Canada’s Changing Energy Outlook

We examine the status of Canada’s energy sector with a view toward what has changed in response to recent geopolitical developments and what is on the horizon.

The outlook before 2025

Canada had generally embraced the imperative to move towards net-zero emissions, with both federal and provincial governments announcing a suite of initiatives to encourage renewable energy development and other carbon reduction projects, such as carbon capture and storage. However, concerns over affordability and reliability have grown in response to the ambitious timeline set to reach net-zero emissions by 2050. Now, at the start of 2025, Canada is further shifting its energy priorities in response to the rapidly changing geopolitical environment.

The changing energy landscape

Canada’s energy outlook is being reshaped in real time in response to new geopolitical realities. The primary driving force for the change comes from the Trump administration’s economic and foreign policies, as well as Canada’s upcoming general election.

In the early months of 2025, the United States signed several executive orders to impose tariffs on Canadian energy and goods, kicking off a new period of uncertainty for energy industry participants on both sides of the border. The U.S. announced it would impose a 25% tariff on all Canadian imports and a 10% tariff on energy resources, with a separate 25% tariff on steel and aluminum imports from Canada. In response, Canada announced retaliatory tariffs of 25% phased in on $155B worth of U.S. goods, and provincial governments may impose further actions, such as Ontario's proposal to apply a 25% surcharge on exports of U.S.-bound electricity. The whipsawing announcements of new and changing tariffs and temporary relief are exacerbating the uncertainty. The cumulative impacts of the announced tariffs from both countries can't be overstated and will have far-reaching effects on many areas of Canada's energy sector regardless of if and when the tariffs are removed.

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The new economic realities ushered in by the tariffs and the "America First Investment Policy", as well as the strain on global alliances, have placed the economy and national security front and centre for upcoming Canadian elections. As a result, the calculus on net-zero initiatives is changing. High cost-of-living concerns are taking precedence as leaders make decisions regarding the energy supply mix and new energy infrastructure projects. Energy security has also come to the fore, which is shifting conversations around pipeline development and other projects to promote interprovincial trade and international trade (outside of the U.S.) of crucial energy resources.

What might come next for Canada's energy sector?

Canada's full endowment of energy resources will need to be put to work to meet the need for affordable, reliable, secure energy in light of these developments and ongoing geopolitical uncertainty. We expect to see increased activity in the coming year in all areas of energy, from oil and gas to nuclear and renewable power.

1. Infrastructure development

Major projects—including east-west pipeline development, rail upgrades and port expansions—are on the minds of many politicians and energy industry participants. The changing trade relations between Canada and the U.S. have highlighted the need to make Canada more self-reliant through a series of infrastructure initiatives. The choice of which projects get prioritized could have a significant impact on energy development and transmission.

2. Oil and gas

Western Canadian oil and gas continue to be a key driver of the Canadian economy and exports. Renewed discussions of pipeline development are particularly significant since these resources are mostly landlocked and transported through a network that remains largely directed toward the United States. The fact that these discussions are occurring demonstrates a significant shift, after the cancellation of a number of proposed pipelines over the last decade. As the country looks to create a more affordable roadmap for the energy transition, oil and gas will continue to be a critical part of the energy supply mix to help reduce costs for consumers, provide reliable energy and ensure energy security.

3. Renewable power

The pace of renewable power development slowed significantly in 2023/2024, notwithstanding the lifting of the Alberta government’s moratorium on new permits in February 2024. With shifting energy priorities, a renewal of development activity at previous levels seems unlikely in the short term. Nevertheless, there is still some momentum for renewables going forward, particularly in the secondary market. M&A deals in renewables performed well throughout 2024, and at the start of 2025, Caisse acquired Innergex Renewable Energy Inc. in a deal worth approximately $10B.

4. Nuclear power and SMRs

Canada continues to rely on nuclear power to contribute to its low-emission energy sources, with Ontario leading the charge. The country hopes to reinforce its leadership in nuclear power through a series of investments in CANDU reactors as well as small modular reactors (SMRs), which could play a large role in reducing emissions in industrial processes like mining as well as supplying power to power-intensive data centres. In addition, industry participants in Alberta are considering the adoption of SMRs in support of oil and gas production to reduce emissions and achieve net-zero goals.

5. Mining and metals

In the short term, a trade war involving Canada, China and the U.S. is likely to increase costs significantly for the mining industry, as the already-constrained supply chains for many metal products and critical minerals are unlikely to be able to adjust in any meaningful way to minimize the impact of tariffs. In the long term, these tariffs could have far-reaching implications on the efforts of both Canada and the U.S. to establish secure and stable critical mineral supply chains. This could involve Canadian and other foreign mining companies seeking alternative markets for Canadian critical minerals and alternative mineral processing arrangements. It could also spur U.S. manufacturers to source critical minerals from jurisdictions unaffected by tariffs, which may not provide the same stability and security in the supply chain.

6. Electricity grid

In the long term, Canada's electricity system will be the backbone of the country's future net-zero economy, necessitating the decarbonization of the grid while simultaneously meeting rising energy demands. However, in the near term, tariffs are likely to drive up consumer bills, potentially slowing the momentum toward electrification unless more consideration is given to managing consumer rate impacts. This must be balanced with the need to attract economic development and investment in grid infrastructure to support long-term growth and electrification.

Provincial and federal initiatives alike will play a key role in addressing the affordable energy challenge, including (1) electricity market reforms, such as the Restructured Energy Market in Alberta and the Market Renewal Program in Ontario; (2) customer-centric energy initiatives like Ontario's 2025-2036 electricity demand-side management framework; and (3) opportunities to leverage Distributed Energy Resources (DERs) to support grid reliability and cost-effectiveness. Repurposing tariff revenues to provide stimulus spending—such as tax incentives (including the Clean Technology investment tax credit that became law in June 2024), grants, and loans aimed at boosting the economy through investments in energy infrastructure—could also be crucial in balancing the near-term impacts of tariffs with the long-term objectives of promoting economic growth, enabling decarbonization and securing energy independence.

The content of this article is intended to provide a general guide to the subject matter. Specialist advice should be sought about your specific circumstances.

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