

Future of Canada's carbon markets anchored by Canada-Alberta MOU implementation agreement

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Key Takeaways

- On May 15, 2026, Canada and Alberta announced an agreement to implement the Canada-Alberta Memorandum of Understanding aimed at intergovernmental cooperation.
- The agreement clarifies the carbon pricing framework, increasing compliance prices for businesses to support a net-zero economy by 2050.
- It introduces a compliance policy price, a price floor for carbon credits, and new stringency rates for various sectors.

On May 15, 2026, the Prime Minister of Canada and the Premier of Alberta announced an agreement to implement the [Canada-Alberta Memorandum of Understanding \(MOU\)](#) announced in November 2025. This [implementation agreement](#) (Agreement) is the latest announcement on intergovernmental cooperation and formalizes the [draft cooperation agreement](#) announced in [April](#) and discussed in our [March 25, 2026 Update: "Canada and Alberta sign draft cooperation agreement on impact assessment after historic MOU"](#).

Updates to Canada's carbon markets

The Agreement clarifies Canada's industrial output-based carbon pricing framework and recognizes investors' need for certainty to support nation-building projects and a path to net-zero carbon emissions economy by 2050. The Agreement sets the compliance policy price on carbon (headline price) in Alberta, as administered by Alberta through the Technology Innovation and Emissions Reduction Regulation system (TIER) from 2026 to 2040. The compliance price per tonne of CO₂ equivalent emissions will increase from the current \$95 to \$100 for 2027 to 2029, then to \$115 in 2030, and increasing incrementally at \$3 per year until reaching \$130 in 2035. The headline price will then increase by a fixed 1.5% per year inflationary escalator starting in 2036 until reaching \$140 in 2040. Alberta will design and administer TIER such that the market value of carbon credits (effective price) will adjust over time and will target a minimum market price of \$130 by 2040.

The Agreement states that "Canada will ensure the updated federal carbon pricing benchmark is consistent with this Agreement". Accordingly, the federal government has confirmed that the price schedule for [all industrial carbon pricing systems](#) in Canada will be

updated to follow the same pricing trajectory as Alberta to reach \$130 in 2035. This remains below the \$170 target set by the former federal government in Schedule 4 of the *Greenhouse Gas Pollution Pricing Act*.

The effective price will be supported by the issuance of contracts for difference (CfDs) to parties pursuing emissions reductions investments between 2030 and 2040. Canada and Alberta each committed to equally funding CfDs covering up to 75 million tonnes of emissions reductions up to an agreed upon maximum liability of \$600 million each.

The Agreement also establishes a minimum transfer price for credits (price floor) to be implemented in 2030. The Price Floor will determine the minimum transfer price of any credits obtained and used to satisfy a TIER compliance obligation in a given year. However, credits generated prior to the enactment of the price floor regulation will be grandfathered and will be eligible for transfer at a price below the price floor. Beginning in 2030, the price floor will be set at \$60, and will rise gradually to \$110 in 2040. This price floor is intended to support market stability and ensure a predictable minimum value for TIER credits over time. Alberta intends to enact the Price Floor regulation by December 31, 2026.

Annual tightening rates (stringency rates) will be administered by Alberta. The Agreement sets out applicable stringency rates for TIER benchmarks for electricity, hydrogen, oil sands, and other sectors, in addition to facility-specific benchmarks. For some sectors, stringency rates will decrease in 2031.

TIER direct investment compliance option

The Agreement puts limitations on the TIER program's newly introduced direct investment compliance option, which enables certain direct investments in a TIER-regulated emitter's facilities as a means to achieve compliance in lieu of purchasing and retiring carbon credits. Recognizing its potential to reduce demand (and resulting market pricing) for carbon credits, Alberta has agreed to limit the compliance value of its TIER direct investment program to 50% of eligible capital and up to 50% of operating costs directly attributable to an approved project.

Pathways Project and the Oil Sands Alliance

The Agreement also reaffirms the commitment between Canada and Alberta to expeditiously reach agreement on a trilateral memorandum of understanding (the trilateral MOU) with the companies jointly advancing the large-scale carbon capture, utilization, and storage (CCUS) initiative located in northeastern Alberta, known as the Pathways Project. Canada and Alberta share an objective of achieving 16 million tonnes per annum (Mtpa) of CCUS from the Pathways Project, including a six Mtpa minimum in-service by 2035. Canada confirms that the CCUS investment tax credit has been extended to 2035. Once executed, the trilateral MOU will form part of the Agreement as Appendix III.

West Coast pipeline development

The Agreement confirms that Canada and Alberta are committed to advancing development of a new pipeline to export oil resources to Asian markets (the West Coast Pipeline). The West Coast Pipeline will carry one million barrels of bitumen per day to the British Columbia coast. Alberta will submit a proposal for the project to the Major Projects Office by July 1, 2026, and the federal government will pursue designation of the pipeline as a project of national interest by October 1, 2026. Construction may begin as early as September 2027, with commercial operation beginning in 2033. A more detailed review of the announcement is featured in the May 22, 2026, Update: ["Canada and Alberta advance proposed West Coast oil pipeline through implementation agreement"](#).

Impacts to industry

These long-awaited changes will provide some welcome certainty to developers, operators and investors in Alberta, particularly in regard to CCUS opportunities. The remarks from Prime Minister Carney emphasized the desire to create a foundation of trust and stability for industry and investors and a recognition that addressing Canada's carbon market fragmentation, illiquidity and market price stagnation requires a unified intergovernmental commitment with a view to achieving a net-zero carbon economy by 2050.

As we noted in our March 2, 2026, Update, "A new era of alignment: unlocking Canada's energy investment potential", private equity and infrastructure capital thrive in (and in most cases require) environments where "policy is stable, capital programs have certainty and are coordinated, infrastructure priorities are clear and governments are aligned."