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Base Hits to Make Canada Investable Again (Chapter 2)

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*Canadian politicians, like baseball sluggers, often swing for the fences—announcing sweeping policy visions designed to grab headlines and secure legacy. But in baseball, as in policymaking, long-term success is more often built on a steady stream of singles and doubles. As of the 2024 **MLB season**, the league-wide probability of hitting a home run per plate appearance is just 3.0%. Meanwhile, singles and doubles still account for over 84% of all hits, and two-thirds of all runs are generated by plays other than home runs.*

The lesson for Canada's economic strategy is clear: Ottawa must keep its eye on the ball by focusing on high-probability policy plays, rather than concentrating solely on rare moonshots. Such high-probability measures include streamlining regulation, accelerating project approvals, providing clear and bankable incentives for private capital, and investing in foundational infrastructure.

These policy "base hits" may not generate headlines, but they're the most reliable way to move the economy forward. They're precisely what's needed to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term capital—one base at a time.

*With that in mind, the Economics & Strategy team is planning a series of policy papers under the banner of Rebuilding the Base of Industry (RBI). Much like an RBI in baseball drives runs across the plate to win the game, our RBI initiative aims to drive practical, high-impact reforms across the finish line. This work is part of our broader vision to **Make Canada Investable Again (MCIA)**—an effort to close Canada's persistent valuation gap, rebuild industrial competitiveness, and re-attract long-term private capital. The focus will be on measures that help ensure Canada's economic sovereignty by rebuilding a critical mass in manufacturing and securing a meaningful role in global supply chains.*

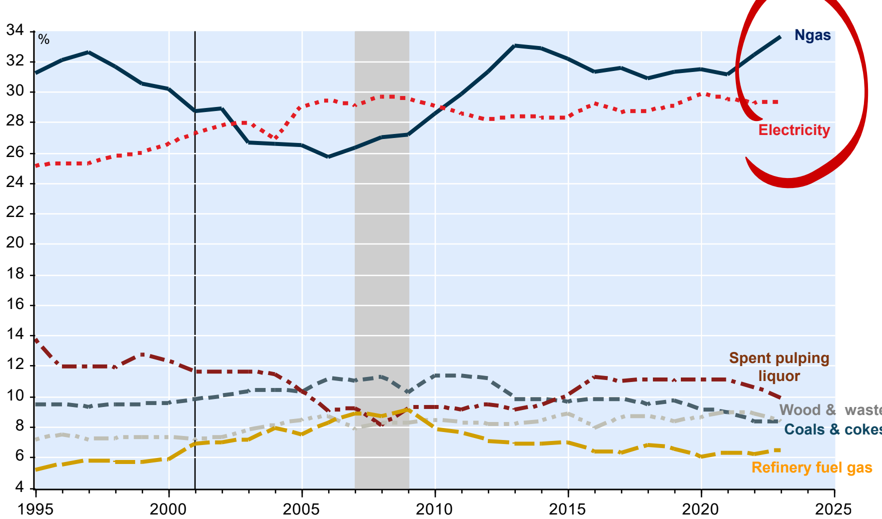
#2: Reframing natural gas in Canada's climate strategy

Executive Summary: Prime Minister Carney recently **stated**: "a strong Canadian economy, to be absolutely clear, includes a strong steel industry. It includes a strong Canadian auto industry, a strong Canadian aluminum industry, and copper industry and others. And we'll be focused on what we can do to support that." It is encouraging to hear Ottawa's highest office finally acknowledge the urgency of reversing the severe hollowing out of Canada's industrial base—an economic erosion decades in the making and now at risk of accelerating further under Washington's escalating protectionism. But rebuilding the base of industry (RBI) will require more than rhetorical support or temporary sectoral measures. In the **first installment** of our RBI playbook, we called for slashing excessive regulation as a cost-effective way to halt the atrophy of Canada's industrial base. Encouragingly, Prime Minister Carney has since **announced** a cross-departmental review of all federal regulations over the next two months with the goal of reducing red tape. Another high-impact, low-cost RBI initiative within Ottawa's reach is a pragmatic revision to the forthcoming Canadian taxonomy—one that formally recognizes natural gas as a transition fuel. This need not signal a retreat from Canada's climate commitments; on the contrary, it would provide a realistic and financially sustainable pathway for decarbonization and unlock capital investment.

A. Manufacturing needs natural gas

- Like in other countries, manufacturing in Canada is highly energy-intensive, drawing nearly 34% of its energy from natural gas and 29% from electricity.

Canada: Manufacturing is energy intensive
Energy consumed by manufacturing sector

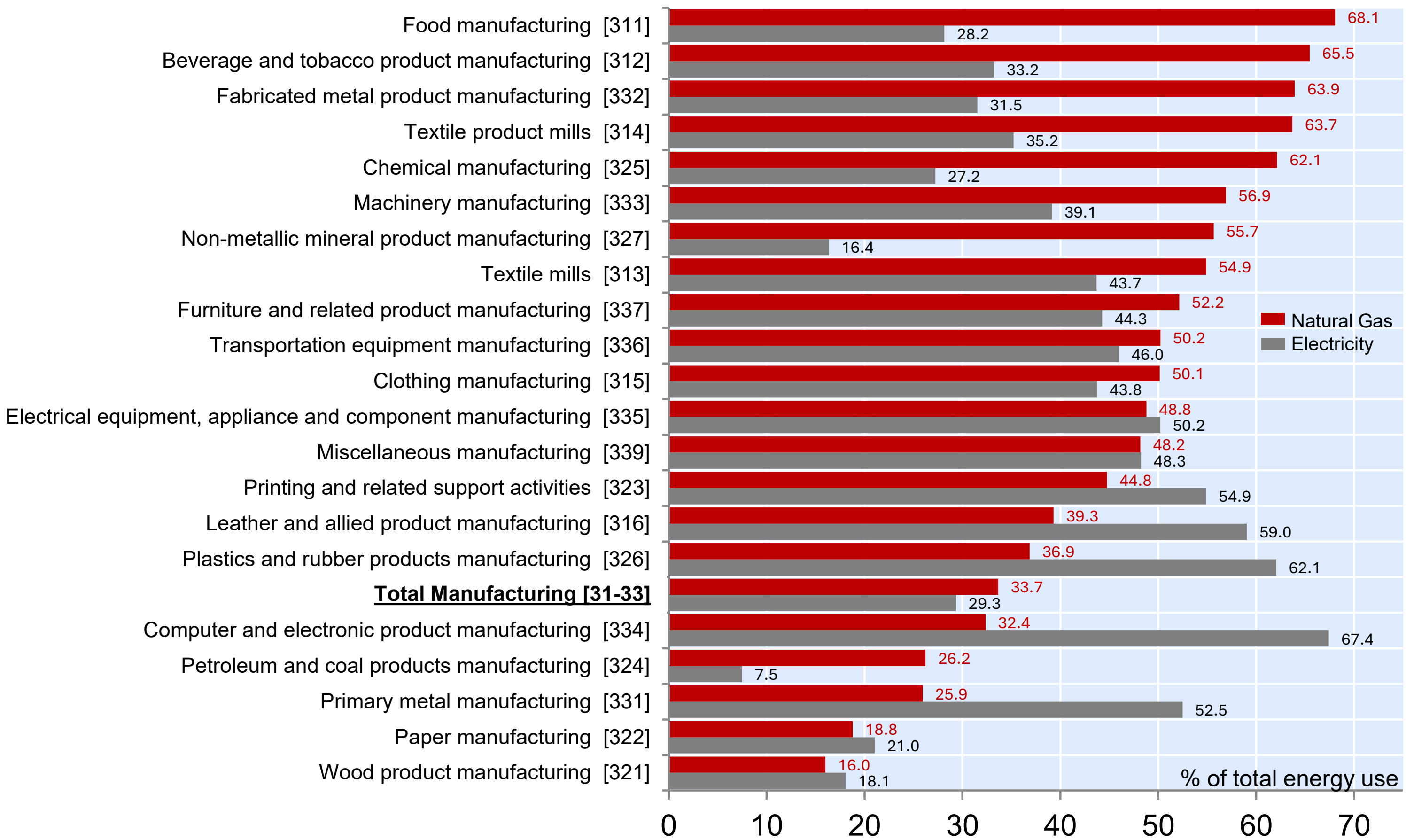


NBC Economics and Strategy (data via Statcan 25-10-0025-01)

- But this national average masks important variation: natural gas accounts for over half of total energy use in 11 of the country's 21 main manufacturing subsectors—with food manufacturing, beverage and tobacco, fabricated metals, textiles, and chemicals all exceeding the 60% mark.

Canada: Natural gas is the lifeblood of manufacturing

Share of natural gas and electricity in total energy use by manufacturing subsector



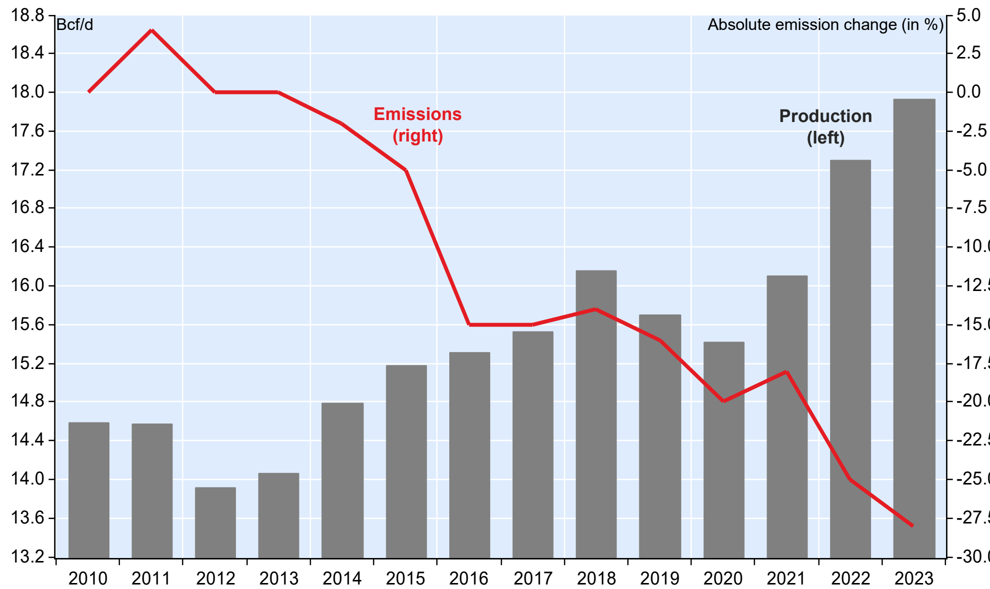
NBC Economics and Strategy (data via Statisctics Canada table 25-10-0025-01)

- Despite this energy mix, Canada's industrial sector is relatively clean by global standards. In 2022, Canada's manufacturing sector accounted for roughly 6% of the country's total greenhouse gas (GHG) emissions, despite representing about 9% of GDP.[1] By contrast, the U.S. manufacturing sector generated 12% of national emissions, exceeding its 10% GDP share.[2] One key factor behind Canada's lower emissions intensity is its cleaner and more cost-effective energy supply. For perspective, Canadian natural gas production has grown by 23% since 2010, while absolute emissions—not just emissions intensity—have declined by 28% over the same period. This reduction has been largely underpinned by focused methane abatement efforts across the sector.

[1] https://publications.gc.ca/collections/collection_2024/eccc/En81-4-1-2022-eng.pdf
[2] https://www.cbo.gov/publication/59695?utm_source=chatgpt.com

Canada: Production is up 23% while emissions are down 28%

Annual production of natural gas and absolute change in emissions since 2010

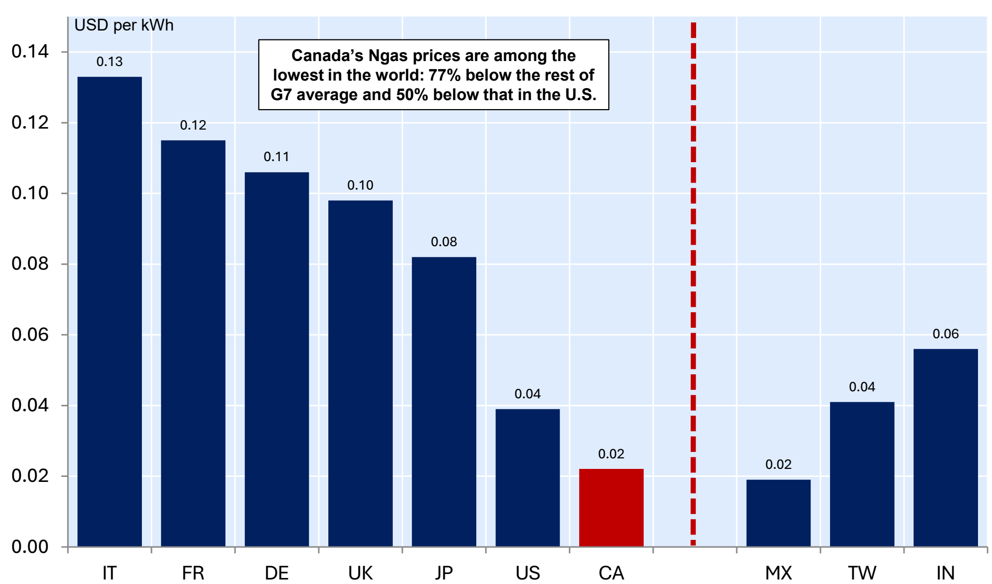


NBC Economics and Strategy (data via Canada Energy Regulator and Environment and Climate Change Canada)

- Cleaner doesn't have to mean costly. Canada benefits from some of the most affordable natural gas in the world—prices are 77% below the G7 average and 50% lower than in the U.S.—thanks to the world's second-largest resource base after Russia.

Canada: Among the lowest Ngas prices in the world

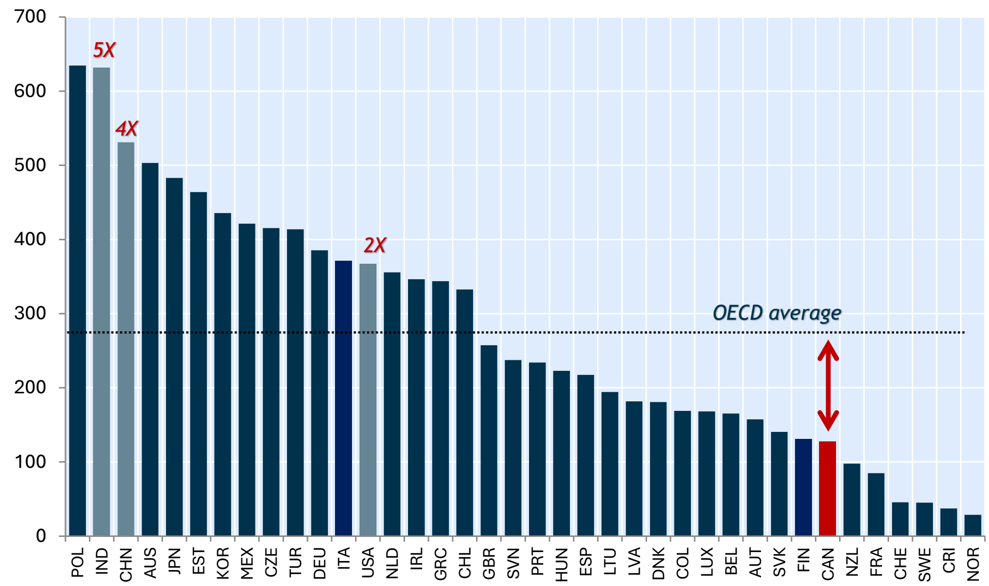
Natural gas prices in December 2024 for businesses (at market exchange rate)



NBF Economics and Strategy (data via GlobalPetrolPrices.com)

- Electricity—the second-largest energy source for factories—is also markedly cleaner in Canada than in most other countries. Canadian power generation emits about 50% less CO_2 per kilowatt-hour than the OECD average, and is over three times cleaner than in the U.S. and Germany, four times cleaner than in China, and five times cleaner than in India.

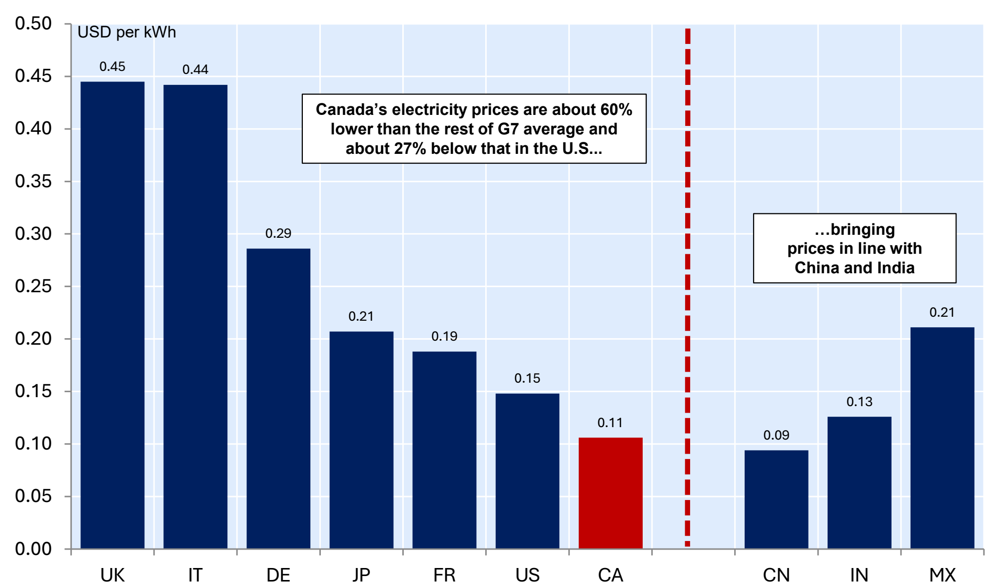
World: Canada's electricity grid is one of most resilient and cleanest
2022 carbon intensity of electricity (gCO2/kWh), OECD + China and India



NBF Economics & Strategy (data via Our World in Data)

- As with natural gas, electricity prices for businesses in Canada are also significantly lower—averaging 60% below the rest of the G7 and 27% below U.S. levels.

Canada: Lowest electricity prices in the G7
Electricity prices for businesses (2023-2025 average at market exchange rate): G7 + India, China and Mexico

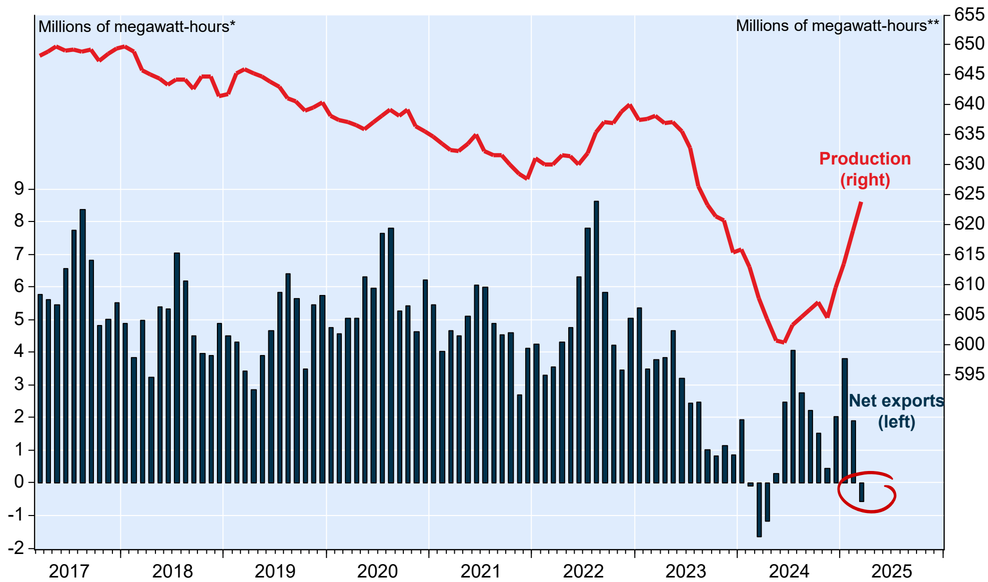


NBF Economics and Strategy (data via GlobalPetrolPrices.com)

B. There is not enough electricity to satisfy demand

- Can manufacturing energy needs be met mostly by electricity? Not in the short term. While Quebec and Ontario have pledged to expand electricity capacity, these efforts will take years to materialize—just as Canada's existing electricity surpluses are rapidly diminishing. Natural gas will be essential to bridging this gap, both as a fuel for power generation and as a critical input for a manufacturing sector in need of revitalization.

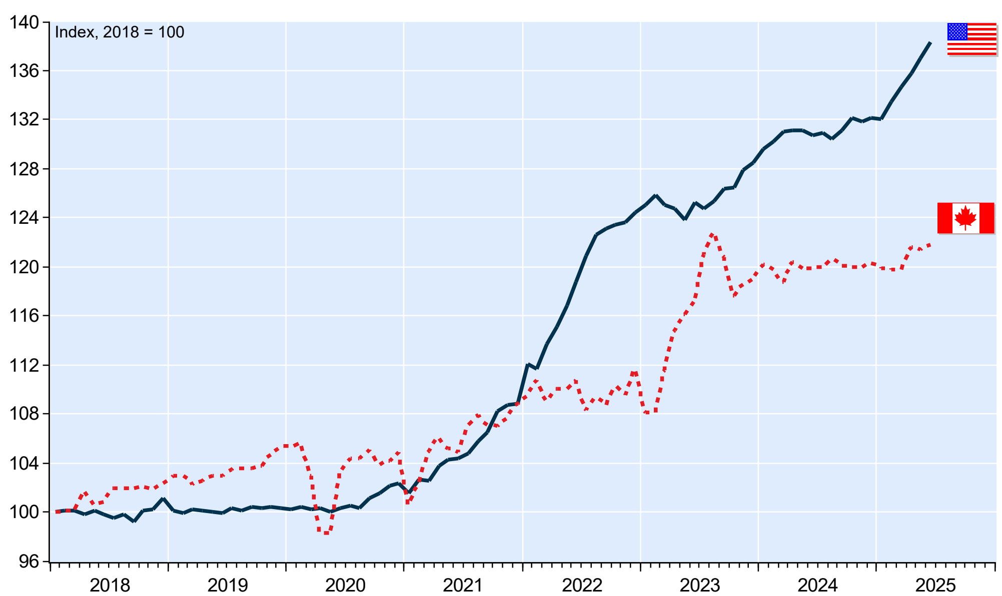
Canada: Rebounding output fails to halt decline in electricity surplus
Electricity generation and net exports



* Monthly data, annualized **12-month moving sum
NBC Economics and Strategy (data via Statcan)

- Ontario's recent **Energy for Generations** plan underscores that while natural gas currently supplies approximately 16% of the province's power (it's 70-75% in Alberta and 45-50% in Saskatchewan), its role is projected to remain significant throughout this decade, primarily due to scheduled refurbishments of the nuclear fleet and the need to meet peak demand and maintain grid stability. The plan also warns that a rushed phase-out of natural gas could drive household electricity bills up by as much as 60% and risk widespread service disruptions. The challenge is compounded by surging electricity demand from a nascent industry: AI and data centers. In the U.S., the largest power grid is already **under strain** as this sector consumes electricity faster than new generation capacity can be brought online. Electricity bills are projected to surge by more than 20% in the coming months.

Canada: Avoiding the pitfalls of U.S. energy planning
CPI for electricity: Canada vs. the U.S.



NBC Economics and Strategy (data via Statistics Canada and Fred)

C. Extend the mainline to secure a 100% Canadian supply

- Given the challenging outlook for U.S. power prices, it may come as a surprise that despite Ontario and Quebec consuming a combined 3.4 Bcf/d—nearly 20% of Canada's total natural gas production—more than half of this demand (55%) is still met through imports from the United States. This reliance not only raises energy security concerns but also undermines Canada's broader industrial strategy. At a time when AI, data centers, and manufacturing reshoring are driving up electricity demand, securing a stable, domestic natural gas supply is critical to ensuring cost competitiveness and long-term industrial resilience.

- Fortunately, the potential expansion of TC Energy's Canadian Mainline could add the incremental capacity needed to fully meet the natural gas needs of Ontario and Quebec. With the Mainline Settlement up for renewal in 2027, TC Energy is currently assessing market interest and technical feasibility for several eastbound expansion options, which could increase nameplate capacity by 1.0 to 2.0 Bcf/d.
- This initiative warrants strong policy support, as it aligns with Canada's broader industrial strategy—reducing reliance on U.S. imports and the associated potential volatility in sourcing and prices, enhancing energy security, and enabling low-cost, domestic natural gas to power reindustrialization in Central Canada.

D. Conclusion

Canada stands at a pivotal moment—undergoing a fundamental transformation of its energy system while striving to maintain economic competitiveness, just as the United States accelerates ahead with **an aggressive industrial strategy** under its One Big Beautiful Bill (OBBB). The Carney government is committed to a lower-carbon future, but achieving this goal requires managing rapidly rising electricity demand—driven by population growth, industrial reshoring, and widespread electrification. Natural gas is uniquely positioned as a pragmatic transition fuel. It offers flexible, dispatchable power to back up renewables, fill supply gaps, and maintain grid stability—capabilities that renewables and nuclear cannot yet fully deliver.[3]

Maintaining gas in the energy mix is also critical for affordability and energy security. Federal policy is increasingly recognizing this reality: Canada's proposed green and transition taxonomy would support lower-emissions gas investments, including CCUS-enabled projects, while limiting unabated supply growth. This balanced approach supports credible decarbonization while preserving grid reliability.

Canada's natural gas sector is also among the cleanest globally, with methane emissions roughly 50% lower than in the U.S. According to the IEA, Canadian LNG holds a lifecycle emissions advantage due to shorter shipping routes to Asia, positioning it as a lower-carbon alternative to coal in emerging markets. As global demand for reliable, cleaner fuels grows, Canada has an opportunity to lead—not only by powering its own transition but by contributing meaningfully to global decarbonization.

Labelling natural gas as a transition fuel is not a retreat from climate ambition—it is a pragmatic step toward a secure, affordable, and investable energy future at home and abroad. Reframing natural gas within Canada's climate strategy would also strengthen the case for expanding the Canadian Mainline, aligning energy infrastructure with national economic and environmental goals.

When C.D. Howe—the architect of Canadian industrialization—approved a gas pipeline that that could be built across Canada without dependence on the American market in 1954, he was swayed by a blunt warning from Texan businessman Clint Murchison: *"You Canadians don't know the value of gas. When you do, you won't want to be on the far end of a line from the U.S."*[4] Seventy years later, that warning rings truer than ever. With more than half of Eastern Canada's natural gas now imported from the United States, securing domestic supply has become both an economic necessity and a strategic priority. Recognizing natural gas as a transition fuel would bolster energy security and lay the foundation for a more resilient, investable industrial base—precisely the kind of pragmatic foresight Howe championed. It's a timely consideration as the Premiers gather this week alongside their guest, Prime Minister Mark Carney.

[3] Ontario's IESO projects a 75% increase in electricity demand by 2050, while nationwide consumption is expected to double, requiring a grid up to 3.4 times larger. With the first SMR not expected until the end of the decade, natural gas remains essential in the near to medium term.
[4] See C.D. Howe: A Biography by Robert Bothwell and William Kilbourn, page 287.

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