

# A carbon and crude compromise: Canada-Alberta agreement on oil pipeline, pathways and carbon pricing

## AUTHORS



Jeremy Barretto



Tyson Dyck



Luigi A. Cusano



Dennis E. Mahony



Valerie Helbronner



Huw Evans



Nick Ettinger



T. Ryan Lax



Emily Stewart



Cindy Chen

On May 15, 2026, Canada and Alberta announced an [implementation agreement](#) (the Implementation Agreement) that marks a significant step forward on federal-provincial cooperation regarding energy infrastructure and carbon pricing. Under the agreement, Ottawa made unprecedented regulatory approval commitments for a new oil pipeline to the west coast of British Columbia, while Alberta made certain commitments to industrial carbon pricing and the Pathways carbon capture and storage project. The agreement fulfils several outstanding deliverables from the November 2025 [Memorandum of Understanding](#) between Canada and Alberta.

## What you need to know

- **The Implementation Agreement sets out a framework aiming to approve a new bitumen pipeline from Alberta to British Columbia by September 2027.** Alberta will submit a pipeline application to the Major Projects Office (MPO) by July 1, 2026, and Canada will “pursue the designation” of the project as a “national interest project” under the *Building Canada Act*. If designation is approved and all consultation duties are satisfied, Canada will assess the project and make best efforts to provide the conditions document by September 2027.
- **Canada and Alberta have agreed to a framework for industrial carbon pricing until 2040.** The parties agreed that the headline price on carbon under Alberta’s Technology Innovation and Emissions Reduction (TIER) system will hold at \$95 per tonne in 2026 before gradually rising to \$140 by 2040. The parties also agreed that Alberta will administer TIER so that the effective price of carbon will increase to \$130 per tonne by 2040, although significant details remains outstanding on how this will be achieved. Beginning in 2030, Alberta will also regulate a minimum transfer price for carbon credits starting at \$60 per tonne. Canada and Alberta will issue up to 75 million tonnes of Carbon Contracts for Difference (CfDs) between 2030 and 2040.

- **Canada and Alberta remain committed to developing the Pathways Project**, which is a significant carbon capture and sequestration project aimed at reducing oil sands emissions by transporting captured greenhouse gases from Alberta oil sands facilities to a centralized underground storage hub. The governments will support the project through various policy measures, including extending the federal Carbon Capture, Utilization, and Storage Investment Tax Credit and Investment Tax Credits, maintaining Clean Fuel Regulation incentives, and providing provincial funding through Alberta's Carbon Capture Incentive Program. Canada and Alberta reaffirmed their commitment to reaching a trilateral memorandum of understanding with the companies participating in the Oil Sands Alliance to advance the project.

## A new oil pipeline from Alberta to the west coast of Canada

Under the Implementation Agreement, Canada and Alberta affirm their commitment to a new bitumen pipeline from Alberta to British Columbia, expanding access to Asian markets. The exact route of this pipeline has yet to be fixed, though there is reporting that the two governments may prefer different routes to the west coast<sup>1</sup>. In any event, the Implementation Agreement sets out an ambitious target timeline for the project as follows:

- Alberta will submit its pipeline application to the MPO by July 1, 2026; and
- Canada will seek to designate the project as one of national interest for approval under the *Building Canada Act* by October 1, 2026, while ensuring that all steps and decisions are fully consistent with its duty to consult Indigenous Peoples.

If the pipeline project is successfully designated as one of national interest, Canada will assess the project and make best efforts to provide the conditions document by September 1, 2027 to enable construction of the pipeline. This marks the first Alberta project to be publicly considered by the MPO. While other projects have been referred to the MPO for consideration, this is also the first time Canada has announced that it will "pursue the designation" of a project as one of national interest under the *Building Canada Act*, while also proposing a targeted timeline for issuing a conditions document and approving the project under the Act.

## Agreement on pricing industrial carbon emissions

Canada and Alberta have agreed on new benchmarks for carbon pricing under Alberta's TIER system, clearing a major hurdle to implementing the MOU. As recently as April 2026, the two governments remained apart on their headline carbon prices: the federal backstop under the Output Based Pricing System was set to reach \$170 per tonne by 2030, while Alberta had effectively capped the price under TIER at \$95/tonne.

Although there remain significant details to be determined, the Implementation Agreement provides a framework for federal-provincial cooperation on carbon pricing in Alberta until 2040. In particular, Canada and Alberta agreed to the following:

- The headline carbon price under TIER (which reflects the price of TIER fund contribution credits and is currently \$95/tonne) will rise to \$100/tonne in 2027, incrementally increase to \$130/tonne in 2035 and escalate by 1.5%/year beginning in 2036 and reach \$140/tonne in 2040. This is a significant compromise on the part of the federal government which, under the output-based pricing system of the *Greenhouse Gas Pollution Pricing Act*, had scheduled the federal headline carbon price to increase to \$170/tonne by 2030.

- Recognizing that the cost of compliance under TIER does not match the headline carbon price as there have historically been lower-cost compliance options than purchasing fund contribution credits, Alberta will also administer and design TIER to achieve an effective price of carbon that will adjust over time and target \$130/tonne in 2040. Significant details remain outstanding on this proposal. The Implementation Agreement defines “effective price” to mean the “market price of carbon credits”. Although the market price of TIER offset credits was generally in the \$30-40/tonne range in Q1 2026 (and significantly lower than that in the past year), the market price in practice does not necessarily reflect the effective cost of compliance for covered TIER emitters. This disconnect is due to credit availability and banking, nuances of compliance strategy and TIER restrictions on offset credit usage. Further details are required to confirm whether the effective price will be the market price of TIER offsets and, importantly, on how Alberta will manage the effective price over time (e.g., through increased stringency or limitations on offset availability and usage). The effective price is critical to driving emissions reductions under TIER as it is a primary price against which other abatement options are evaluated.
- Alberta has also agreed to stringency rates (i.e., the annual rates by which TIER sectoral benchmarks are tightened) for the time periods 2027-2030 and 2031-2040. Notably, the stringency rates for the firms building and operating the Pathways Project will start at 2.0% from 2027-2030 before dropping to 1.0% from 2031-2040 whereas the rate for Large Oil Sands generally will be 2.0% from 2027-2040.
- To help provide price stability in the TIER market, Alberta will also regulate a minimum transfer price for TIER credits beginning in 2030 (i.e., a floor price on TIER credit sales). Any traded credit retired for compliance in respect of compliance obligations generated in a given year must have a value of no less than the price floor for that year or the floor price in the year it was obtained. The floor price will be \$60/tonne in 2030, rising incrementally to \$110/tonne in 2040. Alberta intends to enact a regulation setting out details of the price floor by December 31, 2026. There remain significant outstanding details that will need to be resolved in developing these regulations, including how the floor price will be applied in certain circumstances like previously executed agreements for the forward delivery of TIER credits. The Implementation Agreement only states that credits generated prior to the enactment of the price floor regulation will be grandfathered and eligible for a transfer price below the price floor in accordance with their original expiry periods.
- Alberta will also design its previously proposed TIER direct investment program in a manner that preserves market function and the effective price. Eligible investment amounts under this program will be limited to 50% of eligible capital and up to 50% of operating costs directly attributable to the approved project, net of any government grants, TIER fund support, investment tax credits or other public financial support.
- In parallel, Canada and Alberta will jointly support emissions-reduction investments through the issuance of CfDs covering up to 75 million tonnes of emissions reductions between 2030 and 2040. These contracts are intended to provide a contractual guarantee from the government with respect to the carbon price over the contract term, which can help provide a degree of cost certainty for companies undertaking major abatement projects. According to the Implementation Agreement, the parties will administer CfDs such that the effective price in those agreements is on track to reach \$130 tonne in 2040, which suggests the parties intend to use a strike price that resembles the effective price as it increases over time.

Subject to the ongoing implementation of this framework to the satisfaction of both parties, Canada will maintain the Clean Electricity Regulations (CER) in abeyance while the CER reference case is before the courts. Should the CER be ultimately found constitutional, Canada and Alberta will enter into agreements for an equivalency agreement allowing Canada to stand down the regulations in Alberta. Should the CER ultimately be found unconstitutional, Canada agrees to repeal the regulations and Alberta agrees to maintain the carbon pricing framework in the Implementation Agreement.

# Commitment to developing the Pathways Project

The pipeline project will be dependent on the advancement of the Pathways Project, a large-scale carbon capture, storage and emissions reduction initiative in northeastern Alberta proposed by major oilsands companies, including Canadian Natural Resources Limited, Cenovus, ConocoPhillips Canada, Imperial Oil Limited, and Suncor Energy. These companies are collectively referred to as the Oil Sands Alliance, previously known as the Pathways Alliance. A trilateral MOU is forthcoming with the Oil Sands Alliance and both governments have reaffirmed their commitment to work with Indigenous parties to consult and accommodate on pipelines and facilities related to the project.

To support this project, Canada and Alberta have committed to various financial and policy measures. Federally, this includes extending the Carbon Capture, Utilization, and Storage Investment Tax Credit to 2035, maintaining minimum credit creation rates of at least 20% under the Clean Fuel Regulation for upstream carbon capture, utilization and storage projects, and extending federal Investment Tax Credits to support enhanced oil recovery. Provincially, Alberta has confirmed that it will continue to support the Alberta Carbon Capture Incentive Program.

## FOOTNOTE

1. The Globe and Mail, [Ottawa favours southern route for new Alberta-BC pipeline, sources say](#) (April 21, 2026).

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

*This publication is a general discussion of certain legal and related developments and should not be relied upon as legal advice. If you require legal advice, we would be pleased to discuss the issues in this publication with you, in the context of your particular circumstances.*

*For permission to republish this or any other publication, contact [Richard Coombs](#).*

© 2026 by Torys LLP.

*All rights reserved.*