



January 29, 2026

tarificationducarbonate-carbonpricing@ec.gc.ca

Canadian Hydrogen Association Feedback on Driving Effective Carbon Markets in Canada

The Canadian Hydrogen Association (CHA) is the national industry association representing companies from across Canada and throughout the entire hydrogen value chain. Our membership includes producers, technology developers, infrastructure providers, end-use companies, and organizations advancing low-carbon solutions in every region of the country. Together, we work to accelerate the deployment of clean hydrogen, support the growth of a competitive domestic industry, and contribute to Canada's climate, energy security, and economic objectives.

The federal carbon pricing benchmark and associated large-emitter systems play an important role in creating market signals for low-carbon fuels, including hydrogen, and in strengthening Canada's pathway toward net-zero. We have reviewed the Government of Canada's [discussion paper Driving Effective Carbon Markets in Canada](#) and appreciate the opportunity to provide feedback on behalf of our members.

1. General comments

The CHA supports a robust, predictable, and durable national carbon pricing benchmark that: (1) maintains a clear marginal carbon price signal aligned with the minimum national carbon price (MNCP), (2) ensures broad industrial coverage while managing competitiveness and leakage risks, and (3) supports cohesive, liquid carbon markets that can attract investment into deep decarbonization projects such as low-carbon hydrogen. For hydrogen producers, users, and infrastructure providers, long-term confidence in both the trajectory of the carbon price and the integrity of carbon markets is a prerequisite for final investment decisions on capital-intensive projects.

2. Compliance pathways, physical delivery, and maintaining the price signal

The discussion paper invites feedback on whether additional compliance pathways, such as Emissions Reduction Accounts (ERAs) or similar mechanisms, can be incorporated while maintaining the carbon price signal and protecting demand for credits in output-based pricing systems (OBPS). In responding to this question, the CHA urges the federal government to explicitly recognize that strict requirements for physical delivery of decarbonized energy or feedstocks can create unnecessary barriers to market efficiency and participation, particularly for emerging sectors like hydrogen.

In considering whether additional compliance pathways should be permitted under the benchmark criteria, CHA recommends that the benchmark allow non-physical attribute-based mechanisms—such as book-and-claim, mass balance, and renewable tracking credits (RTCs)—where the environmental



attribute is independently tracked, verified, and retired. Existing systems in Europe and other jurisdictions already allow these approaches to be used as credible claims without double counting, under robust certification and registry rules, and they are becoming foundational for low-carbon hydrogen and derivative commodities entering international value chains. Properly designed, such mechanisms preserve the marginal carbon price signal, can be fully integrated within OBPS and cap-and-trade accounting, and do not weaken the requirement that modeled net demand for credits exceed supply.

The CHA also notes that other Canadian systems, such as the Clean Fuel Regulations (CFR), already recognize credits that are not necessarily associated with physical delivery across borders, provided integrity safeguards are met. It would be coherent and efficient for the federal benchmark to similarly permit compliant book-and-claim mechanisms where the environmental attribute is uniquely owned, rigorously verified, and permanently retired, rather than insisting on physical delivery as the only credible basis for compliance. This approach would allow hydrogen and other clean fuels to integrate seamlessly with international certification schemes while ensuring that the federal net-demand and banking tests continue to function as intended.

3. Market function, liquidity, and participation

The discussion paper correctly identifies challenges related to supply-demand imbalances, over-supply of credits, thin liquidity in smaller markets, and fragmentation across ten separate large-emitter systems as key obstacles to effective carbon markets in Canada. For the hydrogen sector, which often involves cross-jurisdictional supply chains (production in one province, use in another, and export beyond Canada), market design that maximizes participation and liquidity is particularly important.

The CHA recommends that the benchmark recognize that stringent physical delivery requirements for compliance instruments can limit market participation and introduce inefficiencies, especially for smaller entities and for cross-jurisdictional activity. From the CHA's perspective, a well-designed benchmark should explicitly state that alternative compliance pathways are acceptable where they: (a) maintain a marginal price signal at or near the MNCP; (b) are fully reflected in modeling of net demand, supply, and banking; and (c) rely on high-integrity measurement, reporting, and verification (MRV) and registry systems that prevent double counting.

4. International comparability and competitiveness

The paper highlights the need to protect competitiveness and guard against carbon leakage, including through the design of free allocation, performance standards, and other measures. For hydrogen, a globally traded clean commodity, Canada's competitiveness will increasingly depend on how well its carbon pricing systems and certificates are recognized and interoperable with international schemes, including guarantees-of-origin, Renewable Fuel of Non-Biological Origin (RFNBO) standards, and other attribute tracking systems emerging in Europe and elsewhere.



If Canadian systems maintain overly rigid physical delivery requirements, Canadian hydrogen producers may face barriers to participating in book-and-claim-based international markets, even where they meet or exceed foreign decarbonization standards. This would undermine the benchmark's objective of protecting competitiveness and could exacerbate leakage by discouraging investment in Canadian low-carbon projects that must connect into global value chains via attribute-based mechanisms.

–

Although the CHA's primary comments relate to compliance pathways and market function, the CHA also supports broad industrial coverage that captures a large share of Canada's emissions while managing intra-sectoral competitiveness risks. Hydrogen production, upgrading, and key end-use applications (e.g., in steel, chemicals, transport, power, etc.) should be clearly and consistently treated in any threshold- or activity-based coverage options so that facilities providing or using low-carbon hydrogen are subject to coherent and predictable carbon price signals across jurisdictions.

The CHA appreciates the opportunity to provide these comments and would welcome continued engagement with Environment and Climate Change Canada and provincial and territorial counterparts as the benchmark is finalized and as complementary work on linking, harmonization, and liquidity progresses. Hydrogen can play a central role in industrial decarbonization, energy security, and economic growth in Canada, and effective carbon markets are essential to unlocking that potential.

Best,

David Billedeau
President and CEO
Canadian Hydrogen Association