

Credit Where Credit is Due

Strengthening carbon markets to protect Ontario steel and
mobilize low-carbon investment



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Who we are

Clean Prosperity is a Canadian climate policy organization. We advocate for practical climate solutions that reduce emissions and grow the economy. Learn more at CleanProsperity.ca.

Title page photo credit: Algoma Steel’s Electric Arc Furnace.

Abbreviations

BF	blast furnace
BF-BOF	blast furnace-basic oxygen furnace
BOF	basic oxygen furnace
CCfD	carbon contract for difference
CO ₂ e	carbon dioxide equivalent
DRI	direct reduced iron
EAF	electric arc furnace
EEU	excess emissions unit
EPP	Ontario's Emissions Performance program
EPS	Ontario's Emissions Performance Standards program
EPU	emissions performance unit
MtCO ₂ e	million tonnes of carbon dioxide equivalent
OBPS	output-based pricing system
tCO ₂ e	tonne of carbon dioxide equivalent

Executive summary

Ontario has an opportunity to defend its vital steel sector from the worst of the U.S. trade war while attracting billions in investment, securing and growing the province's high-skill workforce, and significantly reducing emissions.

The steel industry is a cornerstone of Ontario's economy and a critical input for both the automotive and construction sectors. Ontario's steel manufacturers are deploying massive capital to replace legacy blast furnaces with electric arc furnaces, securing decades of globally competitive low-carbon steel production.

Ontario's Emissions Performance Standards (EPS) program is intended to incentivize and reward these kinds of transformations, but its current design fails to accurately recognize the real emissions reductions achieved through these fuel-switching projects in the steel sector. Under the current rules, a mill can invest hundreds of millions in lower-emissions furnaces, only to have the program move the goalposts, by immediately imposing a much stricter benchmark that cancels out the investment's financial benefit. Despite amendments intended to address this, the policy disconnect forces mills to continue paying compliance costs for their new, lower-emitting processes instead of generating credits — a result that severely undermines investor confidence.

The urgency of updating the program is compounding. Since the United States escalated steel tariffs to 50% in June 2025, Ontario's mills have faced an unsustainable financial burden. **To offset these external pressures, Ontario must fast-track carbon market reforms; otherwise the province risks stalling the very modernization required to keep the steel industry globally competitive.**

Ontario can help the sector weather the storm and protect its future by updating the EPS to reward these transformational investments. **Effective carbon markets reward low-carbon investments equally and predictably, allowing companies to generate and monetize credits for real emissions reductions.**

Though Ontario introduced a new emissions benchmark in 2023 to recognize low-carbon transitions, steel mills continue to face compliance

Ontario can help the steel sector weather the storm and protect its future by updating its carbon market to reward these transformational investments.

costs after making significant fuel-switching investments. We recommend amendments to the program to fully recognize the steel sector's investments the same way it recognizes other forms of low-carbon investment. Predictable and equal treatment of real emissions reductions, paired with financial tools, such as carbon contracts for difference (CCfDs), can help the steel sector and provide a vital signal to other industrial sectors looking to invest in Ontario.

Summary of recommendations

Provide credit for emission reductions

Improving the design of Ontario's EPS can protect the steel sector and attract low-carbon investment. To ensure these outcomes, the EPS must allow for credit generation when a facility reduces emissions, beginning with the recognition of Algoma Steel and ArcelorMittal Dofasco's fuel-switching investments.

1. Recognize real emissions reductions from fuel-switching investments in the steel sector.

The Government of Ontario should amend the EPS Methodology (Method G) to assess a portion of Algoma Steel and ArcelorMittal Dofasco's low-carbon steel production against the facility's historic emissions intensity. By comparing current operations to past emissions, the province can accurately award carbon credits for the massive reductions these facilities have achieved. Awarding carbon credits will clearly signal that the EPS recognizes and values real emissions reductions achieved through low-carbon investments.

Support predictable and stable credit values

Carbon credits only hold their value if there are enough buyers in the market. If the credits become worthless due to oversupply, the financial incentive for companies to decarbonize disappears. To provide investor certainty that credits will hold their value over the long term, the government must ensure demand for credits and improve transparency in the marketplace.

2. Distribute Emissions Performance Program (EPP) funds to all facilities regulated under Ontario's carbon market to support credit demand.

Ontario's current approach to recycling EPS revenues undermines the system's price signal; if heavy emitters know that EPS payments will be returned to them in funding, there is less financial incentive to buy carbon credits. The Ontario Government should amend the EPP to delink eligible funding amounts from compliance payments. Redistributing a portion of program revenue among all regulated emitters would provide direct support for low-carbon investments at facilities while maintaining credit demand.

3. Open Ontario's carbon market to third-party market participants.

Allowing third parties, such as banks or institutional investors, to participate in Ontario's carbon market would stabilize credit prices, ensure steady demand for credits, and attract investment. The Government of Ontario should allow any business, not just owners and operators of defined "EPS facilities," to participate in the provincial carbon market. The regulation should create a category for non-compliance entities, such as "general market participants," to hold accounts.

4. Publish frequent market data for carbon credit transactions and establish a centralized marketplace.

Improvements to the transparency and functionality of the EPS market will increase investor confidence in credit values and incentivize more low-carbon investment. To achieve this, the Government of Ontario should:

- Publish quarterly data on average, minimum, and maximum credit prices, broken down by the year the credits were issued.
- Report trading volumes consistently alongside price data, to help investors assess market size, liquidity, and depth.
- Establish a centralized marketplace for credit transactions that lists credits for sale and supports transactions between facilities.

Look beyond Ontario's borders to improve investor confidence

To support investor confidence that the EPS is predictable and bankable, the government should introduce policies that improve the stability and liquidity of credits. There are significant opportunities for the EPS to draw in additional investment through collaboration with the federal government and other provinces.

5. Work collaboratively with the federal government to jointly backstop standardized carbon contracts for difference (CCfDs).

Regulatory uncertainty can undermine confidence in future carbon credit value. CCfDs address this risk by guaranteeing a stable value for credits generated by low-carbon projects. These contracts should be broad-based, available to any eligible emitter, and jointly backstopped by the governments of Ontario and Canada, to guarantee the long-term stability of the EPS market.

6. Consult with the federal and other provincial and territorial governments to harmonize carbon markets and pursue interprovincial trade.

Interprovincial trade of carbon credits is essential to building a competitive national economy. The EPS market is constrained by its provincial borders; there is much greater opportunity in a deeper, more liquid marketplace. Credits that are mutually recognized across Canadian carbon markets would immediately increase the number of buyers and sellers available to Ontario industries, providing the financial certainty needed for massive low-carbon investments in the province.

Introduction

Ontario's steel sector has the potential to be a national success story for industrial low-carbon investment. Together, Algoma Steel and ArcelorMittal Dofasco have announced billions of dollars in investments that will ensure decades of production of low-carbon steel. Algoma Steel's [\\$987 million](#) electric arc furnace (EAF) investment is electrifying production and positioning Sault Ste. Marie as a global leader in low-carbon steel. The investment reduces the facility's carbon emissions by approximately [70%](#) (3.0 MtCO₂e per year) and increases steel production capacity by 700,000 tonnes of finished steel. Similarly, ArcelorMittal Dofasco announced a \$1.7 billion investment to replace coal-based steelmaking with a direct reduced iron (DRI) and EAF process — reducing emissions by nearly [60%](#) (3.0 MtCO₂e per year).

These generational investments were made with the expectation that Ontario's industrial carbon market would recognize and reward emissions reductions. Instead, current market designs force steel mills into compliance positions despite emissions reductions.

To make matters worse, U.S. tariffs on Ontario steel exports put extreme financial pressure on Ontario's steel mills. Because [nearly half](#) of Ontario steel production is sold into the United States, the recent 50% U.S. tariffs on steel are having a severe impact on sector revenues. In response to tariffs, Algoma Steel completed its transition to EAF [early](#). ArcelorMittal Dofasco's transition, on the other

hand, is progressing slower than the original 2028 completion target, and the DRI portion of their investment was [moved](#) out of province to a facility in Quebec.



Algoma Steel's Electric Arc Furnace.

Ontario's steel sector stands at a crossroads. Historic investments in low-carbon production have created major economic opportunities, but rising trade pressures and policy uncertainty threaten Ontario's ability to capture them. This report examines steel as the first major test of whether Ontario can compete for industrial low-carbon investment. The government of Ontario must amend the Emissions Performance Standards (EPS) program to support steel — and prove its carbon market is open for wider industrial investment for all industries in the future.

Ontario's steel sector

Steel is an essential part of Ontario's economy

Steel manufacturing is an essential part of Ontario's economy and a vital input for critical infrastructure, ranging from nuclear reactors and automobiles to schools and hospitals. Positioned at the centre of Ontario's heavy industry, the sector is highly emissions-intensive and trade-exposed, and plays a critical role in the province's manufacturing supply chain.

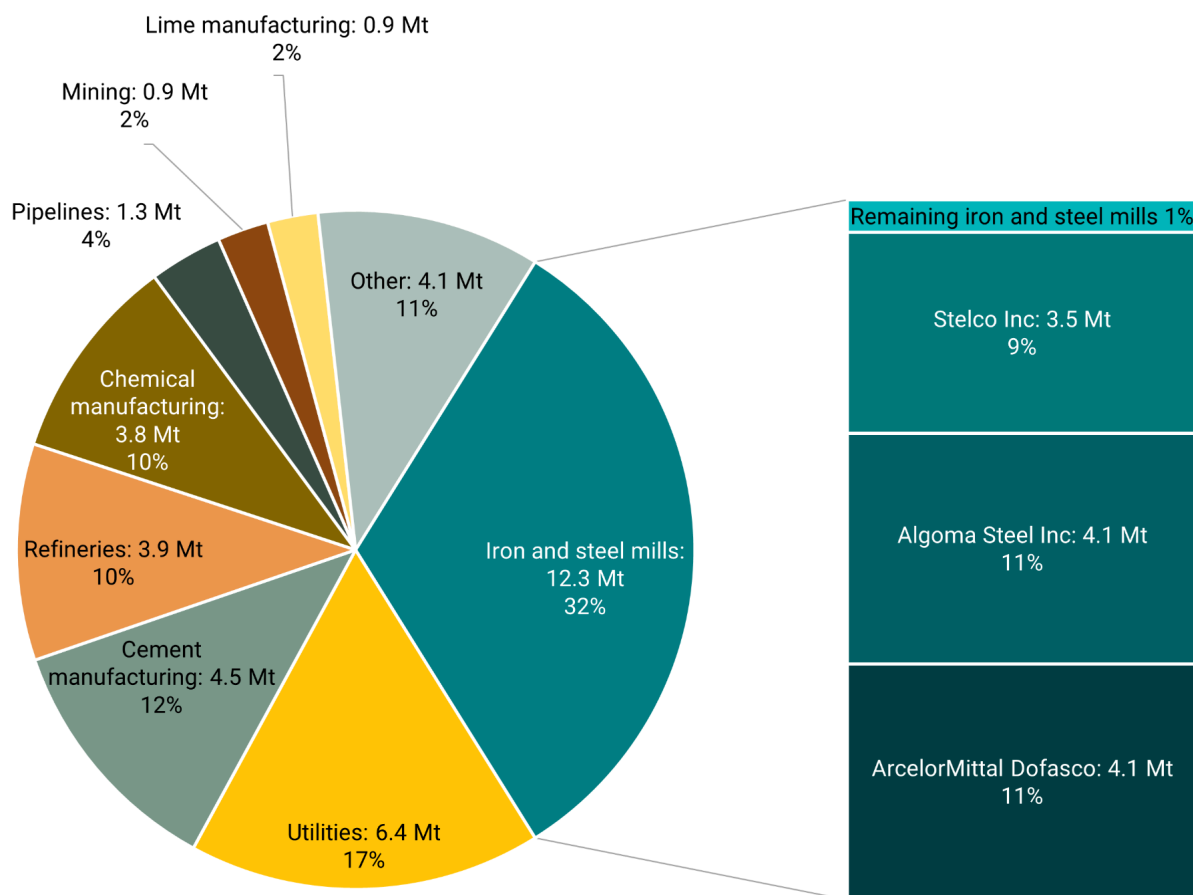
The steel industry contributed [\\$3 billion](#) to the country's GDP and directly supported 23,000 jobs in 2024. Canada's [16 steel mills](#) produce [13 million tonnes](#) of crude steel annually ([valued at \\$15 billion](#)), with 75% of that capacity in Ontario.

There are several pathways to low-carbon steel

Iron and steel manufacturing is among the most emissions-intensive industrial activities. Because production has historically relied on metallurgical coal as a source of carbon for the thermo-chemical iron and steel production processes, the sector is also the largest industrial source of emissions, accounting for roughly [11% of global industrial CO₂ emissions](#). Canada's steel sector currently produces about [13.1 MtCO₂e per year](#) (or 2% of Canada's emissions), with the majority from Ontario's integrated steel mills.

This emissions profile positions iron and steel firms as key players within Ontario's carbon market. In 2023, iron and steel facilities were the three highest-emitting facilities in the EPS. The sector accounts for more than 12 MtCO₂e – 32% of the program's average total regulated emissions (see Figure 1).

Figure 1: Average annual emissions from EPS-regulated sectors (in MtCO₂e)¹



Ontario's steel sector is in transition

Two of Ontario's big three integrated steel mills are investing in low-carbon steel production with government support: Algoma Steel's scrap-based EAF and ArcelorMittal Dofasco's planned DRI and EAF. Historically, these integrated mills have relied on the emissions-intensive blast furnace-basic oxygen furnace (BF-BOF) process to convert iron ore into steel. Other steel mills in Ontario, called mini mills, use electric arc furnaces (EAFs), which are more energy- and emissions-efficient than BF-BOF.²

¹ Based on average annual regulated emissions from 2019-2023 in the GHGRP.

² BF-BOF (with coal injection) has [direct emissions](#) of 1.2 tCO₂e per tonne of crude steel produced; DRI-EAF (with natural gas) emits 1.0 tCO₂e per tonne of crude steel; and scrap-based EAF emits 0.04 tCO₂e per tonne of crude steel.

Table 1: Overview of production processes for steel

Process	Steel type	Iron reduction method	Steelmaking method
BF-BOF	Primary	Blast furnace (BF) Iron smelter heats iron ores for conversion to iron bars.	Basic oxygen furnace (BOF) Smelts iron into steel using coke.
DRI-EAF	Primary	Direct reduction of iron (DRI) Iron furnace smelts iron ore, fuelled by natural gas or hydrogen.	Electric arc furnace (EAF) Electricity-based smelting of steel.
Scrap-based EAF	Secondary	None: Scrap metal used as input instead of iron reduction.	

Primary steel production begins with iron ore smelting, whereas secondary steel production uses scrap steel as the feedstock for steel production. While secondary production is significantly less energy-intensive, both routes are essential to maintaining a reliable supply. Secondary production ultimately depends on scrap generated from past and ongoing primary production.

Ontario’s third integrated BF-BOF steel manufacturer, Stelco, is pursuing non-fuel-switching investments. The company previously stated that they intend to maintain BF-BOF primary steelmaking while pursuing decarbonization initiatives to reduce emissions, [including carbon storage and sequestration](#). Primary steel is an important part of the steel marketplace, and carbon storage and sequestration is a recognized method to achieve lower emissions. However, since its acquisition by Cleveland-Cliffs in 2024, Stelco has provided no update on its decarbonization plan.

Ontario’s steel producers are highly trade-exposed. Canada exported over [50%](#) of its steel in 2024, with [over 90%](#) of exports going to the U.S. That year, global imports accounted for about [60%](#) of domestic consumption. This high import penetration means Ontario producers face fierce price competition at home, leaving them unable to pass on regulatory costs without losing market share to foreign steelmakers.

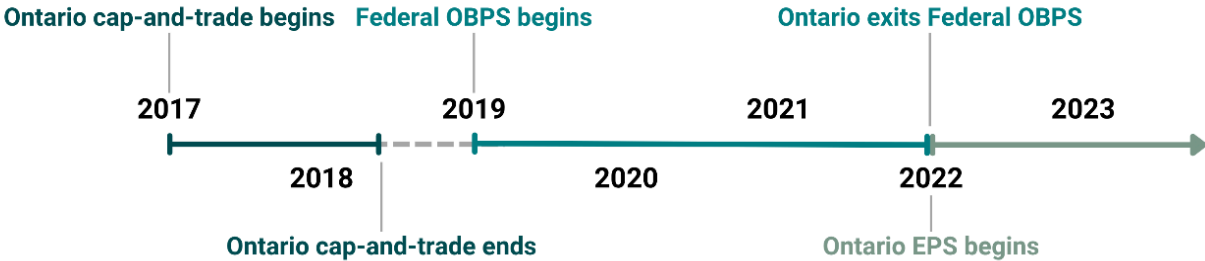
With tariffs slowing trade with the U.S., Ontario’s steel producers urgently need new buyers. But because global markets are currently flooded with [subsidized, overproduced, and dumped steel](#), exporting is extremely difficult. The most viable growth strategy is domestic: Ontario must recapture Canada’s lost market share from off-shore producers.

Low-carbon production offers a critical competitive edge for recapturing domestic market share. For the steel sector, this transition presents a dual benefit: facilities like Algoma Steel are investing to simultaneously slash emissions and boost production capacity. **Ontario can fully leverage this momentum by ensuring that its carbon pricing system rewards low-carbon investments in steel and other foundational industries.**

Ontario's carbon policy evolution

For a decade, Ontario industry has faced uncertainty surrounding industrial carbon pricing. Ontario has had three different carbon markets since 2017. The province briefly implemented a provincial cap-and-trade program, followed by three years under the federal output-based pricing system (OBPS), before transitioning to a provincial program. This policy instability has made it difficult for industry to confidently make low-carbon investments.

Figure 2: History of industrial carbon pricing in Ontario



The [Emissions Performance Standards \(EPS\) program](#) is Ontario's current carbon market. It covers industrial facilities that emit over 50,000 tonnes of CO₂ equivalent (CO₂e) per year in sectors recognized by the province as being emissions-intensive and trade-exposed. Regulated sectors include economically important industries such as iron and steel, utilities, cement, and mining.

Companies regulated under the EPS program can generate carbon credits based on their emissions performance relative to their emissions limit (see Table A1 in the Appendix for a description of the methods to determine emissions limits). Companies can buy or sell these credits within the EPS market, providing a revenue stream for facilities that outperform their emissions limits.

Ontario industry needs stability and certainty. Without clear regulatory and pricing signals from all levels of government, facilities lack the confidence they need to make significant low-carbon investments. Ontario has the opportunity to strengthen its provincial carbon market and drive low-carbon investment to the province.

Box 1: How carbon markets can help Ontario achieve several policy goals at once

Effective, functioning industrial carbon markets reduce emissions at the lowest possible cost while also supporting businesses to **develop new low-carbon products, reach their own corporate emissions targets, and create access to fast-growing international markets** that may otherwise be out of reach.

1. Strong, well-designed carbon markets support businesses by rewarding low-carbon investments with predictable investment returns. New products and efficiencies, supported by carbon markets, make Ontario's businesses stronger.
2. Carbon markets attract investment from corporations fulfilling their internal emission-reduction commitments.
3. Markets outside of the U.S. (e.g. the European Union and the United Kingdom) are implementing carbon border adjustment mechanisms, which are tariffs on the embedded emissions of imports. As trade patterns shift and low-carbon procurement grows globally, Ontario industries that decarbonize now will be better positioned to access global markets in the future.

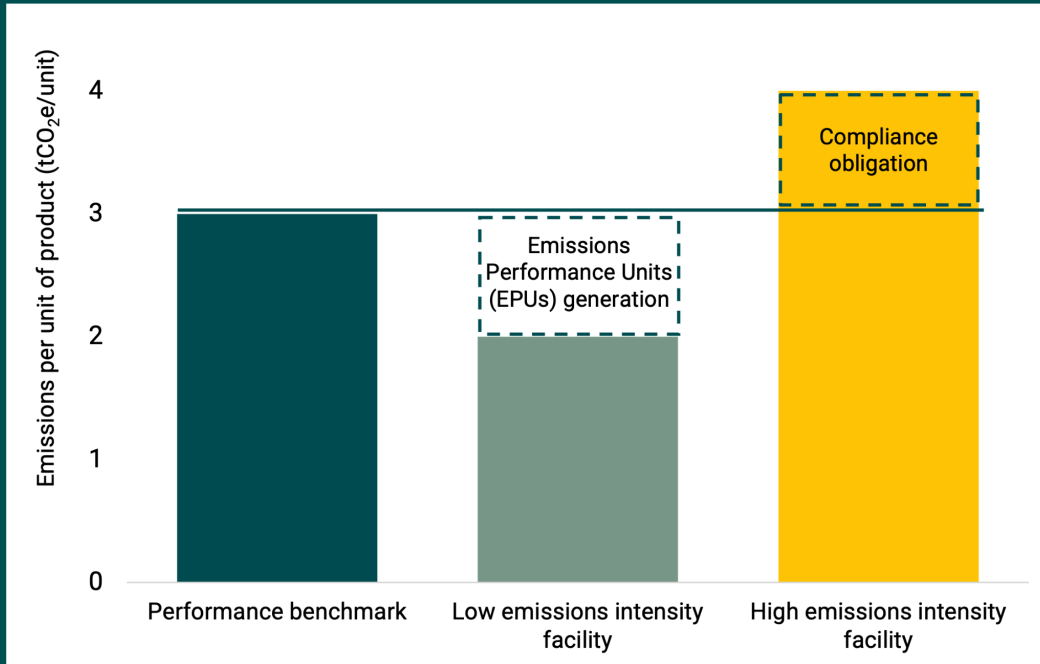
Box 2: What is a carbon credit?

The Ontario EPS assigns regulated facilities a baseline emissions intensity, referred to throughout this report as a benchmark, which caps their allowed emissions. This benchmark is measured per unit of production (e.g. per tonne of steel) and typically decreases every year.

Facilities that beat their benchmarks generate credits, which have monetary value. Facilities that overshoot their benchmarks incur a compliance obligation, which means they must pay for their excess emissions. They can do so in a number of ways, including buying credits from other facilities. For facilities considering large-scale low-carbon investments, credits offer revenue streams that can be an important part of the investment case. Different carbon markets allow for different types of credits, depending on the facility and the specific project. There are two types of credits in the EPS:

- **Emissions performance units (EPUs):** Generated by EPS-regulated facilities and tradable within the EPS market, but can only be bought or held by EPS-regulated facilities. EPUs trade at a discount to the headline carbon price, set at \$110 per tonne in 2026. Because of regulatory uncertainty, the sale of EPUs is not currently a "bankable" source of revenue for firms considering low-carbon investment.
- **Excess emissions units (EEUs):** Issued by Ontario's Ministry of Environment, Conservation and Parks, not tradable on the market, and priced at the headline carbon price for use in the same year of issuance.

Figure 3: EPS-regulated facilities generate carbon credits if they beat their benchmarks



Steel mills have unique treatment under the EPS

Under Ontario's EPS system, facilities are subject to baseline emissions intensities per tonne of production, or benchmarks. For the steel sector, there are two distinct steel benchmarks differentiated by production process: one for the blast furnace-basic oxygen furnace (BF-BOF) route, and a lower benchmark for electric arc furnaces (EAFs).

These process-specific emission benchmarks are intended to recognize the significant variance in emissions profiles within the sector. The EPS regulates the complex process of primary steel manufacturing through multiple benchmarks covering coke production, ironmaking, and steelmaking. Secondary steel facilities, on the other hand, have benchmarks solely for steelmaking (see Figure 4).³

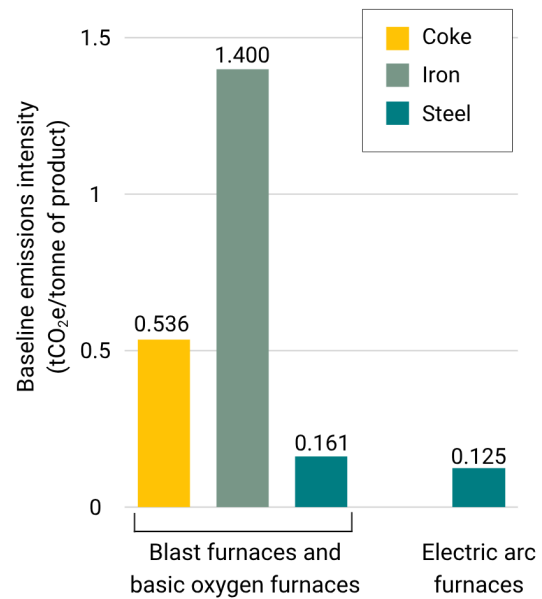
While this approach recognizes the difference in primary and secondary steel manufacturing, it does not account for facilities transitioning between production processes. Facilities transitioning from BF-BOF to EAF production processes would move from the BF-BOF benchmark to the lower EAF benchmark, effectively moving the emission benchmark goalpost.

³ Additional benchmarks are provided for the conversion of crude steel to finished products.

This policy design eliminates the incentive to invest in EAF and DRI-EAF production methods.

Credit for emissions reductions achieved through process conversion is lost when re-benchmarking, while other investments continue to receive recognition, as long as the production process remains unchanged. For example, a carbon capture and sequestration investment that reduces the same amount of emissions as an EAF installation would result in full recognition of the low-carbon investment.

Figure 4: Baseline EPS emissions intensities for different crude steel processes⁴



New steel-specific ‘Method G’ misses the mark

In November 2023, in response to concerns from the steel sector on how these low-carbon investments would be treated under the EPS, the Ontario government introduced a [new benchmark](#) known as ‘Method G.’ The stated goal of this update was to “recognize the significant transformation to cleaner production in the steel sector and the large-scale emissions reductions that are expected as a result.”

To achieve this, Method G establishes facility-specific benchmarks tailored for the complex transition from traditional BF-BOF production to low-carbon EAF production. To account for the inevitable fluctuations in emissions and output during these massive transition periods, the government also lessened the system’s stringency: under Method G, there is no mandatory reduction to the benchmarks for Algoma Steel and ArcelorMittal Dofasco.⁵

However, while this update was well-intentioned, it remains only a partial solution.

⁴ [GHG Emissions Performance Standards and Methodology for the Determination of the Total Annual Emissions Limit \(August 2025\)](#)

⁵ Lessened stringency intends to produce a neutral carbon position for the EAF process; however, crude steel is a feedstock into the remaining facility operations to produce final steel products which continue to face stringency.

Although compliance costs under Method G are relatively lower, the system still imposes a cost rather than a reward. Due to the immense scale of Ontario's steel production, these facilities will still face annual carbon costs, while receiving zero credit generation revenue.

This is a structural failure of the market. By investing billions of dollars in low-carbon projects in Canada and achieving emissions reductions of up to 70%, Algoma Steel and ArcelorMittal Dofasco should be firmly in a credit generating position. Instead, the current framework leaves them paying ongoing regulatory costs long after the investment is made.

While Method G was an important step in recognizing the sector's transition, its current limitations in crediting emissions reductions have become a pressing economic vulnerability. Ontario's steel sector currently faces punishing U.S. border tariffs that are choking off its primary export market. As cross-border trade stalls, producers are increasingly fighting to maintain their domestic competitiveness. In its current form, the EPS framework limits the revenue Ontario mills need to offset U.S. tariffs, creating an unintended penalty for the sector's decarbonization efforts amidst severe economic headwinds.

To ensure these foundational projects remain viable and the province's trade-exposed industries are properly supported, Method G must be urgently amended to properly credit these facilities for their historic emissions reductions.

Conclusion and recommendations

Ontario's steel sector is making generational low-carbon investments, yet the current EPS framework is not awarding revenue-generating carbon credits to the industry at the exact moment that it needs a financial shield against punishing U.S. tariffs. Fixing this gap is about more than just getting carbon markets right; it is about defending Ontario's heavy industry and showing that Ontario is an attractive location for low-carbon investments.

Ontario's steel sector is just the tip of the spear. A reformed Ontario EPS can provide a durable signal that gives Ontario businesses the confidence to innovate, invest, and then earn a return on their investments. In doing so, it will strengthen Ontario's economy, secure and grow the province's high-skill workforce, generate export opportunities, and extend these opportunities to other vital industrial sectors.

Strengthening Ontario's carbon market can help secure the steel sector's future and better align it and other sectors with growing global demand for low-carbon products. Several EPS reforms are necessary. Today, Ontario's carbon market is small and illiquid, with just [800,000 credits](#) traded in the first two years the market existed.⁶ Because large emissions reduction projects, such as those at Algoma Steel and ArcelorMittal Dofasco, can generate millions of credits, the Ontario government must address both supply and demand in the EPS market. This will ensure the market is in a position to absorb new credit generation from fairly crediting emissions-reducing businesses.



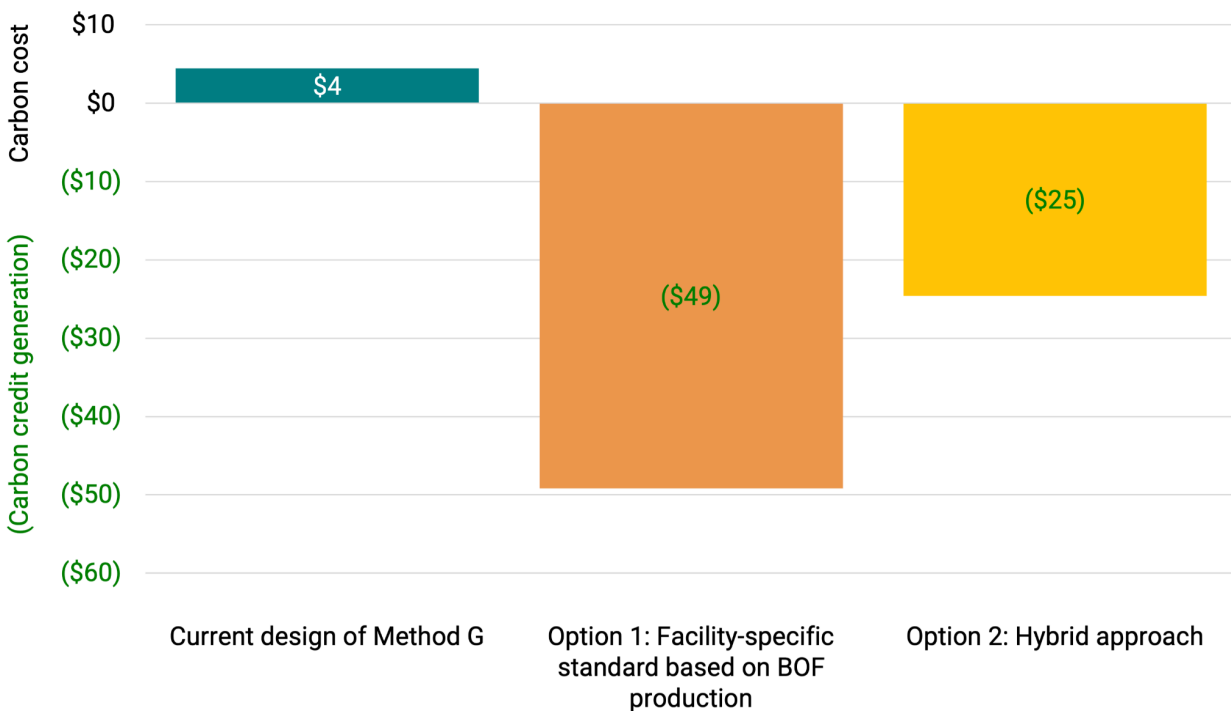
Algoma Steel's Electric Arc Furnace.

⁶ EPS Data for 2022 and 2023. Compliance data from 2024 is not public at time of publication.

Provide credit for emission reductions

There are several ways Ontario could amend the EPS to properly credit steel facilities for the transition from BF-BOF steel production to low-carbon EAF production. Consider an example regulated facility from a hypothetical company, “Ontario Steel Inc.” Like Algoma, the facility transitions from BF-BOF to EAF production while simultaneously increasing production from 2 million tonnes of steel per year to 3.2 million tonnes.⁷ Method G lowers carbon costs (to \$4 in this example), but does not eliminate compliance costs, and the sector does not generate any credits despite its significant low-carbon investment.

Figure 5: Example “Ontario Steel Inc.” facility carbon costs under different design options (\$/tonne of steel produced in 2030)⁸



We offer two alternative options for consideration that would apply for the full lifespan of the EPS. Option 1 sets a facility-specific benchmark based on the average carbon intensity from Ontario Steel Inc.’s historical BF-BOF production before the investment (using data on emissions per tonne of coke, iron, and BOF steel production as shown in Figure 5). While this maximal approach recognizes and rewards emissions reductions, it also recognizes and rewards all new production enabled by the investment. Applying this historical high-emissions benchmark to the 1.2 million tonnes of newly

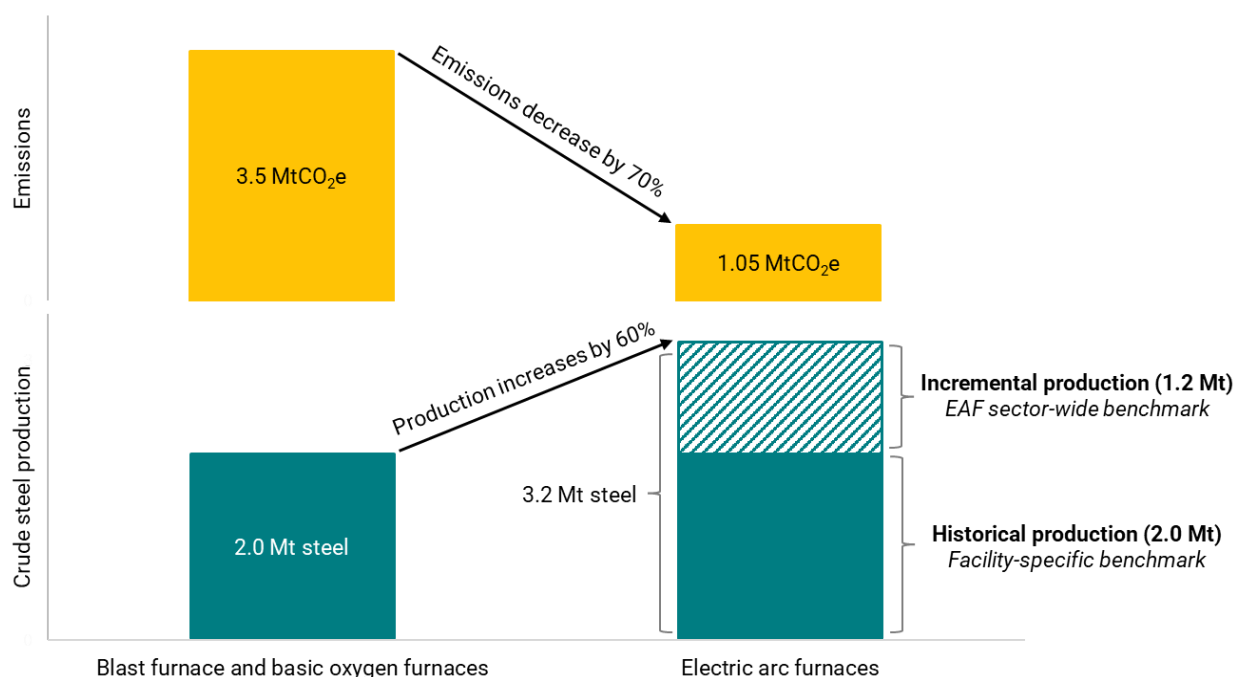
⁷ Crude steel capacity increases by 41%. Crude steel production increases by 60%, accounting for increased capacity utilization rates under EAF production.

⁸ Carbon credit generation value based on a credit price of \$130 per tonne in 2030.

added capacity, which could not have been produced before the investment, would generate excess credits for emissions that never historically existed and put the market at severe risk of oversupply.

We recommend the second option: a hybrid approach. Option 2 would blend a facility-specific benchmark with the sector-wide EAF benchmark. This approach would similarly set a facility-specific benchmark based on Ontario Steel Inc.'s average carbon intensity before the EAF investment. This facility-specific benchmark would only apply to 2 million tonnes of steel production – Ontario Steel Inc.'s original production capacity prior to transitioning to EAF production. This recognizes the real emissions reductions based on Ontario Steel Inc.'s original BF-BOF production capacity. The additional 1.2 million tonnes of new steel production would fall under the lower, sector-wide EAF benchmark. Both benchmarks would be subject to the same stringency and annual tightening as the rest of the system. This approach rewards the facility with millions of dollars in credit revenue while injecting more manageable volumes of credits into the market.

Figure 6: Proposed hybrid approach for example “Ontario Steel Inc.” facility



1. Recognize real emissions reductions from fuel-switching investments in the steel sector.

The Government of Ontario should amend the EPS Methodology (Method G) to assess a portion of Algoma Steel and ArcelorMittal Dofasco's low-carbon steel production against the facilities' historic emissions intensity. By comparing current operations to past emissions, the province can accurately award carbon credits for the massive reductions these facilities have achieved. Awarding carbon credits will clearly signal that the EPS recognizes and values real emissions reductions achieved through low-carbon investments.

Support predictable and stable credit values

Carbon credits only hold their value if there are enough buyers in the market. If massive low-carbon investments in the steel sector suddenly flood Ontario's carbon market with credits, this oversupply will cause the price of those credits to crash. **If the credits become worthless, the financial incentive for companies to decarbonize disappears.** Therefore, the Ontario government cannot make amendments to the supply of credits in isolation; it must also reform the market rules to guarantee that there are buyers ready and willing to purchase them. We recommend improving the EPS revenue recycling program, expanding potential credit buyers, and improving transparency in the marketplace.

Revise the approach to revenue recycling

Currently, revenue generated under the EPS is returned to industry through the Emissions Performance Program (EPP). Under this system, when a business pays the government for excess emissions, the government recycles that money right back to the same business on a dollar-for-dollar basis. For example, a facility that pays \$100,000 in carbon costs to the government has \$100,000 earmarked for eligible projects. This closed loop dampens credit demand: if a company knows it will get its carbon costs re-allocated back in the form of provincial funding, it has less incentive to buy carbon credits from credit-generating sectors.⁹ To create real market demand, this loop must be broken.

The province can still find flexible ways to return this revenue to the industrial sector to support low-carbon projects, but it must be done in a way that upholds credit demand. Table 2 outlines several alternative models the government could use to distribute these funds without undermining the system.

⁹ The federal government has further [indicated](#) that direct investment policies like the EPP may not align with the minimum requirement of industrial carbon pricing systems under the federal benchmark.

Table 2: Alternate revenue recycling designs

Current design	Funds are allocated to each facility purchasing excess emissions units at a 1:1 ratio . e.g. A regulated facility pays \$100,000 and has access to \$100,000 in funding.
EPP as a competitive fund	Funds are pooled in the EPP and distributed based on a competitive application process . Funding applications are submitted and assessed against the existing or updated EPP eligibility criteria.
Amendment to allocations	Funds are allocated to each regulated facility based on a set distribution approach . e.g. A facility pays \$100,000 and has access to a portion of the full pool of funding, dependent on the selected distribution approach.
	<p>Approach A: EPS revenue is allocated to each regulated facility based on its emissions intensity performance against its benchmark, where those with lower emissions intensities receive higher funding amounts.</p> <ul style="list-style-type: none"> • <i>Advantage:</i> Creates an incentive to increase efficiency. • <i>Disadvantage:</i> May favour already-efficient facilities over those with greater abatement potential. <p>Approach B: EPS revenue is pooled in EPP and allocated equally to each regulated facility.</p> <ul style="list-style-type: none"> • <i>Advantage:</i> The simplest, most direct approach. • <i>Disadvantage:</i> Large, high-emitting facilities receive the same amounts as small, low-emitting facilities.

2. Distribute funds under the emissions performance program (EPP) to all EPS-regulated facilities to support credit demand.

Ontario's current approach to recycling EPS revenues undermines the system's price signal; if heavy emitters know that EPS payments will be returned to them in funding, there is less financial incentive to buy carbon credits. The Ontario Government should amend the EPP to delink eligible funding amounts from compliance payments. Redistributing a portion of program revenue among all regulated emitters would provide direct support for low-carbon investments at facilities while maintaining credit demand.

Open the market to third-party participants

Ontario only allows regulated facilities to buy and sell carbon credits in the EPS. Many major industrial carbon markets in Canada allow for third-party market participation, including the output-based pricing systems administered by Alberta, British Columbia, and the federal government (which applies in Manitoba, Prince Edward Island, Yukon, and Nunavut).

Opening the market to third parties, such as banks and institutional investors, would stabilize credit prices and ensure steady demand, both of which are key components of strong markets.

Just as batteries on an energy grid absorb excess power during low-use hours and discharge it during peak times, third-party investors buy up surplus credits during quiet periods and supply them back to the market when demand peaks. This stabilizes prices through peaks and valleys, and guarantees that low-carbon innovators always have a reliable market.

Opening the markets to financial institutions also gives Ontario manufacturers better access to private capital. Currently, carbon credits are not treated as reliable collateral, as banks and lenders are not able to hold credits. By letting banks participate in the carbon market, governments would be turning carbon credits into recognized financial assets. This would allow manufacturers to borrow against their carbon credits to secure loans for future facility upgrades or other projects. There is already precedent for this approach in Canada; for example, in Alberta, many financial institutions are actively participating and lending in its provincial carbon market.¹⁰

This would open up Ontario's access to offtake agreements, where third-parties commit to directly purchasing carbon credits from regulated facilities at an agreed-upon price. As currently designed, Ontario proponents do not have access to these financial instruments, administered by the Canada Growth Fund, because the Fund is not permitted to hold EPU's. Third-party market participation would allow Ontario facilities to access these agreements and make low-carbon investments with increased credit revenue certainty.

Third-party participation is an opportunity for increased innovation and collaboration among different industries in Ontario. Businesses in the province work with low-carbon technology partners (third parties), such as carbon capture and storage facilities, hydrogen fuel manufacturers, or start-up technology providers. Current third-party prohibition prevents credit sharing among regulated emitters and these technology partners. Where joint ventures on credits may be preferred, businesses must assume technology costs and risks on their own. Lifting the prohibition on third-party credit ownership could incentivize more joint-venture innovation among Ontario businesses.

3. Open Ontario's carbon market to third-party market participants. Allow third-party market participants to hold and trade emissions performance units in the EPS market.

Allowing third parties, such as banks or institutional investors, to participate in Ontario's carbon market would stabilize credit prices, ensure steady demand for credits, and attract investment. The Government of Ontario should allow any business, not just owners and operators of defined "EPS facilities," to participate in the provincial carbon market. The regulation should create a category for non-compliance entities, such as "General Market Participants," to hold accounts.

¹⁰ As of [January 8, 2026](#), the Bank of Montreal holds 5.6% of active offset credits and 2.9% of active emissions performance credits (akin to EPU's in Ontario).

Provide transparent marketplace data

Transparent data is the foundation of any healthy market. By publishing trading volumes and credit prices, the government would build trust and predictability into the system. This transparency would allow businesses to more effectively forecast their compliance costs and confidently plan their low-carbon investments. Additionally, this transparency will be essential for bringing in third-party investors, as they will require clear market metrics before they participate in the market.

To make the carbon market truly transparent, the Ontario government must report on credit generation, holdings, and transactions much faster and more frequently. First, the government should eliminate current delays by publishing the [annual compliance summary](#) in the next calendar year. Second, it should introduce new quarterly marketplace data on high, low, and average prices for credits, based on the year they were issued.

Ontario should provide regulated emitters with online access to public data and a platform to facilitate carbon credit transactions. Ontario businesses have limited tools to facilitate the sale of generated credits, which makes transactions more complex and credit prices uncertain. The Ontario government could look to the example of [Alberta's Emissions Performance Credit Registry](#), operated by [CSA Group](#) in coordination with the Government of Alberta, which issues, tracks and manages credits using an online, public platform.

4. Publish frequent market data for carbon credit transactions and establish a centralized marketplace.

Improvements to the functionality and transparency of the EPS market will increase investor confidence in credit values and incentivize more low-carbon investment. To achieve this, the Government of Ontario should:

- Publish quarterly data on average, minimum, and maximum credit prices, disaggregated by the year the credits were issued.
- Report trading volumes consistently alongside price data, to help investors assess market size, liquidity, and depth. Providing both metrics together is essential; it proves to financial participants that the market is active and robust enough to absorb large trades without triggering volatile price swings.
- Establish a centralized marketplace for credit transactions that lists credits for sale and supports transactions between facilities.

Look beyond Ontario's borders to improve investor confidence

To support investor confidence that the EPS is predictable and bankable, the government should introduce policies that improve the stability and liquidity of credit prices. There are significant opportunities for the EPS to draw in additional investment through collaboration with the federal government and other provinces.

Pursue broad-based carbon contracts in partnership with the federal government

To ensure their low-carbon investments can generate predictable returns, businesses require greater confidence in the long-term value of EPS credits. Carbon contracts – or carbon contracts for difference (CCfDs) – can provide this certainty.

CCfDs are agreements between governments and low-carbon project proponents that offer a guarantee on the future value of carbon credits generated by a low-carbon project. The government guarantees a specific credit price for a specific period of time (typically 10 to 15 years), with payment obligations settled on a regular basis.

There are a number of ways to structure carbon contracts. The key differentiator is who ultimately retains control of the credits after the contract is settled. With offtake agreements, the government commits to directly purchasing carbon credits from the proponent at an agreed-upon price. With top-up carbon contracts, parties set a “strike price” for carbon credits. If the carbon price exceeds the strike price at the time of settlement, the proponent pays the difference to the government. If the carbon price falls below the strike price, the government pays the difference. In this structure, cash changes hands, rather than credits.

For Ontario, pursuing CCfDs in partnership with the federal government is a pragmatic way to secure generational low-carbon investments at low cost to industry and government. CCfDs only result in costs when markets are not functioning. Joint CCfDs signal to industry that governments will work together to maintain stable carbon market prices because they have a financial incentive to do so. They provide the certainty investors need to move forward with low-carbon investment.

5. Work collaboratively with the federal government to jointly backstop standardized carbon contracts for difference (CCfDs).

Regulatory uncertainty can undermine confidence in future carbon credit values. CCfDs address this risk by guaranteeing a stable value for credits generated by low-carbon projects. These contracts should be broad-based, available to any eligible emitter, and jointly backstopped by the governments of Ontario and Canada, to guarantee the long-term stability of the EPS market.

Pursue interprovincial trade

Canada's carbon markets are largely siloed, where credits generated in one jurisdiction hold no compliance value in another. Ontario's EPS market is currently constricted by its own borders, with its small size limiting liquidity and suppressing credit demand within the province. Removing interprovincial trade barriers would allow companies to trade and retire credits for compliance across borders, while Ontario maintains complete regulatory autonomy. It would increase the number of buyers and sellers in the market, transforming the EPS from a fragmented policy into a mature, stable commodity market.

Interprovincial trade also reduces regulatory burdens for companies operating in multiple provinces with different carbon pricing programs. Businesses in energy production, mining, and manufacturing operate facilities across the country, navigating different compliance rules in each market. Businesses should be able to make a low-carbon investment and apply the resulting credits where they are most needed, rather than being restricted by fragmented, province-by-province compliance systems.

Interprovincial credit trading would also prove that industrial carbon markets are here to stay. When businesses know their low-carbon investments will generate credits that retain value across jurisdictions, those credits become a bankable revenue stream. **This certainty provides businesses with the confidence to proceed with massive multimillion-dollar low-carbon projects.**

6. Consult with the federal and other provincial and territorial governments to harmonize carbon markets and pursue interprovincial trade.

Interprovincial trade of carbon credits is essential to building a competitive national economy. The EPS market is constrained by its provincial borders; there is much greater opportunity in a deeper, more liquid national marketplace. Credits that are mutually recognized across Canadian carbon markets would immediately increase the number of buyers and sellers available to Ontario industries, providing the financial certainty needed for massive low-carbon investments in the province.

Appendix

Table A1: Annual Activity Emissions Limits

Method	Description
Method A: Sector performance standard	Covers 13 industrial activities, including certain cement products, petroleum refining, and specific iron and steel production processes. Emissions intensity is based on an aggregate of reported emissions and production data for the given sector.
Method B: Electricity generation sector performance standard	Covers electricity generated from natural gas, including cogeneration.
Method C: Cogeneration thermal energy sector performance standard	Covers electricity generated from cogeneration or thermal energy used in other industrial facilities. Some facilities that produce electricity have the option to use the cogeneration standard or the electricity generation standard.
Method D: Facility-specific performance standard (facilities not subject to Method E)	A transitional method for new facilities or facilities with eligible modifications or new sites. A standard specific to the emissions intensity of operations, developed over time as new production and emissions data are reported.
Method E: Facility-specific performance standard	Where a sector-based standard does not exist, facilities covered by the EPS can use a facility-specific standard, based on their emissions intensity of operations during the mid-2010s.
Method F: Historical facility emissions limit standard	Similar to a facility specific performance standard but only applies to three specific facilities that smelt and/or refine either nickel, copper, zinc, lead or cobalt.
Method G: Steel sector facility-specific performance standard	Standard with a stringency factor of one during transformational periods of two steel facilities. ¹¹

¹¹ The two facilities identified are Algoma Steel in Sault Ste. Marie and ArcelorMittal Dofasco in Hamilton.

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