Canadian Hydrogen Association | Association Canadienne de L'hydrogène

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House of Commons Standing Committee on Finance

2026 Pre-Budget Submission

April 2026

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Executive Summary

Canada stands at an exciting crossroads with a 3–5 years window to cement its place as a global leader and top investment destination for low-carbon hydrogen—unlocking projects, jobs, and innovation that stay right here in Canada.

The Canadian Hydrogen Association (CHA) recommends three budget measures to align policy with opportunity:

- **Recommendation 1 (Optimize the Clean Hydrogen Investment Tax Credit)**: That the government implement targeted amendments in the 2026 tax legislation to improve flexibility, expand eligibility (including derivatives and affiliated assets), clarify key definitions and modelling, recognize clean energy certificates, enhance operational provisions, and strengthen investment certainty and domestic supply chains.

- **Recommendation 2 (Scale Hydrogen Research, Development, and Deployment)**: That the government establish a $100 million Hydrogen Innovation and Demonstration Fund in Budget 2026 to enable post-secondary institutions and industry partners to advance hydrogen technologies from TRL 3 (the general cutoff for Canadian hydrogen innovation) to TRL 7–8 through multi-year pilots, demonstrations, systems integration, and workforce training under Canadian conditions.

- **Recommendation 3 (Strategic Policy Renewal)**: That the government update its Hydrogen Strategy to position the sector as a core pillar of export diversification, defence, critical minerals, industrial decarbonization, heavy transport, and competitiveness, while reinforcing policy clarity, continuity, and leadership to prevent investment uncertainty and ensure effective implementation

Together, these measures can unlock billions in private investment, scale domestic supply chains and manufacturing, and ensure that hydrogen supports Canada's climate, energy security, and economic development objectives.

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About the Canadian Hydrogen Association

The Canadian Hydrogen Association (CHA) is the national industry association representing companies and organizations across the full hydrogen value chain.

Our members include hydrogen and derivative producers, technology developers, utilities, equipment manufacturers, infrastructure and logistics providers, off-takers in hard-to-abate sectors, post-secondary and research institutions, and organizations advancing low-carbon solutions in every region of Canada.

Our mission is to accelerate deployment of clean hydrogen, support a competitive domestic industry, and contribute to Canada's climate, energy security, and economic development goals.

Recommendations

Recommendation 1 (Optimize the Clean Hydrogen Investment Tax Credit):
That the government implement targeted amendments in the 2026 tax legislation to improve flexibility, expand eligibility (including derivatives and affiliated assets), clarify key definitions and modelling, recognize clean energy certificates, enhance operational provisions, and strengthen investment certainty and domestic supply chains.

The CH-ITC is intended to mobilize private capital and de-risk investments in low-carbon hydrogen and ammonia production. However, several technical design elements reduce investment certainty, create technology bias, or fail to reflect real-world project structures.

Targeted amendments would better align the CH-ITC with its original policy intent. CHA analysis suggests that within the existing $18.5 billion envelope, uptake could reach roughly $9.5 billion while unlocking about $35 billion in private investment by 2033.

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To optimize the CH-ITC, the CHA recommends that Budget 2026, and associated tax legislation, adopt the following considerations (full technical language available here):

1. **Enable affiliated ownership of generation and hydrogen assets**:
   Amend subparagraph 127.48(6)(e)(i) of the Income Tax Act to allow the clean electricity generation source to be owned by a person affiliated with the taxpayer, rather than requiring single-entity ownership. This reflects common corporate structures, facilitates the use of existing non-emitting assets (e.g., hydroelectricity), and unlocks full 40% CH-ITC eligibility for integrated projects.

2. **Automatic 40% credit for ≥90% non-emitting grids**:
   Provide that projects located on electricity grids with at least 90% non-emitting generation automatically qualify for the 40% CH-ITC tier, without requiring additional renewable-energy-credit purchases or contractual structures. This reflects real-world carbon performance in provinces such as Québec, British Columbia, and Manitoba, and reduces unnecessary administrative burden.

3. **Explicit recognition of RECs/CECs**:
   Amend subparagraph 127.48(6)(e)(iii) to explicitly recognize renewable and clean energy certificates (RECs/CECs) sourced and tracked through recognized registries as qualifying instruments, with carbon intensity aligned to the underlying renewable technology for the relevant quantity and duration.

4. **Expand eligibility to hydrogen derivative equipment**:
   Extend eligible clean hydrogen property to include equipment used to synthesize key hydrogen derivatives—such as e-methanol, e-methane, and sustainable aviation fuel—where hydrogen is the principal feedstock and meets the applicable carbon-intensity tier. This removes structural asymmetry with ammonia, supports vertically integrated hydrogen-to-fuels facilities, and anchors higher-value manufacturing in Canada.

5. **Enhance buffers, downtime provisions, and grant treatment**:
   Increase the post-commissioning carbon-intensity buffer from 0.5 $kgCO_2/kgH_2$ to 0.8 $kgCO_2/kgH_2$ and allow exclusion of up to 20% downtime for non-representative operations when assessing performance. Further, align grant interaction rules with the CCUS-ITC so that CH-ITC-eligible capital is not disproportionately reduced by government grants.

6. **Protect high-temperature electrolysis and integrated heat:**
   Clarify excluded-property provisions so that heat-generation and heat-exchange

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components that are physically integrated within solid oxide electrolysis cell (SOEC) systems remain eligible CH-ITC property, while stand-alone generation assets remain excluded. This ensures that highly efficient, high-temperature electrolysis is not unintentionally penalized.

7. **Clarify "eligible hydrocarbon" and "eligible pathway" definitions:** Refine statutory definitions to ensure technology-neutral treatment of electrolysis, reforming, partial oxidation, shift reactions, pyrolysis, and stimulated geologic hydrogen, consistent with the Government of Canada's carbon-intensity modelling guidance.

8. **Improve carbon-intensity modelling of heat inputs:** Update CH-ITC rules and the Fuel LCA Model to (1) allow customizable carbon-intensity inputs for purchased or recovered heat where supported by verifiable, auditable data; and (2) recognize zero-emission waste heat streams, rather than defaulting to natural-gas-boiler assumptions in all cases.

9. **Reinforce investment certainty and explore credit transferability**: Apply future narrowing amendments to excluded-property definitions prospectively, or grandfather projects with approved clean hydrogen project plans, to avoid retroactive impacts on financial models. Further, explore mechanisms to allow CH-ITC credits to be transferred or sold, improving bankability and shortening the time between investment and credit realization, similar to practice in peer jurisdictions.

10. **Strengthen domestic supply chains and manufacturing:** Complement project-level incentives with measures that support hydrogen equipment manufacturing and supply-chain development in Canada, ensuring that CH-ITC-driven deployment also builds long-term industrial capability and jobs. Tax incentives for domestic manufacturing should be considered to encourage project developers to prioritize leading Canadian technology companies, equipment, and manufacturing inputs. This would enable domestic manufacturers to ramp up production at home for local projects—addressing Canada's key challenge of scaling up manufacturing beyond early-stage development.

These optimizations can be implemented within the existing CH-ITC fiscal envelope while significantly improving Canada's ability to attract and retain world-class hydrogen investments.

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Recommendation 2 (Scale Hydrogen Research, Development, and Deployment): That the government establish a $100 million Hydrogen Innovation and Demonstration Fund in Budget 2026 to enable post-secondary institutions and industry partners to advance hydrogen technologies from TRL 3 (the general cutoff for Canadian hydrogen innovation) to TRL 7–8 through multi-year pilots, demonstrations, systems integration, and workforce training under Canadian conditions.

Based feedback from our post-secondary members, Canadian research facilities generally conduct hydrogen research only to about TRL 3. Beyond that stage, many technologies move to foreign demonstration programs for scaling and commercialization.

Current federal funding for hydrogen R&D and demonstration is characterized by fragmented, short-term calls; limited support for multi-year demonstration projects; and under-used mechanisms to connect academic research with industry-led pilots in real-world conditions. This constrains Canada's capacity to remain at the frontier of electrolyzers, fuel cells, storage technologies, and systems integration, and slows the development of a skilled hydrogen workforce.

Targeted support for university-industry-utility-Indigenous partnerships can ensure that innovations are tested under Canadian grid, climate, industrial, and regulatory conditions, improving reliability and bankability for domestic projects.

To scale hydrogen research, development, and deployment in Canada, the CHA recommends that Budget 2026:

1. **Create a dedicated Hydrogen Innovation and Demonstration Fund**
    - Establish a multi-year $100 million fund (for example, under NRCan and/or ISED) specifically aimed at advancing hydrogen technologies from TRL 3 to TRL 7–8 in Canada.
    - Provide funding horizons of at least 5–7 years for large demonstrations, reflecting the time needed to design, permit, build, operate, and evaluate hydrogen systems at scale.
    - Prioritize projects that integrate Canadian post-secondary institutions with industry, utilities, municipalities, and Indigenous partners in real-world pilots and demonstrations.

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- Position the CHA to serve as the Fund administrator responsible for application reviews, audits, checkpoints, public reporting. This would accelerate deployment, leverage private investment for multiplier effects, and—if successful—scale CHA into Canada's trusted hydrogen funding coordinator, reducing administrative bottlenecks while building long-term industry leadership.

2. **Support priority technology domains and systems integration**
   Explicitly target:
   - Advanced electrolyzers (including high-temperature systems), fuel cells, and hydrogen combustion equipment.
   - Storage solutions (compressed, liquid, solid-state, underground) adapted to Canadian climates and infrastructure.
   - Systems integration for industrial processes, heavy transport, ports, rail hubs, and remote and northern communities.

3. **Strengthen talent pipelines and training**
   - Embed co-op placements, internships, and applied graduate projects within funded hydrogen R&D and demonstrations, ensuring that students gain hands-on experience with real systems and projects.
   - Support interdisciplinary training that spans engineering, operations, safety, regulation, economics, and Indigenous partnership models.

By investing in sustained hydrogen R&D and demonstration capacity in Canadian institutions, the federal government can keep Canadian innovation at the frontier, capture more of the value chain domestically, and train the workforce required to plan, build, and operate the next generation of clean hydrogen projects.

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Recommendation 3 (Strategic Policy Renewal):
That the government update its Hydrogen Strategy to position the sector as a core pillar of export diversification, defence, critical minerals, industrial decarbonization, heavy transport, and competitiveness, while reinforcing policy clarity, continuity, and leadership to prevent investment uncertainty and ensure effective implementation

The federal government is updating the Hydrogen Strategy for Canada at the same time as competing global jurisdictions are scaling powerful industrial and fiscal tools, including production tax credits, sovereign guarantees, and export contracts for hydrogen and its derivatives. Canadian proponents are already investing in project development, engineering, workforce training, and supply chains, but inconsistent policy signals and pending strategy updates are creating hesitation at board tables and credit committees.

Hydrogen is central to export diversification, defence energy resilience, critical mineral processing, and industrial decarbonization. Without an integrated, high-level federal vision—and clear political backing—multi-billion-dollar projects face delays, downsizing, or relocation to jurisdictions with more predictable frameworks.

A renewed federal hydrogen strategy can function as a strategic framework, aligning multiple policy streams—tax credits, infrastructure, trade, innovation, and skills—around a coherent industrial pathway. Explicitly positioning hydrogen in export, defence, critical minerals, and industrial policy will establish long-term demand signals and help project developers secure offtake, financing, and partnerships.

To support strategic policy renewal for hydrogen, the CHA recommends that Budget 2026:

1. **Direct that the updated Hydrogen Strategy for Canada be explicitly integrated into four federal strategic pillars**:
    - Export diversification and trade promotion (including hydrogen derivatives, green shipping corridors, and sustainable aviation fuel).
    - Defence and national security (energy resilience at bases, dual-use fuel logistics, and northern and remote operations).

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- Critical minerals and advanced manufacturing (hydrogen for low-carbon processing, metallurgical applications, mining operations and hydrogen technology/equipment manufacturing).
- Industrial decarbonization and competitiveness (steel, chemicals, cement, fertilizer, and heavy transport).

2. **Provide a clear and public federal commitment to continuity and clarity in hydrogen policy**, including:
   - A statement that existing investment tools (notably the CH-ITC and clean technology ITCs) will be maintained and refined to achieve their intended impact rather than fundamentally redesigned.
   - A commitment to regular, transparent progress reporting on strategy implementation and project pipelines/timelines.

3. **Establish a Deputy-Minister–level federal hydrogen leadership mechanism**, mandated to:
   - Coordinate across departments (Finance, NRCan, ISED, Transport, ECCC, DND, GAC).
   - Identify and resolve cross-cutting barriers (permitting, infrastructure planning, regulatory alignment).
   - Provide a single, authoritative point of federal contact for large hydrogen proponents.

By providing continuity, clarity, and visible political backing, this strategic renewal will reduce investment risk, prevent project flight to competing jurisdictions, and ensure that hydrogen contributes fully to Canada's economic and environmental objectives.

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Questions?

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