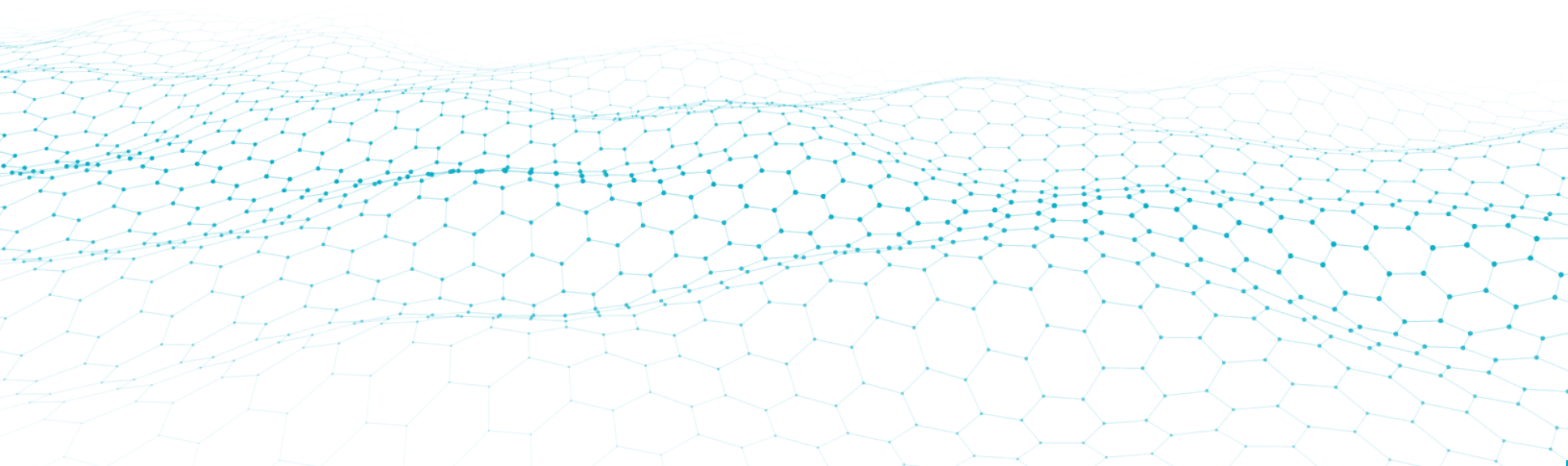


Build Canadian Capacity, Sell the Output Elsewhere:

# CDR as a Tariff-Immune Sovereign Asset Class



**Re:** A capital-and-trade thesis for Canadian carbon dioxide removal (CDR) of Svante

**Date:** September 9, 2026

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# 1. The Thesis

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Canada faces a structural mismatch: it exports the capital that builds frontier infrastructure abroad while underbuilding it at home, and it exports the raw commodity that carbon markets will pay a premium for — biogenic CO<sub>2</sub> and geologic storage capacity — while importing the low-carbon fuels those same markets are meant to displace. The current U.S. trade war removes any ambiguity about the fix. Canada should build carbon dioxide removal (CDR) capacity on Canadian soil, using Canadian and foreign capital, and sell the resulting credits into markets other than the United States — principally the EU, Japan and South Korea compliance markets via Article 6 — treating CDR credits themselves as a sovereign, tradeable asset class rather than a compliance cost to be minimized for climate change mitigation.

This whitepaper lays out why the moment favours this thesis, what building domestic capacity concretely requires, why exporting elsewhere is both economically and structurally advantageous, and what remains open before the Canadian government can act on.

## 2. Why Now: The Trade War Has Made This Urgent

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Trade talks between Ottawa and Washington collapsed in August 2026. The U.S. imposed 50% tariffs on \$20–27.6 billion of Canadian goods; Canada responded with dollar-for-dollar countermeasures on over 700 U.S. products effective September 8, doubling duties on U.S. steel and aluminum to 50% and extending to dairy, appliances, agricultural equipment, pulp and paper, and electronics. Prime Minister Carney has described the U.S. action in explicit conflict terms: "You're at war when you get attacked. We got attacked on our sovereignty". And on September 5, he announced measures aimed at "protecting, strengthening, and transforming Canada's strategic industries." The U.S. has also signalled it may use market-access threats beyond tariffs, including against Canadian aircraft manufacturing and removing Canadian-origin products from the US federal government procurement program (GSA).

The timing sharpens further with the Canada Investment Summit, hosted by the Prime Minister in Toronto from September 14–15, 2026. It will be the first event of its kind, convening global investors overseeing close to \$120 trillion in assets, alongside co-hosts, CPP Investments and PSP Investments. The Summit's explicit goal is to catalyze \$1 trillion in total investment into Canada over five years, built around nation-building projects across defence, infrastructure, energy, critical minerals, and technology. A sovereign CDR asset class is a natural fit for exactly the pitch the Summit is designed to make: a durable, long-horizon, capital-intensive Canadian asset that institutional investors with multi-decade time horizons — the same pension and sovereign funds the Summit is built to attract — are well suited to underwrite. Any federal announcement on CDR offtake and clean fuel regulations (CFR) integration lands with maximum visibility if it is timed to, or referenced at, this Summit rather than announced separately.

- The forestry and industrial base underpinning Svante's proposed bioenergy with carbon capture and storage (BECCS) hubs in Meadow Lake, Saskatchewan (the North Star Meadow Lake project, co-developed with the Meadow Lake Tribal Council) and Peace River, Alberta (the Northern Spruce project, jointly developed with Mercer International) sits squarely within the current tariff dispute, compounding the long-standing challenges associated with the softwood lumber trade conflict.
- The government's own stated priority now matches the ask. Diversifying revenue away from commodity wood and gas prices, and away from U.S.-linked demand, is no longer a hedge — it is the explicit content of the September 5 announcement on strategic industries.
- The clock is not forgiving. Large-scale BECCS and direct air carbon capture and storage (DACCS) projects take four to five years to reach commercial operation. The EU's compliance market is expected to begin importing Article 6 carbon credits in the early 2030s, with the Canada-to-EU export arbitrage "in the money" as early as 2030. Capital committed today is capital positioned for that window; capital committed after 2028 is likely too late.

### 3. The Capital Backdrop: Canada Already Over-Exports Its Capital

Canada is not short of capital, it is short of building with the capital it has. RBC Thought Leadership and McKinsey's 2026 analysis (Canada's New Capital Playbook) of the global capital map (the "Capital 10," or C10 — the ten largest capital sources outside the U.S. and China, which includes Canada, Japan, Singapore, Germany, France, Australia, Spain, Brazil, Sweden, and South Korea) finds this group controls 43% of global outward Foreign Direct Investment (FDI) on 20% of global GDP. Canada individually punches even further above its weight: 5.6% of global outward FDI against 2.0% of global GDP, while domestic net productive investment sits at just 1.6% of GDP — third lowest among peer economies.

- Canadian capital financed roughly \$20 billion of data centre build-out abroad in 2025 alone, nearly matching cumulative inbound data-centre investment in Canada since 2005.
- The C10 collectively exports more than twice as much capital to the U.S. as it imports from it; Canada's own outbound FDI share to the U.S. has risen from 11% to 36% over two decades.
- CDR infrastructure — capital-intensive, long-duration, and geographically anchored to Canadian storage geology and forestry biomass — is exactly the asset class suited to redirecting outbound capital home rather than abroad.

## 4. What "Build Capacity" Means Concretely

### 4.1 — Government as the anchor CDR offtaker, not a retiring buyer

Ottawa should purchase CDR credits and bank them as a strategic reserve — analogous to strategic reserves in energy or gold — rather than retire them immediately upon purchase. A sovereign-grade CDR offtake commitment lowers the cost of capital for BECCS/DACCS projects more than any other single lever available to government, and preserves optionality to later deploy the banked credits diplomatically or commercially.

### 4.2 — Integrate CDR into the Clean Fuel Regulations (CFR)

Canada currently imports the lion's share of the low-carbon fuel volume (ethanol and bio-diesel) used to meet CFR obligations — more than \$2B per year, which is equivalent to 10 million tonnes of CDR credits per year. Environment and Climate Change Canada's own 2024 quarterly data shows imported liquid low-carbon fuels consistently outweigh domestic production — for example, 899,277 m<sup>3</sup> imported against 467,529 m<sup>3</sup> produced domestically in Q1 2024 alone, a pattern that repeats across all four quarters — sending capital to producers in the U.S., Brazil, and Southeast Asia, rather than to Canadian projects. Allowing domestic BECCS and DACCS credits to qualify as CFR compliance credits, phased in with a supply cap to protect price stability, is estimated to redirect roughly \$4 billion of private investment into Canadian projects by 2030 that would otherwise be spent abroad.

## 5. What "Sell Elsewhere" Means Concretely

Treat the U.S. as one buyer among several, but don't treat it as the default market. The EU's emerging Article 6 import pathway represents a \$58–70 billion annual opportunity for Canadian CDR exports by 2040 under current EU pricing trajectories, a market roughly ten times the near-term domestic BECCS opportunity, which is approximately \$4–5 billion per year. This is not a CDR-specific idea; it is the same logic the RBC/McKinsey capital playbook applies across Canada's other frontier sectors:

- **LNG:** Canada's west coast is cost-competitive for Asian buyers and its east coast is uniquely positioned (six-to-eight shipping days) for European buyers seeking to diversify away from geopolitically exposed suppliers — a market structurally distinct from the U.S. Gulf Coast's saturated position.
- **EVs:** The recommended path is high-value components (powertrains, electronics, battery systems) sold into European and Asian OEM supply chains, rather than full-vehicle assembly overwhelmingly dependent on U.S. demand (92% of Canadian-produced vehicle exports currently go to the U.S.).
- **CDR:** *The same principle applies from day one — sell the credit as an export commodity to the EU, Japan and South Korea compliance markets, not as a domestic instrument that might later be sold abroad as an afterthought.*

## 6. Why CDR Exports Escape the Tariff War Entirely

CDRs should be exported and structured as standalone credits or Article 6 Internationally Transferred Mitigation Outcome (ITMO) — not bundled into a physical product. Sold this way, a CDR credit carries no Harmonized System (HS) code and crosses no customs border as a good: an ITMO moves as a government-to-government adjustment between national emissions registries under the Paris Agreement, and a compliance-market credit is an environmental instrument, not a shipment. Tariffs — U.S. Section 232/338 duties and Canada's own countermeasures alike — are levied on HS-coded goods at the border; there is no mechanism by which either can attach to a credit that never takes that form.

The EU's Carbon Border Adjustment Mechanism (CBAM) confirms the same logic from the other direction: it is built entirely on Combined Nomenclature product codes and taxes the embedded emissions of a physical import (currently steel, cement, aluminum, fertilizers, electricity, and hydrogen — pulp and paper is not in scope, though the Commission has flagged possible sectoral expansion). CBAM has no mechanism to reach a credit that is not embedded in an incoming good, because a credit is not a good at all.

*CDR credits are the one export instrument in Canada's current toolkit — alongside steel, aluminum, pulp and paper, and eventually autos — that is structurally immune to both the active U.S. trade action and CBAM's expanding scope.*

*Bundling CDR value into a physical product forfeits this immunity, since the product itself still carries its own HS code and its own exposure; the credit's tariff-proof status attaches only to the credit sold on its own.*

*For a forestry sector currently absorbing both U.S. tariffs and softwood duties on its physical output, a standalone CDR credit from the same feedstock is not just a new revenue line — it is the one revenue line the trade war cannot touch.*

## 7. Case Study: Pulp & Paper as Proof of Concept

Canadian pulp and paper mills sit at the centre of both problems this whitepaper addresses; trade exposure and underbuilt CDR capacity, which makes the sector the clearest place to prove the thesis before generalizing it.

| Dimension                  | Exposure Today                                                                          | CDR-Enabled Alternative                                                                            |
|----------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| <b>Trade exposure</b>      | Pulp & paper named in Sept. 8, 2026 counter-tariff list; softwood lumber duties ongoing | Standalone CDR credit from same biomass feedstock carries no HS code — untouched by either measure |
| <b>Revenue correlation</b> | Tied to global wood-product commodity cycles                                            | CDR credit price set independently, via EU compliance market or voluntary carbon market (VCM)      |
| <b>Capital source</b>      | Retained earnings / commodity-cycle-dependent capex                                     | Government-backed offtake lower cost of capital for new BECCS capacity                             |
| <b>Export market</b>       | Overwhelmingly U.S.-dependent for physical product                                      | EU Article 6 import pathway, distinct from physical goods trade                                    |

Svante's own proposed CCS hubs — North Star (Saskatchewan with a 15-year Microsoft offtake already in place) and Northern Spruce (Peace River, Alberta, anchored on the Mercer Peace River pulp mill's biogenic CO<sub>2</sub>) — are live examples of this model already in motion. This is not a hypothetical. What is missing is the government offtake and CFR integration described in Section 4 to bring the remaining project pipeline to final investment decision within the four-to-five-year construction window.

## 8. Risks and Open Questions

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- Bundling forfeits the tariff-immunity advantage. If CDR value is embedded into a physical product (e.g., "low-carbon pulp") rather than sold as a standalone credit, the product itself remains fully exposed to tariffs and CBAM — this argues for leading with standalone credit export while the trade war is in place.
- CBAM's scope may expand. The European Commission has flagged downstream and additional-sector expansion under active negotiation (targeting a deal in late 2026 or early 2027); pulp and paper is not currently in scope, but this should be monitored as should any future move to bring carbon credits themselves within a border-adjustment framework.
- Supply chain tariff exposure within CCS buildouts. FOAK CCS projects sourcing capture train components (CO<sub>2</sub> compressors, specialty steel, instrumentation) from the U.S. may carry tariff-driven cost exposure even while the CDR credit output remains untaxed.

## 9. The Recommendations

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**Durable, bankable, tradeable:** these are the three properties that turn Canada's existing carbon-management liabilities such as industrial emissions, forestry residue burning exposure, into a strategic export assets rather than a cost.

**The government does not need a new mandate to start;** it needs to point existing instruments authority, CFR integration, and a sovereign-reserve procurement posture at CDR specifically, and it needs to do so before the four-to-five-year build clock collides with the early-2030s EU compliance window.

**The trade war has made the case for domestic capacity and export diversification politically live.** The next 18 months determine whether Canada captures the CDR opportunity or watches it default to the U.S. and EU incumbents already moving on it.

# Build Canadian Capacity, Sell the Output Elsewhere

## CDR as a Tariff-Immune Sovereign Asset Class



### Build At Home

1

#### Government as anchor offtaker:

Bank CDR credits from pulp & paper and forestry as a sovereign reserve, not retired on purchase.

2

#### Integrate CDR into the CFR:

Redirects an est. \$4B of private investment onshore by 2030.



### Sell Elsewhere

1

#### Paris Agreement Article 6 import pathway:

\$58–70B/yr opportunity by 2040 — ~10x the domestic market.

2

#### Same logic as LNG & EV components:

Diversify toward Asia/Europe, not a U.S.-saturated market.

3

#### Sell as standalone credit / ITMO:

Not bundled as low-carbon intensity products — that's what makes it tariff-immune.



**\$4-5B**

Domestic BECCS,  
CDR per year (near-term)



**\$58-70B**

EU export potential,  
CDR per year by 2040

*A standalone CDR credit carries no  
Harmonized System code — the one  
Canadian export this trade war **cannot tax**.*