

# Canadian industry proposes five fixes to industrial carbon pricing

An open letter to provincial ministers of the environment

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October 23, 2024

**Dear Provincial Ministers of the Environment,**

We support industrial carbon pricing as the backbone of decarbonization across this country. Industrial carbon markets are the most flexible and cost-effective way to incentivize industry to systematically reduce emissions. Yet this critical policy isn't working as well as it should. A patchwork of provincial carbon pricing systems has produced numerous barriers and created significant red tape across efforts to decarbonize our economy.

We write to raise concerns about how provincial carbon markets work together, or rather how they do not. The disconnect across nine different markets makes it harder to invest in major projects in Canada. It is holding back capital, economic growth, jobs, and decarbonization. We need to act now to fix this.

We are now less than two years away from the scheduled 2026 review of industrial carbon pricing systems, yet in Ottawa the work has already begun. Now is the moment for provinces to come together to tackle these challenges and demonstrate leadership. Provinces should seize this opportunity to improve industrial carbon markets from coast to coast to coast.

We propose five essential fixes to ensure that industrial carbon markets perform at their full potential:

**1. Remove interprovincial trade barriers:** Remove the interprovincial trade barriers that prevent a carbon credit (e.g. offset, emissions performance credit, etc.) generated in one province from being recognized in another. Free industry to buy and sell these credits across provincial borders.

**2. Create and align high-integrity offset protocols:** High-integrity offsets represent emissions reductions or removals that are permanent, additional, and verifiable. They provide more pathways for industry to pursue decarbonization. The current patchwork of protocols across provinces can be aligned over time but we need to start now to boost decarbonization and seed important new industries such as carbon dioxide removal.

**3. Make credit markets transparent:** Investors are confronted with several different carbon credit markets and large emitter programs across Canada, and most do not provide public information about transactions or credit prices. Minor regulatory changes that increase transparency can make markets easier to navigate and understand, encourage greater participation, inspire investor confidence, and facilitate investment. Market transparency also opens the door to providing greater certainty to firms through the use of carbon contracts for difference.

**4. Enhance revenue recycling:** To support decarbonization efforts, provinces should create predictable, efficient and transparent programs to reinvest 100% of industrial carbon pricing revenues back into industry to accelerate additional decarbonization. Enhanced revenue recycling would better position Canadian industry as a global source of low-carbon products and help us to compete globally.

**5. Engage on measures at the border to support vulnerable sectors:** Border measures can prevent carbon leakage to jurisdictions with less advanced climate policies. The European Union is already implementing a Carbon Border Adjustment Mechanism (CBAM) and more jurisdictions may soon follow with similar measures. In Canada, border measures are under federal jurisdiction, but provinces are stewards of their industrial carbon pricing systems. Provinces can and should push the federal government to accelerate the conversation about climate policy and the global competitiveness of Canadian industry.

As leaders in Canadian industry, business, and climate policy, we urge you to work together to improve industrial carbon markets with the recommendations outlined above. To be successful, we need provincial leaders working together towards a common vision for decarbonization in this country. Our economy and environment depend on it.

Regards,



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