

Voluntary Report – Voluntary - Public Distribution

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Report Name: Ontario Announces Domestic Biobased Content Requirements for Diesel Fuel and Gasoline

Country: Canada

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Report Highlights:

On July 8, 2025, Ontario announced its decision to proceed with domestic bio-based content requirements for both diesel fuel and gasoline in the Ontario market. At least 75 percent of the renewable content required in diesel fuel and 64 percent of the renewable content required in gasoline must be produced in Canada. This makes Ontario the second province in Canada to announce domestic content requirements. According to Canadian industry, Ontario's decision to adopt the new rules was motivated by the Canadian federal government's nonresponse to the U.S. Clean Fuel Production Tax Credit (45Z).

Ontario announces domestic biobased content requirements for diesel fuel and gasoline

On July 8, 2025, Ontario's Ministry of the Environment, Conservation and Parks announced its [decision](#) to proceed with domestic bio-based content requirements for both diesel fuel and gasoline in the Ontario market under the Cleaner Transportation Fuels (CTF) regulation. At least 75 percent of the renewable content required in diesel fuel and 64 percent of the renewable content required in gasoline must be produced in Canada. These requirements will be prorated for the remainder of the 2025 compliance year and be effective immediately. This makes Ontario the second province in Canada to announce domestic content requirements.¹

The measure is expected to be time-limited and temporary in nature, and the ministry will monitor the situation impacting the domestic biofuels industry.

Given that Ontario's public consultation did not seek feedback on domestic renewable content requirements for gasoline, industry contacts state they were surprised that such a measure affecting ethanol could be implemented immediately.

Ontario's prorated phase-in of requirements are described in more detail as follows:

Diesel

- the minimum 75 percent Canadian content requirement will be prorated to 25 percent for the remainder of the 2025 compliance period due to the shorter timeframe for compliance. For subsequent compliance years the minimum domestic content requirement will remain at 75 percent on an annual basis

Gasoline

- the minimum 64 percent Canadian content requirement will be prorated to 27 percent for the remainder of the 2025 compliance period due to the shorter timeframe for compliance. For subsequent compliance years the minimum domestic content requirement would remain at the full 64 percent on an annual basis for 2026 and 2027, 54 percent on an annual basis for 2028 and 2029, and 47 percent in 2030 onwards. The actual domestic content requirement remains the same while the renewable content requirement increases from 11 percent in 2025 to 13 percent in 2028 and then to 15 percent in 2030 as announced in 2020

ONTARIO'S RATIONALE

According to the Canadian industry, Ontario adopted domestic production requirements due to the Canadian federal government's nonresponse to the U.S. Clean Fuel Production Tax Credit (45Z). The 45Z tax credit

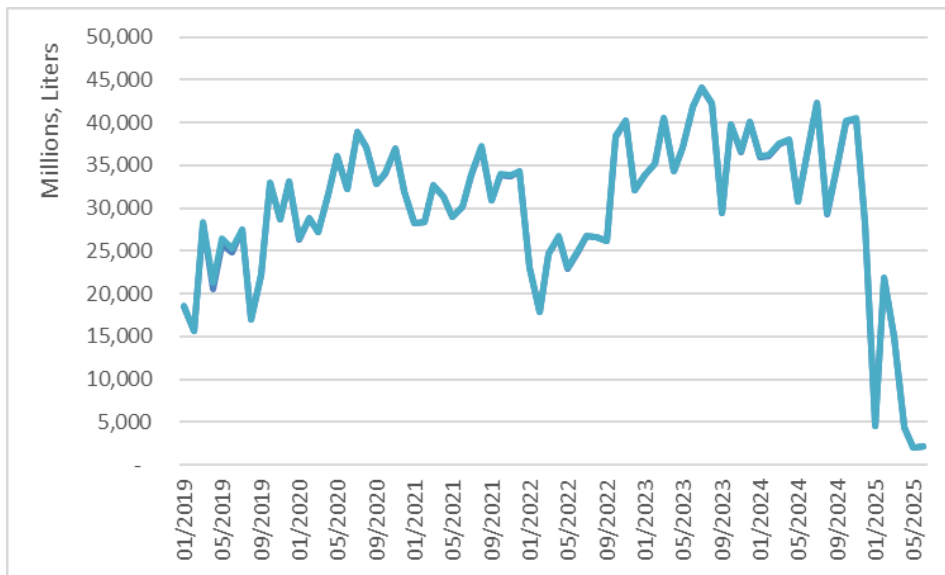
¹ On the heels of an AV/CVD petition filed against the United States by a Canadian renewable diesel company in December (Tidewater), British Columbia announced that it will require that renewable content in diesel fuel be produced in Canada, effective April 1, 2025 and renewable content in gasoline be produced in Canada, effective January 1, 2026. Further, British Columbia has increased the renewable fuel requirement for diesel from 4% to 8%, effective immediately, while the minimum renewable content requirement of gasoline remains at 5%.

established by the U.S. Inflation Reduction Act (IRA) became available on January 1, 2025, and Canadian fuel suppliers lobbied the federal government to offer a production tax credit that approximates 45Z ever since.

The effort that drove Ontario and British Columbia governments to enact domestic content requirements is motivated by three aspects of 45Z that make it unique from the former 40A Biodiesel Blenders Tax Credit (BTC)², which sunset in December 2024:

First, 45Z does not apply to imported renewable fuel from Canada, unlike the preceding U.S. BTC, which Canadian low-carbon fuel producers benefited from since its implementation in 2004. Under the former U.S. tax credit, nearly 100 percent of Canadian biodiesel production was exported to the United States to benefit from it, and nearly all of Canada’s biodiesel consumption was imported from the United States. However, with the transition to the 45Z, eligibility criteria shifted to prioritize domestically produced fuels. Imported fuels are no longer able to claim U.S. credit, leading to a sharp decline in biobased diesel (BBD)³ exports from Canada to the United States.

Figure 1: 45Z Leads to Sharp Decline in BBD Exports from Canada to the United States



Source: FAS/Ottawa, with data from EIA and Trade Data Monitor, LLC

Secondly, the BTC applied only to BBD, while 45Z applies to biofuels such as ethanol, in addition to biodiesel, renewable diesel and sustainable aviation fuel (SAF). Subsequently, Canadian BBD and ethanol producers now each claim they are undercut by imports because of U.S. tax credits.

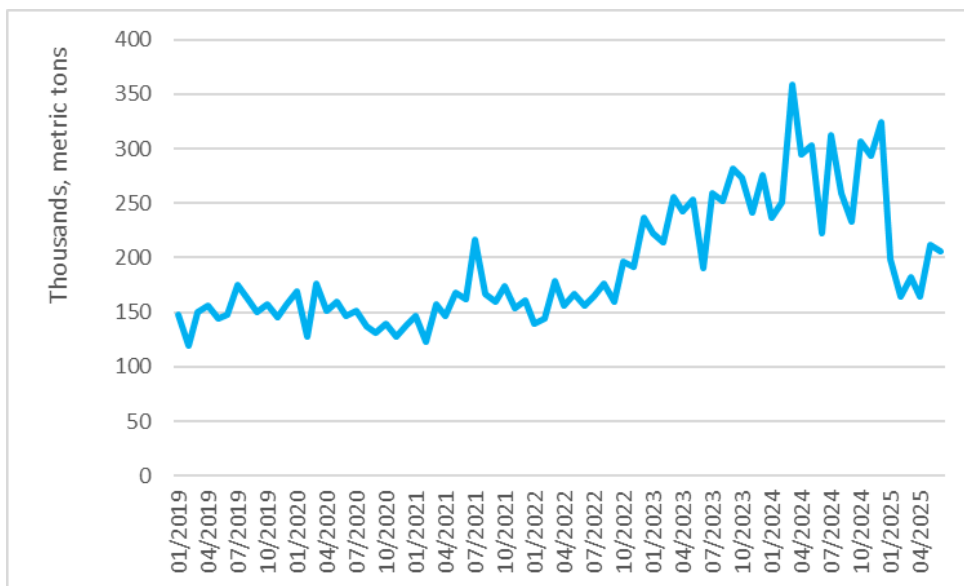
Thirdly, fuel produced from canola oil was initially ineligible for 45Z tax credits (during the period of January 1, 2025 to July 4, 2025) based on its carbon intensity under the original 45Z guidelines, reducing Canadian canola oil exports and escalating the domestic push for a made-in-Canada response to 45Z. Canola’s exclusion led to a 32 percent decline of canola oil exports to the United States during the first six months

² The 40A Biodiesel Blenders Tax Credit (BTC) offered US \$1 per gallon for biodiesel and renewable diesel blenders and applied to domestic and imported fuels.

³ Biobased diesel includes biodiesel and renewable diesel

of 2025 (the most recent data available), compared to the same period in the previous year. Since then, legislative changes made within the United States' One Big Beautiful Bill Act (Public Law 119-21) on July 4, 2025, made canola oil eligible if sourced from the United States, Mexico, or Canada.⁴ Still, stung by the decline in canola oil exports to the United States⁵ and concerned about other efforts to limit this trade, Canadian producers continued to push for a federal government response. For example, the U.S. Environmental Protection Agency (EPA) is proposing to reduce Renewable Identification Numbers (RINs) by 50 percent for biofuels made from imported feedstock.

Figure 2: Sharp Drop in Canola Oil Exports to the United States



Data source: Trade Data Monitor, LLC

Impact of U.S. policy impacting biofuel potential in the United States as well

At least six biobased diesel plants shuttered on a short-term basis in Canada, allegedly as a result of the U.S. BTC expiring in December; however, U.S. biofuel plants are also shuttering or scaling back operations due to an oversupply in the market, particularly of renewable diesel, which is outstripping demand and lowering RINs prices. Other contributing factors include uncertainty surrounding the Renewable Fuel Standard (RFS) and 45Z tax credit policy, leading to poor profit margins for producers and prompting companies like Chevron to close biodiesel plants indefinitely.

⁴ Initially, canola oil was considered ineligible under the current 45Z rules due to its unfavorable carbon intensity (CI) score. The new rules under OBBBA eliminated the indirect land use change (ILUC) penalty, enabling canola's CI score to drop to a level that would make it eligible. Canola oil-based fuel must meet specific carbon intensity (CI) thresholds, as determined by the 45ZCF-GREET model. A CI score below 50 (grams of CO₂e per megajoule) is generally required for eligibility. Under the new rules, canola's CI score drops to 38.5 grams of carbon dioxide per megajoule from 54.9.

⁵ Exacerbating canola producers' challenges, the U.S. rule that made canola ineligible as a feedstock under 45Z occurred during a time that China began applying a 100 percent tariff on Canadian canola oil and meal, effective March 20. China later extended the tariff to canola seed, at 75.8 percent, effective August 14.

PERSPECTIVES FROM INDUSTRY

Speaking on ethanol, a U.S. industry observer noted Ontario's decision to implement domestic-content requirements is currently expected to have minimal impact on U.S. balance sheets because the actual domestic content is expected to remain the same over time, while the renewable content requirements increase from 11 percent in 2025 to 13 percent in 2028 and then to 15 percent in 2030 as announced in 2020. In other words, ethanol imports from the United States are expected to continue to increase from year to year. Another association representing U.S. ethanol is concerned that domestic only content requirements will spread to other provinces, and nationally.

Stakeholders representing the Canadian fossil fuel sector (which is obligated to purchase renewable fuel, under the Canadian Clean Fuels Regulation) state that they are unconcerned about the federal government adopting national domestic content rules because that would mean having to re-open the CFR. This is a more difficult and time-consuming process than revising regulation at the provincial level. The CFR is next open for review in 2028. They are not in favor of Ontario's domestic-content requirement and favor a Canadian production tax credit instead.

Canadian stakeholders representing Canadian and U.S. BBD producers are concerned that if British Columbia and Ontario are unable to assist industry, the national Clean Fuels Regulation could be dismantled. Without any obligation to purchase low-carbon fuel, imports from the United States would begin to decline. If that's the alternative, industry says they're happy to accept the growth levels that are guaranteed by the current government under Ontario's [Cleaner Transportation Fuels](#) regulation.

In a public announcement, a spokesperson for Canada's [Farm and Fuels Alliance](#) responded positively to the announcement, saying, "As Canada's ethanol production hub, Ontario generates 70 percent of the national supply, making this decision critical for our clean energy future and economic resilience."

Associations representing U.S. biobased diesel did not reply to Post's request for comment on Ontario's new requirement.

Attachments:

No Attachments.