

EXECUTIVE SUMMARY

Canada's Clean Fuel Regulations took effect on 1 July 2023 and require primary suppliers to reduce the life-cycle carbon intensity of gasoline and diesel by 15% below 2016 levels by 2030. Compliance can be achieved through projects that lower fossil-fuel carbon intensity, the supply of low-carbon fuels, end-use fuel switching and limited contributions to approved emissions-reduction funding programs. From the first through third quarters of 2025, the market generated 7.1 million tCO₂e in credits, excluding Category 1 and electricity credits, and recorded 15.9 million tCO₂e in deficits. The Credit Clearance Mechanism and Compliance Fund provide price-capped backstop compliance options.

AUTHORS

Nikhil Agarwal, Director, cKinetics,
nagarwal@ckinetics.com

Radhika Khanselwal, Analyst,
cKinetics, rkhandelwal@ckinetics.com



Years in Operation	The CFR took effect on July 1, 2023. Administered by Environment and Climate Change Canada (ECCC). Compliance managed via the Credit and Tracking System (CATS), a digital platform handling credit issuance, trading, and reporting.
CI Trajectory and Targets	The baseline year is 2016. The program mandates a 15% reduction in the carbon intensity of gasoline and diesel by 2030 relative to 2016 levels.
Regulated Fuels	The Clean Fuel Regulations (CFR) require producers and importers of gasoline and diesel (i.e. primary suppliers) to reduce the life cycle carbon intensity of gasoline and diesel used in Canada.
Compliance Category	Compliance Category 1: Undertaking projects that reduce the lifecycle carbon intensity of liquid fossil fuels (e.g., carbon capture and storage, on-site renewable electricity, co-processing); Compliance Category 2 (CC2): This category pertains to the supply of low-carbon-intensity fuels. CC2 is divided into two categories: liquid and gaseous classes. Compliance entities can meet no more than 10% of their annual reduction requirement using credits from the gaseous class. Compliance Category 3 (CC3): This category involves end-use fuel switching, such as supplying electricity or hydrogen to advanced vehicle technologies like EVs and hydrogen fuel cell vehicles.
Emission Reduction Funding Program	ECCC currently recognises six Emission Reduction Funding Programs under the CFR: Emissions Reduction Advancement Program (ERAP), Newfoundland and Labrador Emissions Reduction Fund, Fuel Innovation Fund, NorthX Emissions Reduction Fund, Canadian Fuels Compliance Fund, and Industrial Fuel Compliance Fund, allowing primary suppliers to meet up to 10% of their annual reduction obligation through contributions to approved Canadian emissions-reduction funds. Unlike market-traded CFR credits, credits generated through this mechanism are non-tradable, non-bankable and tied to the relevant compliance period.
Exempt Fuels	The regulations do not apply to aviation gasoline, gasoline or diesel exported from Canada, fuels used for scientific research (excluding market or consumer preference research), or supplied exclusively to engines of vehicles or marine vessels used solely for competition.
Covered Entities	A primary supplier who, during a compliance period, produces in Canada or imports into Canada a volume of 400 m³ or more of gasoline or diesel must record the volume of fuel that is produced or imported during that compliance period and must include that information in the compliance report submitted to the Minister under section 127. As of November 27, 2025, a total of 283 organisations have registered under various roles, including 11 primary suppliers, 128 registered creators, 93 foreign suppliers, 23 Primary Supplier/Registered Creator and 14 verification bodies.
Annual Report deadline	The Annual Compliance Report under Section 127 is due by July 31 of the year following the end of the compliance period (1 st Jan to 31 st Dec)
Credits, Deficits & Bank	From Q1 to Q3 2025, the CFR market generated 7.1 million t CO ₂ e in credits (excluding CC1 credits and electricity credits), while incurring 15.9 million t CO ₂ e in deficits.
Penalties & Program Funding	Administrative penalties are imposed under Environmental Violations Administrative Monetary Penalties Act Regulatory costs are funded through program fees
Credit Clearance Market	The Credit Clearance Mechanism (CCM) allows deficit holders to purchase credits at a legislated ceiling price (currently CAD \$326, indexed for inflation). A Compliance Fund provides a backstop permitting purchase of up to 10% of total obligations at CAD \$380 per credit.

Major Developments

The Canada Clean Fuel Regulations (CFR) became fully operational July 1, 2023. The program integrates a compliance framework featuring the Credit and Tracking System (CATS) for monitoring and trading, mandatory emissions reporting, third-party verification, and enforcement via penalties.

In December 2025, Canada's proposed CFR amendments aim to strengthen domestic low-carbon fuel production, reduce reliance on imports, and support Canadian agricultural feedstocks. ECCC is considering two main approaches: a minimum domestic content requirement for low-CI fuels and a credit multiplier that would provide additional CFR credits to domestic producers. Overall, the proposed changes could improve the economics of domestic biofuel production, encourage new renewable diesel capacity, strengthen demand for Canadian feedstocks such as

canola, and reduce dependence on imported low-carbon fuels, although stronger support for domestic fuels could reduce the relative attractiveness of other CFR compliance pathways such as CCS and EV charging.

The Government of Canada has launched the Electric Vehicle Affordability Program (EVAP) to accelerate electric vehicle (EV) adoption by providing incentives that make EVs more affordable for Canadians, while also supporting the purchase or lease of Canadian-made electric vehicles. The program applies to eligible EV transactions made on or after February 16, 2026, and is intended to reduce transportation-related air pollution and greenhouse gas (GHG) emissions by increasing the number of EVs on Canadian roads.

In January 2026, Biofuels Production Incentive (BPI) was introduced as a Canadian federal program administered by Natural Resources Canada that provides non-repayable, tiered per-litre incentives to existing Canadian producers of biodiesel and renewable diesel. It is a time-limited production incentive which will provide over \$370 million over two years to support the stability and resiliency of domestic producers of biodiesel and renewable diesel. The incentive applies to eligible fuel produced during 2026 and 2027 for up to 300 million litres per facility, with eligibility focused on producers that use North American feedstocks and sell the fuel into the Canadian market. The program began on January 1, 2026, and applications are accepted continuously until December 31, 2027. Its main objective is to improve the competitiveness and resilience of Canada's domestic biofuels producers, reduce reliance on imports, and maintain domestic production.

Market Performance & Pricing

Metric	2025 Reporting Period
Credits Generated	7.1 million t CO ₂ e (excluding CC1 credits and CC3 credits)
Deficits Generated	15.9 million t CO ₂ e
Average credit price	Q1 2025- CA \$82.69 Q2 2025- CA \$133.88 Q3 2025- CA \$221.02 Q4 2025- CA \$249.30 Q1 2026- CA \$255.9 Q2 2026- CA \$333.2

References

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Point of contact: Point of contact: Lilly Flawn, Policy Analyst, flawn@ieta.org