establish a credit market in which the annual CI reduction requirement can be met via three main categories of credit-creating actions: (1) actions that reduce the CI of the fossil fuel throughout its lifecycle (e.g., carbon capture and storage, on-site renewable electricity, co-processing, etc.), (2) supplying low-carbon fuels (e.g., ethanol, biodiesel), and (3) supplying fuel or energy to advanced vehicle technologies (e.g., electric or hydrogen fuel cell vehicles). The credit market will be open to primary suppliers of fossil fuels and other participants, referred to as voluntary credit creators (VCCs), such as low-carbon fuel producers and importers. Each credit will represent a lifecycle emission reduction of one tonne of CO<sub>2</sub>e. The CFR will also recognize carbon capture and storage projects at low-CI fuel production facilities outside Canada (if the fuel is imported into Canada). The CFR also sets out rules on when credits must be retired.

## Credit creation

Some credit creation opportunities for low-carbon gaseous fuels, like hydrogen and renewable natural gas, are provided in the CFR, including credits for using low-CI hydrogen as a feedstock in the production of fossil fuels or low-carbon intensity fuels, supplying renewable gas and hydrogen to the transportation sector (e.g., fuel cell vehicles and natural gas vehicles), and supplying biogas, renewable gas and hydrogen for non-transportation purposes (which credits can be used to comply with up to 10% of the annual reduction requirements). The CFR also allows credit creation for emissions-reduction projects at foreign facilities that produce liquid fossil fuels or crude oil, but only for the portion of fuel or oil supplied to Canada, and does not allow for emission reduction projects to create credits for the portion of fossil fuels or crude oil that is exported from Canada.

## Agreement to create credits

Under the CFR, by default, the credits are issued to the person that undertakes the credit creating activity. However, a third party can assume the role of credit creator by entering into an agreement under the CFR with the party that undertakes the qualifying activity, including a person carrying out an emission-reduction project or a producer of low-CI fuel, as specified in the CFR.

## Coming into force

The CFR will come into force once registered, which is expected to be on or before December 1, 2022. As of that date, credit creators (including VCCs and others) will be able to register and start creating credits. To address concerns regarding the timing of the CI reduction requirements coming into force, that date was extended to July 1, 2023.

## CFR and the race to net-zero

On March 29, 2022, the government released its 2030 Emissions Reduction Plan: Canada's Next Steps for Clean Air and a Strong Economy, which sets out a sector-by-sector approach for Canada to reach its new climate target of cutting emissions by 40% below 2005 levels by 2030 and to achieve net-zero emissions by 2050. The CFR is a key part of the government's plan to achieve these targets.

## Economic and market considerations

The Government of Canada expects the CFR to drive significant economic opportunities in the development and use of clean fuels and technologies. In combination with the [Clean Fuels Fund<sup>1</sup>](#), the CFR will create incentives for the increased domestic production of low-CI fuels, such as ethanol, which are expected to create opportunities for biofuel feedstock providers (e.g., farmers and foresters) and help Canadian fuel producers compete in the global market for clean energy.

In the news release announcing the final CFR, the government noted that the CFR has been designed to ensure there will be no immediate impact on fuel prices. In the long term, the expectation is that the CFR could lead to a decrease in overall GDP of up to \$9 billion in 2030, and an increase in gasoline prices of between 6 and 13 cents per litre and diesel prices between 7 and 16 cents per litre by 2030.

### FOOTNOTES

1. The federal Budget 2021 established the Clean Fuels Fund through an investment of \$1.5 billion over five years, which is intended to help deliver on actions set out in the government's Hydrogen Strategy for Canada (see prior Torys bulletin [here](#)) and support the implementation of the CFR (including by de-risking the capital investment required to build new or expand existing clean fuel production facilities).

*To discuss these issues, please contact the author(s).*

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