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The Economic Implications of Separation

Technical Paper

The Economic and Fiscal
Implications of Alberta Separation

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PUBLICATION NOTE

This technical paper forms part of *The Economic and Fiscal Implications of Alberta Separation*, a broader analysis undertaken by the School of Public Policy. Its development reflects the contributions of a wide project team, including authors, reviewers, editors, research assistants and other research personnel, technical specialists, and the integration and production team. The School gratefully acknowledges the expertise, time and care contributed by all those involved in the research, analysis, review, refinement and preparation of this work.

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INTRODUCTION

How might separation affect Alberta's economy? Separation would require significant investments of time and money to build a new state.

This paper highlights how new-built institutions and changed relationships with the Rest of Canada (RoC) and other jurisdictions might affect Alberta's economy. We present a mix of qualitative and quantitative analyses of potential economic outcomes.

The key areas of a separate Alberta's economy that we focus on are:

- The energy sector;
- International trade;
- Interprovincial trade;
- Both international and interprovincial migration;
- Currency and the exchange rate;
- Borrowing and the cost of credit; and
- Head office location.

As seen in the paper *Alberta Separation: How It Would Work*, there is a high degree of political uncertainty and institutional complexity inherent in any attempt to model economic impacts. With this in mind, we provide a qualitative discussion of the risks and opportunities associated with Alberta separation in each of the key areas. Where possible, we also quantitatively model the impact of shocks that are consistent with our qualitative assessments. We do this using a tool called a Computational General Equilibrium (CGE) model.^a The model produces a numerical simulation of Alberta's economy. We use that simulation to calculate potential separation-induced changes to important parameters like output (Gross Domestic Product (GDP)), labour income and employment.

Before we move to those scenarios, we review some of the economic lessons that have been learned from other separation debates. We then briefly review the current state of the Alberta economy and finally, present our qualitative and quantitative analyses.

^a The economic model we use is a Computable General Equilibrium model maintained by Dr. Kent Fellows of the School of Public Policy. A detailed description of the model can be viewed in the [Technical Appendices](#).

1. LESSONS FROM OTHER SEPARATION DEBATES

Although the economic literature on Quebec separation is now somewhat dated, Quebec and Alberta are both provinces in Canadian Confederation, making the parallels uniquely relevant. At the time of most of these studies, 1991, Quebec's exports to the RoC were about 20 per cent of the province's GDP,^b the same as Alberta's today (see Table 2). Of the eight studies we examine on Quebec separation, GDP impact estimates ranged from -1.2 per cent to -7.7 per cent, ^[1, 2, 3, 4, 5, 6, 7] with the average around four per cent. These results are all well within the bookends, and indeed closer to the moderate scenarios for Alberta we introduced above.

The more recent debate on Scottish separation from the United Kingdom is also relevant. The Scottish economy is of a similar size to Alberta's and would similarly be quite dependent on oil post-separation. A study by the U.K. Treasury, ^[8] conducted prior to the Scottish independence referendum, also estimated a reduction in GDP of around four per cent. This effect was largely based on trade with the rest of the U.K. sharply contracting, with increases in trade with other countries not making up the difference.

Another relevant example is Catalonia, whose government sought to separate from Spain in 2017. Catalonia has a similar GDP to Alberta, and, like Alberta, is more affluent than the rest of its regional neighbours. Economist Antoni Castells concludes that a post-separation border effect for Catalonia "would reduce the intensity of trade between Catalonia and Spain," ^[9, p. 71] resulting in a GDP reduction of between 1.7 per cent and 2.1 per cent.

Finally, we have the much-researched impacts of Brexit — Britain's departure from the European Union (EU). Since the U.K. was a sovereign state with its own currency and military when it was an EU member, its transition would not be as big as Alberta's would be from Canada. However, Brexit did involve exiting a single market and customs union, similar to the economic conditions Canada provides its provinces. One widely cited study found Brexit reduced U.K. GDP by six to eight per cent, reflecting "a combination of elevated uncertainty, reduced demand, diverted management time, and increased misallocation of resources from a protracted Brexit process." ^[10] If those results were applied to the Alberta case, we might expect even bigger impacts, as U.K. exports to the EU at the time of Brexit were about 12.5 per cent of GDP, significantly lower than Alberta's exports to the RoC, which are presently 20 per cent of GDP (see Table 1 below). Most other studies of Brexit have also found negative impacts on GDP. ^[10, 11, 12, 13, 14, 15]

However, one study led by British economist Patrick Minford ^[16] found Brexit had limited short-term effects, and that in the long term, the U.K. could see GDP rise by around six per cent. Minford grounds this more positive interpretation in the U.K. now having lower tariffs on non-EU economies than when it was part of the EU. The U.K. can also negotiate new trade deals, and it has signed deals with India and the countries belonging to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).^c Our review here provides a sense of the size of the GDP shock that separation might introduce to the Alberta economy. In the next section, we describe Alberta's economy in more detail to set up a better understanding of how a separate Alberta might react to this scope of shock.

^b GDP measures the total value of goods and services produced in an economy.

^c The CPTPP is a multilateral trade agreement. The agreement currently has 12 party countries including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United Kingdom and Vietnam.

2. ALBERTA'S ECONOMY

2.1 POPULATION AND OUTPUT

Table 1 shows that Alberta's population in 2024^d was around 4.9 million, which is about 12 per cent of the Canadian total. Alberta's GDP was \$474 billion, accounting for around 15 per cent of Canadian GDP.^e Alberta's GDP per capita, at \$96,544, is almost 30 per cent higher than the Canadian average of \$75,336.

Table 1. Population, GDP and Income for Alberta and Canada

	Alberta	Canada	Alberta/Canada (%)
Population	4,909,030	41,262,329	11.9
Gross domestic product (\$mn)	473,937	3,108,551	15.2
GDP per capita (\$)	96,544	75,336	128.2

Source: Statistics Canada.^[17, 18] Data are for 2024.

The main reason for this higher GDP is Alberta's natural resource endowment, particularly its oil and gas reserves. Extracting these resources requires considerable investment in the province's capital stock — mines, oil sands upgraders, machinery, buildings and more. This is reflected in Table 2 below, which shows that business investment is a much greater share of GDP in Alberta at 13.1 per cent, when it is 8.8 per cent across Canada, underscoring the importance of investment to Alberta. Because the province's capital markets are relatively small, much of the financing required for that investment comes from outside the province.

Table 2. Investment and Trade Shares of GDP for Alberta and Canada (per cent)

	Alberta (%)	Canada (%)
Business non-housing fixed investment	13.1	8.8
Exports to other provinces	20.0	17.0*
Imports from other provinces	19.9	17.0*
Exports to other countries	42.1	32.5
Imports from other countries	26.6	32.7

*Provincial average, weighted by GDP.

Source: Statistics Canada.^[17] Data are for 2024.

Table 2 also shows the shares of exports and imports in the Albertan and Canadian economies. Alberta's exports to the RoC are somewhat higher than other provinces. They account for 20.0 per cent of its economy, compared to a Canadian average of 17.0 per cent. Alberta also has a much higher share of international exports, which account for 42.1 per cent of its GDP, well above the Canadian average of 32.5 per cent. Indeed, this is the highest proportion of any province or territory. These figures show how important exports are — both interprovincial and international — for the Alberta economy and the relatively less diverse nature of the Alberta economy.

^d We choose 2024 for these and most other data in this paper because 2024 is the last year for which we have provincial economic data in most cases.

^e It is worth noting the number presented here indicates Alberta's share of national GDP is 15.2 per cent, which is inconsistent with the value presented in technical paper *The Fiscal Implications of Separation: Revenues and Fiscal Balance* (16 per cent). The value reported here reflects the 2024 share to be consistent with other figures in this section whereas the value used in the paper *The Fiscal Implications of Separation: Revenues and Fiscal Balance* is for 2026. The higher 2026 value reflects that Alberta's economic growth in 2025 and 2026 was and is stronger than the Canadian average. As a result, the 2024 share reported here is smaller than the anticipated 2026 share employed in the paper *The Fiscal Implications of Separation: Revenues and Fiscal Balance*.

Alberta's relatively large international exports are significant for the broader Canadian economy: they accounted for 19.8 per cent of all Canada's exports in 2024. Alberta's export contribution meant that Canada had an essentially balanced trade in goods and services in that year; without Alberta, the RoC would have run a deficit of 3.0 per cent of GDP.

Alberta's imports are 19.9 per cent of GDP, almost the same share as exports, indicating Alberta's trade with the RoC is balanced. However, Alberta's share of imports from other countries is 26.6 per cent, lower than the Canadian average of 32.7 per cent, and well below Alberta's export share. Alberta therefore runs a considerable trade surplus with other countries, equal to 15.5 per cent of GDP. This pattern of balanced trade with the RoC, and a sizable surplus with other countries, has been consistently true for at least the last 25 years.

Because this surplus is the result of many years of outside investment in Alberta, particularly in the natural resource sector, much of the sector's income flows out of Alberta as capital income to investors in the RoC and in other countries. The current trade deficit is also partly offset in Alberta's overall sub-national and international balance of payments by federal fiscal transfers.^[19] ^f

In summary, Alberta's economy is heavily based on trade, with exports, both interprovincial and international, equal to 62.1 per cent of GDP and imports equal to 49.7 per cent of GDP. This means Alberta businesses rely heavily on other markets. It also means Alberta business and consumers rely heavily on imports. This is particularly true for investment goods such as machinery and equipment and consumer goods, such as automobiles and electronics.

2.2 INDUSTRY COMPOSITION

Both Alberta's higher interprovincial export share and its greater dependence on international exports result from the importance of the resource sector. Table 3 below shows that mining, oil and gas account for 26 per cent of Alberta's GDP.⁹ This is much higher than agriculture and forestry (1.5 per cent), or the manufacturing (6.9 per cent) sectors. It is also much higher than for the Canadian economy, for which mining, oil and gas are 6.8 per cent of the total.

Table 3 also shows that the service sector (wholesale and retail trade and the other sectors below it in the table) makes up more than half (56.6 per cent) of Alberta's economy; this is typical for an advanced economy (for Canada, it is 73.1 per cent). Nonetheless, the income earned by industries such as oil and gas or manufacturing helps support service-sector activity, as much of the income earned is spent on private-sector services or paid in taxes that support public-sector services. The service sector also makes contributions to the oil and gas and manufacturing sectors. In 2022, Alberta's mining, quarrying and oil and gas extraction sector purchased \$26 billion from the services sectors as an intermediate input into its own production. Alberta's manufacturing sector similarly purchased \$10 billion from services sectors.^[20]

^f Readers should note trade deficits and surpluses are not inherently good or bad; they reflect complex relationships in the balance of payments.

⁹ A gross value-added (income) approach, rather than an expenditure approach, is used here. This matters because part of the "value" in Alberta's resource exports comes from intermediate goods from other sectors within Alberta and imported to Alberta. An example is financial services, some of which are imported from other provinces.

Table 3. Share of Alberta GDP by Industry (per cent)

	Alberta (%)	Canada (%)
Agriculture and forestry	1.5	1.6
Mining, oil and gas	26.0	6.8
Utilities	1.2	2.1
Construction	7.7	7.5
Manufacturing	6.9	8.9
Wholesale and retail trade	8.5	9.7
Transportation and warehousing	5.5	4.9
Information and cultural industries	1.8	3.0
Finance and real estate	14.9	20.3
Professional, scientific and technical services	5.0	7.1
Health care, social assistance and education	9.8	13.3
Accommodation and food services	1.9	2.1
Other services (except public administration)	4.8	5.5
Public administration	4.6	7.2

Source: Statistics Canada.^[20] Data are for 2024.

While the share of manufacturing and construction in the Alberta economy is similar to that of Canada, looking more closely at these industries reveals important differences. In Table 4 below, we show the share of GDP for the subsectors of construction and manufacturing. Engineering construction, which includes mines, refineries and oil sands upgrading facilities, is about half of construction spending in Alberta, as opposed to one-third for Canada as a whole.

Looking at manufacturing, 39.1 per cent of manufacturing in Alberta is accounted for by petroleum and coal products and chemicals (much of which is petrochemicals). In Canada overall, this is 17.6 per cent. On the other hand, transportation equipment (especially autos) and primary metals (particularly steel), are quite important for Canada, making up 13.9 and 5.3 per cent of manufacturing output; for Alberta, these sectors are much less important, making up only 1.3 and 0.9 per cent respectively of manufacturing output. Thus, a good part of construction and manufacturing activity is also driven by the resource sector, which is not the case for Canada as a whole.

Table 4. Share of Construction and Manufacturing GDP by Subsector

		Alberta (%)	Canada (%)
Construction	Residential buildings	27.9	32.7
	Non-residential buildings	9.0	14.1
	Engineering construction	49.8	32.6
	Other	13.3	21.0
Manufacturing	Food and beverage	18.2	17.9
	Textiles and clothing	0.2	1.1
	Wood	7.7	5.2
	Paper and printing	2.9	4.5
	Petroleum and coal products	17.6	6.5
	Chemicals	21.5	11.1
	Plastics and rubber	2.7	5.0
	Non-metallic mineral products	4.4	3.4
	Primary metals	0.9	5.3
	Fabricated metal products	7.9	7.6
	Machinery	9.2	8.8
	Computer and electronic products	2.0	3.4
	Electrical equipment	0.8	2.0
	Transportation equipment	1.3	13.9
	Furniture	1.2	2.4
	Miscellaneous	1.2	2.4

Source: Statistics Canada.^[21] Data are for 2024.

2.3 TRADE WITH OTHER PROVINCES

We saw in Table 2 that, at 20 per cent, trade with other provinces is an important part of Alberta's GDP. In Table 5, we break down that trade by industry sector and by province. We exclude the territories, owing to their small size.

Table 5. Alberta's Interprovincial Exports by Sector and Province (per cent share)

	Atlantic (%)	QC (%)	ON (%)	MB (%)	SK (%)	B.C. (%)	Total (%)
Agriculture and forestry	-	0.5	0.8	0.1	0.5	0.8	2.6
Mining, oil and gas	0.6	12.3	16.6	0.9	5.4	4.3	40.1
Manufacturing	0.9	3.8	6.5	3.2	3.6	13.9	31.9
Transportation	0.3	0.4	1.8	0.2	0.7	1.2	4.6
Professional and scientific services	0.3	0.6	1.4	0.3	0.8	1.4	4.8
Finance and real estate	0.1	0.5	2.4	0.5	0.5	1.3	5.3
Accommodation and food	0.1	0.4	0.8	0.1	0.3	0.6	2.3
Other	0.4	1.0	3.8	0.8	0.9	1.7	8.5
Total	2.7	19.4	34.0	6.1	12.7	25.2	100.0

Source: Authors' calculations based on Statistics Canada's Input-Output Tables.^[22] Data are for 2022.

Mining, oil and gas provide the greatest share of Alberta's exports (40.1 per cent), with Ontario and Quebec being the main recipients. Much of this is crude oil transported to southern Ontario through the Enbridge pipeline system (including Line 5, which transits through the U.S. and back into southern Ontario) and natural gas piped to Ontario and Quebec through TC Energy's Canadian Mainline. Manufacturing is the other key sector for interprovincial exports, making up 31.9 per cent of the total. The most important products are petrochemicals, refined petroleum products and food and beverages.^[23] Alberta also supplies crude oil and refined petroleum products to B.C. via the recently expanded Trans Mountain pipeline system. B.C. is the most important destination for Alberta's manufacturing exports, followed by Ontario.

Looking at overall exports to each province, Ontario is Alberta's largest provincial export market at 34 per cent. This is unsurprising given the size of Ontario's economy and its reliance on Alberta oil and gas. B.C. is the second largest at 25.2 per cent and Quebec is third at 19.4 per cent. Alberta in turn imports a significant amount — roughly equivalent to about 20 per cent of the province's GDP as we noted in Table 1 — from the RoC. We show this in Table 6 below, which breaks down Alberta's imports by sector and province.

Table 6. Alberta's Interprovincial Imports by Sector and Province (per cent share)

	Atlantic (%)	QC (%)	ON (%)	MB (%)	SK (%)	B.C. (%)	Total (%)
Agriculture and forestry	0.1	0.1	0.4	0.4	2.1	1.1	4.3
Mining, oil and gas	-	-	0.3	-	1.4	9.3	11.0
Manufacturing	0.7	6.0	10.7	2.5	3.8	5.0	28.7
Transportation	0.2	1.1	3.8	0.6	0.2	1.8	7.8
Professional and scientific services	0.3	2.1	8.0	0.2	0.4	4.0	15.0
Finance and real estate	0.3	2.2	11.2	0.4	0.4	1.5	15.9
Accommodation and food	0.1	-	0.2	-	0.1	1.4	1.8
Other	0.5	1.6	8.4	0.5	0.7	3.8	15.5
Total	2.1	13.2	43.0	4.7	9.1	27.9	100.0

Source: Calculations based on Statistics Canada's Input-Output Tables.^[22] Data are for 2022.

Manufacturing accounts for 28.7 per cent of Alberta's imports, with Ontario the most important supplier. Finance, insurance and real estate, and professional and scientific services, mostly from Ontario, account for 15.9 per cent and 15.0 per cent respectively. Overall, Ontario is Alberta's most important supplier, providing 43.0 per cent of imports, while B.C. is second, providing 27.9 per cent of imports.

2.4 TRADE WITH OTHER COUNTRIES

Recall from Table 7 that exports are equivalent to 42 per cent of Alberta's GDP. Table 7 below shows the province's exports broken down by commodity and destination.

Of Alberta's total exports, 88.7 per cent go to the United States, and most of those are energy, which accounts for 72.8 per cent of all Alberta's exports to that country. Alberta's second most important exports to the U.S., at 4.7 per cent, are chemical, plastic and rubber products.

China is the second most important destination for Alberta's international exports, but at 3.7 per cent of the total, far behind the United States. Exports here are split between agricultural products and energy. Japan is third at 1.5 per cent, with no other country, including Mexico, above one per cent. Overall, energy is 76.2 per cent of all Alberta's exports.

These figures underscore the dominant role of energy in Alberta's economy and its high reliance on the U.S. as a market.^[23]

Table 7. Alberta's International Exports by Commodity and Country (per cent share)

	U.S. (%)	China (%)	Japan (%)	South Korea (%)	Mexico (%)	Rest of the World (%)	Total (%)
Farm, fishing and intermediate food products	2.6	1.3	0.4	–	0.1	1.7	6.2
Energy products	72.8	1.3	0.5	0.3	–	1.3	76.2
Chemical, plastic and rubber products	4.7	0.6	–	–	0.1	0.2	5.6
Industrial machinery, equipment and parts	1.8	–	–	–	–	0.5	2.3
Forestry products and related	1.9	0.3	0.1	0.1	–	0.1	2.6
Consumer goods	2.6	0.1	0.4	0.1	0.2	0.2	3.6
Other	2.1	0.2	–	0.1	–	1.0	3.5
Total	88.7	3.7	1.5	0.6	0.4	5.1	100.0

Source: Statistics Canada.^[23] Data are for 2024.

Box 1: The Economic Importance of Alberta to Canada

As Table 1 shows, Alberta accounted for almost 12 per cent of the Canadian population in 2024. However, Alberta's much higher GDP per capita means that it accounts for 15.2 per cent of Canada's GDP.

This means that the GDP of Canada without Alberta would shrink by 15.2 per cent. This would mean that Canada would slip from having the ninth-largest economy in the G20 to the 12th, just ahead of South Korea and behind Russia.

Furthermore, Alberta provides 19.8 per cent of Canada's exports and allowed Canada to run a tiny deficit on its balance of trade in 2024, with export revenues largely equal to the cost of imports. However, without Alberta, Canada would now run a sizable deficit of 3.0 per cent of GDP. Alberta, meanwhile, would run a surplus of 15.5 per cent of GDP.

Table 8. Trade Balance

	Trade Balance	
	\$mn	GDP (%)
Canada	-5,697	-0.20
Alberta	73,540	15.50
Canada ex. Alberta	-79,237	-3.00

Source: Authors' calculations.

This means that if Alberta were to separate from Canada, and set up its own currency, the Canadian dollar would likely depreciate significantly.

Alberta serves as a key facilitator of Canada's cross-country and international trade, given that it sits astride the main infrastructure hubs to and from the West Coast. Virtually all of B.C.'s trade with the RoC, and vice versa, passes by road or rail through Alberta, as well as virtually all of Canada east of Alberta's trade with the Asia Pacific region.

Alberta also invests significantly more as a share of its output, as Table 9 showed. Investment matters significantly for productivity and income growth. Without Alberta, investment per person in Canada falls by 9.0 per cent.

Table 9. Investment

	Investment	
	\$mn	\$ per capita
Canada	349,688	8,475
Alberta	71,814	14,629
Canada ex. Alberta	277,874	7,644

Source: Authors' calculations.

3. THE ENERGY SECTOR

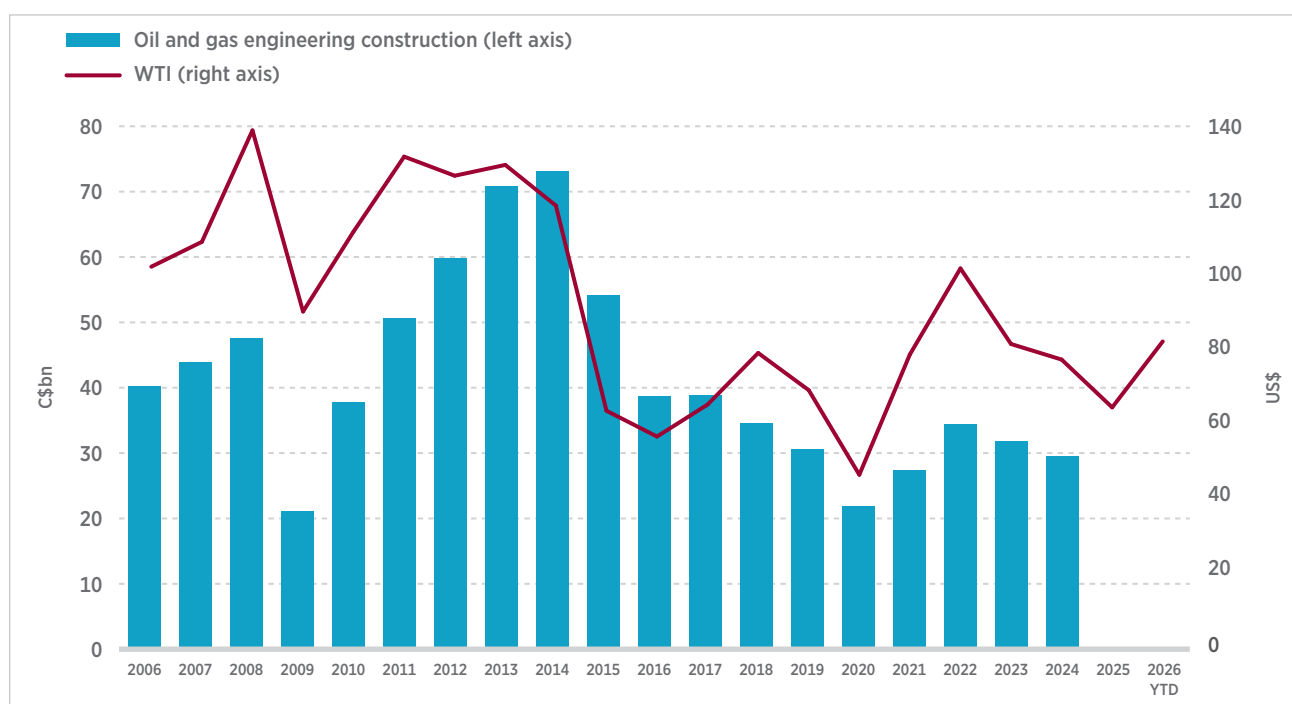
We now take a closer look at the energy sector, given its central importance to the Alberta economy.

3.1 DRIVERS OF THE ENERGY SECTOR

One obvious feature of the energy sector is that it is highly volatile. The bars in Figure 1 below show investment in the oil and gas sector in Alberta. Investment grew from \$40 billion in 2006 to more than \$70 billion in 2014 before almost halving in 2015 to \$38 billion. Investment has remained relatively low since then, at least up until 2024.

What drives these changes? Figure 1 suggests the trends in investment are closely related to the world price of oil, which was relatively high prior to 2015, but which then halved that year. Oil prices have remained volatile since 2015, although they have not regained their pre-2015 highs (adjusting for inflation).

Figure 1. Investment in Oil and Gas in Alberta and Oil Prices 2006–2026



Sources: Macrotrends,^[24] Statistics Canada^[25, 26]

Note: Investment figures are in 2025 dollars, deflated by using the CPI for Alberta. WTI is the price of West Texas Intermediate in 2025 dollars, deflated by using the CPI for the United States.

World oil prices are influenced by many factors. Growth in demand from developing countries such as India and China, the opening up of new supply such as the shale oil deposits in the U.S. and political or military conflict in oil-supplying areas like the Middle East, Russia and Venezuela have all played a major role. However, government policy also affects investment.

Royalty regimes and corporate tax structures determine how much money investors get to keep, and so are a key factor in investment decisions. Policy stability also matters. When an investment takes many years to pay off, investors need to have confidence that policies and institutions will not change to their detriment. Environmental policies, like those on greenhouse gas (GHG) emissions, are particularly important influences on investment decision making. Canada's federal government has been particularly active in this area since 2015. Specifically, it has made major changes to environmental legislation and regulations, banned oil tankers off the northwest coast of B.C. and capped GHG emissions in specific sectors.

These policy changes coincided with cancellation of several major projects, including Teck Resources' Frontier Oil Sands Project, Enbridge's Northern Gateway and TC Energy's Energy East oil pipelines. The companies involved cited regulatory delays, court challenges (facilitated by the current suite of environmental laws) and the likelihood of an ultimate negative decision from the federal government as reasons for cancellation. The federal government did, however, approve the expansion of the Trans Mountain pipeline to Burnaby, B.C. (and ultimately purchased the company outright).

More recently, the federal government passed legislation allowing a bypass of its environmental assessment legislation^[27] and has announced a plan, in concert with the Alberta and B.C. governments, for a pipeline that would go to Robert's Bank in the Vancouver area. However, under the agreement, industry is required to contribute to a previously planned multibillion-dollar carbon capture and storage facility, with government absorbing a large majority of the costs.^h A West Coast pipeline and Pathways Project carbon capture and storage network are part of a larger memorandum of understanding (MOU) between Alberta and Ottawa. The MOU also includes a suspension of the oil and gas emissions cap and restructures industrial carbon pricing but keeps the northwest B.C. tanker ban in place.

Investment in the energy sector in Alberta is also affected by government policy in the United States, the sector's largest customer by far. Here as well, the sector saw cancellation of a major pipeline project — this time, Keystone XL, which would have connected Alberta to the Keystone Pipeline system and ultimately with Gulf Coast refineries. While the Canadian federal government approved the project, then-president Barack Obama rejected the proposal, and though it was revived under President Donald Trump, former president Joe Biden once again rejected it on his first day in office. During Trump's second term, his administration actively revived interest in the Keystone XL corridor by issuing a new presidential permit in April 2026. This updated initiative (now owned by South Bow Corp.) aims to use existing idle pipe in Alberta to transport heavy Canadian crude to oil hubs in the United States.

3.2 IMPACT OF SEPARATION ON THE ENERGY SECTOR

In the very short term, it is likely energy companies will pause investment plans that are not too far advanced to stop, as they wait to see how separation plays out. Their particular focus is likely to be on what arrangements are made between Alberta and the RoC, particularly what elements of the Ottawa-Alberta MOU remain in place. However, once the political situation has stabilized, and the contours of the post-separation relationship between Alberta and Canada, and the United States, have become clearer, companies are likely to look again at their long-term investment plans. Whether this investment would be higher than if Alberta had stayed in Canada depends on how a separate Alberta uses its new policy flexibility; attitudes in Ottawa and Washington; and the outlook for world energy prices.

3.2.1 Increased Policy Flexibility for Alberta

A separate Alberta would be free from the suite of federal legislation that could significantly impede natural resource development. This includes the Impact Assessment Act, the Species at Risk Act, the Fisheries Act, the Canadian Environmental Protection Act and the Greenhouse Gas Pollution Pricing Act. These acts can overlap or “pancake” with provincial legislation and give the federal government the power to cancel projects, impose regulations and pricing schemes and provide opportunities for court challenges. The federal government's role is particularly important in interprovincial pipelines and other infrastructure — a separate Alberta would still need to negotiate with its neighbours on these types of projects.^[28, p. 11]

^h The facility in question comprises planned investment by the “Oil Sands Alliance” (formerly the “Pathways Alliance”). It represents a commitment by five of Canada's largest oil sands companies (Canadian Natural Resources, Cenovus Energy, Imperial Oil, Suncor Energy and ConocoPhillips) to jointly develop a large carbon capture and storage project to reduce oil sands emissions. Creation of the Alliance and the statement of its goals date to 2022 and so pre-date the federal MOU.

Alberta would also no longer be subject to the Supreme Court of Canada's (SCC) rulings, which is important, as the Alberta federal court and the SCC have disagreed on some key issues, most notably the constitutionality of carbon pricing. Alberta would be free to set its GHG policies without being subject to the federal backstop.

This increased policy flexibility would give Alberta the opportunity to offer companies a more predictable, less burdensome and faster approval process, as well as lower costs from carbon pricing and other GHG policies once production begins. The impacts of these changes — were a separate Alberta to institute them — could be significant.

For example, we estimate that reducing regulatory delays from current levels could lower the discount rate, which is the rate companies use to make significant decisions. Specifically, it could decrease from 10 per cent down to 8.5 per cent boosting, in our model, GDP by 1.7 per cent or \$8.5 billion. Estimates by Mintz^[29] and Fellows^[30] find, even after the recent MOU, industrial carbon pricing will add up to \$5 per barrel to the cost of production across oil sands projects with the average facility facing a price equal to \$2 per barrel of bitumen (Fellows estimates^[30]) or \$4 (Mintz^[29]). This in turn would add between \$2.8 billion and \$4.7 billion in additional production costs industry-wide at current production levels, potentially discouraging investment.^{[29] i}

However, other studies from environmental NGOs suggest the cost of industrial carbon pricing on a per-barrel basis could be much lower.^[31] Much will depend on project-level emissions intensity, stringency, performance standards and the design of the carbon markets. It is important to note that industry leaders have recently said even with changes to carbon pricing and the Ottawa-Alberta MOU, they remain cautious about new oil sands investment.^[32]

Beyond carbon pricing, environmental regulation is a key factor in investment with industry calling for more predictable timelines, more independent, apolitical review processes and elimination of conflicting/duplicative regulatory processes. Notably, projects such as Teck Frontier,^[33] CNRL Jackpine,^[34] Suncor's Base Mine expansion^[35] and Imperial Oil's Aspen^j have been cancelled or on hold for over a decade, with the companies regularly pointing to a lack of policy clarity as the major, but not only, factor delaying investment. A separate Alberta could be more aligned with industry than the federal government, which must balance diverse agendas and regional politics. Nonetheless, some form of regulation and project approval process would continue through provincial regulators such as the Alberta Energy Regulator and conflicts over climate, biodiversity, water and greenhouse gas emissions would not disappear. Recent public debate over coal mining expansion in the Eastern Rockies presents a good example here.

Alberta would now control the entire corporate income tax base and would have the opportunity to revamp the tax system to encourage investment in the sector. This could also have a significant impact on investment, as was the case with the federal government's accelerated depreciation for oil sands investments, introduced in 1996 and phased out in 2014.

ⁱ The exact per-barrel cost of carbon pricing is a complex and controversial question shaped by performance standards, variation in the carbon intensity of oil sands projects and corporate decisions on compliance pathways. Industry leaders have recently made it clear they see industrial carbon pricing as a key competitive disadvantage for the oil sands. It is also possible industry may want to preserve some form of reduced carbon pricing in order to protect existing CCUS projects (which could include Pathways, depending on the timing of separation) or as a long-term strategy to remain aligned with global shareholders or international buyers.

^j The Aspen project was cancelled due to objections over provincial, not federal, policy — specifically, the 2019 curtailment by the NDP government.

3.2.2 Potential Reactions by Canada and the United States

While a separate Alberta would have significantly increased opportunity to make policy changes to encourage investment in oil and gas, it would still need to get its exports to market.

In the short term, this would mean Alberta needs to maintain its existing pipeline access, most of which runs, at least in part, through the RoC. This is a plausible outcome, given that routes such as Trans Mountain or the Enbridge Mainline system, with its offshoots through Line 5 and Line 9, are vital fuel supplies for the RoC. However, it is also plausible a separate Alberta would encounter resistance from B.C., which could decide not to support additional pipeline expansion to the Pacific Coast. Such a scenario is not difficult to imagine, given past cycles of social and environmental conflict over projects such as Northern Gateway.

In practical terms, Canada could either object outright to new pipelines or attempt to negotiate payment for access,^[36, 37] which might be reinvested in lower-carbon energy or emissions offsets. This would likely be negotiated directly between governments rather than through a regulatory tariff-type process, particularly as the Canadian Energy Regulator would have no jurisdiction over a separate Alberta.

Canada could also attempt to insist a separate Alberta adopt Canadian carbon prices in exchange for new pipelines — basically attempting to carry over the current MOU. In the extreme, Canada could impose some form of a carbon border-adjustment mechanism, an instrument already adopted by the European Union to price imports to the common market based on their emissions intensity. To be clear, attempts by the RoC to block the current flow of crude oil or natural gas would likely only occur in the context of a major post-independence political rift, given the strong incentives on both sides to maintain flows. Alberta would also have the authority to curtail flows of refined products, crude oil and natural gas to counter Canadian tariffs or restrictions on pipeline access. Canada might again retaliate but this cycle would likely be self-defeating for both countries.

Nonetheless, restrictions on existing or new pipeline access from Alberta to Canada would leave the United States as perhaps an easier path for the expansion of pipeline capacity that would be required were a separate Alberta to significantly increase its oil and gas production.

The United States' attitude to proposals by a separate Alberta for new pipeline access would depend on several factors. An administration concerned about carbon emissions, as the Obama and Biden administrations were, might reject proposals outright. On the other hand, especially given recent events in the Persian Gulf, concerns about energy security might incline U.S. administrations to welcome an additional secure supply of oil from Alberta, particularly if Venezuelan production — the main competitor for Alberta heavy oil — remains low and the U.S. continues to exempt energy imports from its tariffs.

The U.S. might also see an opportunity, as it did with the recently opened Gordie Howe International Bridge,^[38] to seek a greater share of the profits of any increase in pipeline capacity. While this remains a possibility even if Alberta remains in Canada, a separate Alberta, with limited access to the West Coast, might be perceived as more vulnerable to U.S. pressure.

3.3 ROLE OF WORLD OIL DEMAND

Whether a separate Alberta can attract significantly more investment than it would as part of Canada will depend most significantly on what happens in world oil markets. Deregulation and tax incentives are unlikely to attract significant additional investment if world prices are low. On the other hand, continued high prices would mean companies would be eager to take advantage of a separate Alberta's additional production opportunities. Similarly, the U.S., and perhaps even Canada, might be keen to see new pipelines that would bolster their own energy security.

Unfortunately, forecasting oil prices is not an easy task, given the volatility illustrated in Figure 1. Ongoing geopolitical turmoil, and continuing strong demand from developing countries, might lead to a long period of higher prices. However, if demand wanes as alternatives become cheaper, or new sources of supply come online — particularly from Venezuela — prices would likely drop.

3.4 THE REST OF THE ENERGY SECTOR

In a separate Alberta, natural gas and electricity trade with the RoC and the U.S. would likely be less directly exposed to environmental and political risk than production from the oil sands. The outlook for natural gas demand is strong. Specifically, LNG exports, new gas-fired electricity generation in Alberta and the expansion of electricity interties to both B.C. and the U.S. suggest strong economic opportunities. The main risk would be that conflict or uncertainty over other policy and trade issues with a separate Alberta creates spillover uncertainty and delays for gas and electricity market development.^k

3.5 SUMMARY

- A separate Alberta could unlock significant additional investment in the energy sector, should it choose to make policy changes that were sufficiently attractive to industry.
- However, these investments would not hang only on policies under a separate Alberta's control. A positive outlook for oil prices and a sympathetic Washington would likely be necessary for gaining additional access to world markets, particularly since separation would give Ottawa and the RoC much less incentive to provide access. The U.S. might also see an opportunity to extract a greater share of the profits.

Positive scenario: High oil prices, strong capital market inflows for new upstream projects, continued and growing pipeline access to Canadian and U.S. export markets. Deepening relationship with the U.S. on gas and electricity exports adds further momentum to a strong oil relationship. A made-in-Alberta regulatory and environmental/climate policy redesign shortens project cycles and improves returns.

Negative scenario: Lower oil prices, growing market surpluses as decarbonization and electrification erode global oil demand, and OPEC takes back market share. The U.S. nurtures Venezuela oil production while challenging the climate impact of Alberta oil sands. Trade, political and environmental differences undermine co-operation on oil pipelines particularly to B.C., creating escalatory retaliation pressures and conflict that leave both sides weaker. Gas and electricity outlook less contentious but still undermined by regulatory and political uncertainty on trade, environmental policy and labour mobility.

Note: World oil demand and the energy scenario are framed as positive/negative versus smooth/difficult not straight 'transitions'.

^k An example of spillover uncertainty both for natural gas and oil sands production could be impediments to the inter-jurisdictional flow of labour. Alberta oil sands projects rely heavily on out-of-province labour. Similarly, northeastern B.C. natural gas projects around the Montney basin rely in part on Alberta-based workers who commute daily or on longer-term deployments. The ability to move workers and equipment from Alberta to B.C. seamlessly to support gas drilling, pipeline construction and LNG development could be complicated by policy uncertainties in the early stages of separation. That said, both provinces would have an economic interest in maintaining the necessary capacity for gas market development.

4. TRADE WITH OTHER COUNTRIES

As we showed in Section 2.2, international trade accounts for around 42 per cent of Alberta's GDP, significantly more than the 20 per cent accounted for by exports to other provinces. Over the past five years, 88 per cent of Alberta's exports — overwhelmingly oil and gas — have gone to the United States, with five per cent going to China and four per cent to countries such as Japan with which Canada has a free trade agreement (FTA). In this section, we look at the broader picture for Alberta's international trade relationships and particularly whether Alberta might become more vulnerable to tariffs and other trade barriers if it separates from Canada.

4.1 CURRENT INTERNATIONAL TRADE SITUATION

The current international trade situation is unusually unpredictable. U.S. trade policy, globally and not just toward Canada, has become antagonistic and mercurial, and Trump has used various executive authorities to impose tariffs. Canada and Mexico have received unique, partial exemptions from these tariffs through Executive Orders exempting goods covered by the rules of origin of the Canada-U.S.-Mexico Trade Agreement (CUSMA). While the U.S. Supreme Court has limited the use of some executive tariff authorities, other powers remain and will likely, but not certainly, withstand court challenges.^[39]

Across these changes in U.S. tariff policy, roughly 40 per cent of all Canadian exports by value to the U.S. have not been granted a CUSMA exemption. Rather, they have been tariffed under the authority of Section 232 of the Trade Expansion Act of 1962. That act requires that the tariffs be sector-specific — steel and aluminum, copper and finished automobiles, for example — and because not all provinces export these goods, the impact has varied drastically. Currently, close to 60 per cent of all exports by value from Ontario and Quebec are subject to these tariffs. For Alberta and Saskatchewan, less than five per cent of exports to the U.S. are affected.^[40]

Notably, the Trump administration has never initiated a Section 232 investigation into oil or natural gas. Of the 13 investigations opened since March 2025,^l none have deviated into crude petroleum, refined products or gas. These sustained efforts to avoid oil and gas appear to be unusually disciplined for this administration. While hockey sticks and cabinetry have not been spared, potash was originally tariffed at 25 per cent,^m but two days later this was cut to 10 per cent and eventually to zero per cent for all CUSMA-originating shipments.ⁿ While potash is not a resource in Alberta, it is worth following its fate alongside oil and gas up to the present moment. The three proclamations signed July 20, 2026, which apply a 50 per cent duty to roughly US\$20 billion of Canadian goods regardless of CUSMA status, “will not apply to energy, potash, products subject to tariffs under Section 232, and certain other goods, such as fish or critical minerals.”^[41] What we see in this, and other similar activities, is a consistent American assessment of which imports it cannot afford to tax.

If crude oil, and by extension Alberta, enjoys some shelter from aggressive U.S. trade policy, a separate Alberta's farmers and agriculture sector are more likely to receive the full force of those policies. Here, it is worth considering the new agreements on reciprocal trade (ARTs) the Trump administration has negotiated with 21 economies. These include four countries that had in-force free-trade agreements (FTAs) with the U.S. In each case, the ART resulted in worse terms of trade for agricultural goods exported to the U.S., and each of the countries has made significant concessions in exchange for terms worse than the status quo, albeit better than what the U.S. initially threatened. This pattern has played out with economies that have significantly more negotiating leverage than a separate Alberta would.

^l See ^[41] for more details on the copper, timber, semiconductors, pharmaceuticals, trucks, aircraft, polysilicon, drones, wind turbines, medical goods, robotics, anthracite coal and critical minerals that have been subject to 232 investigations. The critical minerals investigation, initiated by Executive Order 14272 in April 2025, was closed with Proclamation 11001 in January 2026. It did not impose a single tariff and instead directed trade negotiations.

^m This occurred on March 4, 2025, under the International Emergency Economic Powers Act “fentanyl” tariffs.

ⁿ See Executive Order 14231, which was prompted by the American farm lobby's objections.^[42, 43]

Japan, Korea and the EU are leading examples and provide a sense of what a separate Alberta could reasonably expect to face as it sought to negotiate an ART for its agricultural sector.^[45] A change of administration in Washington could also drastically alter these factors.

Beyond the U.S., Alberta's second-largest international trading partner, China, has also been volatile recently. The latest episode saw China imposing tariffs on numerous Canadian agricultural products in retaliation for Canada joining the U.S. in putting very high tariffs on Chinese-produced electric vehicles (EVs). On the one hand, a separate Alberta could free itself from Canadian EV and other industrial policies. On the other, it could find itself under pressure in negotiations with China, where 16 per cent on average over the past decade of its agriculture, food and livestock exports have gone. That pressure would likely be applied to making a separate Alberta adopt policies that were antagonistic to the U.S. Countries beyond the U.S. and China account for less than one-quarter of Canada's trade, and, as we have seen, only about five per cent of Alberta's trade. This means that, as much as Canada has, in recent years, concluded the Canada-Korea Free Trade Agreement, the Canada-EU Trade Agreement and the CPTPP, these have little bearing on a separate Alberta's prospects.

4.2 IMPACT OF SEPARATION

How might a separate Alberta fare in this highly uncertain environment? A separate Alberta would not automatically be part of the thousands of international treaties and agreements that Canada has signed over the years. These include not only trade agreements, but foreign investment promotion agreements, air transportation agreements and tax treaties. Nor would Alberta automatically accede to international economic institutions, such as the International Monetary Fund, the World Bank and most importantly, the World Trade Organization (WTO). Without membership in these institutions, a separate Alberta would not receive most-favoured-nation tariff rates, making it subject to the same tariff rate as, for example, North Korea.

We discuss the challenges and costs involved in renegotiating even a subset of these treaties and international memberships further in the technical papers on the process of separation and expenditures.

4.2.1 Short Term Impacts

A separate Alberta would need to move very quickly to negotiate short-term trade agreements with its major partners to keep trade flowing, pending a longer-term renegotiation and joining the WTO. The U.K., when it left the EU, successfully negotiated trade continuation agreements (TCAs) with countries it formerly had agreements with through the EU. Even though the U.K.'s formal TCA negotiations with Canada took just three months to produce an agreement and an additional four months to come into force, it is important to note this process was preceded by three years of preparatory negotiations. Further, a separate Alberta's success in these negotiations would surely vary by country and each country's impression of how legitimate separation was. As we have noted, potential partners that face their own secessionist movements — the U.K. and the EU as examples — would have to weigh the benefits of negotiating with a separate Alberta against the cost of establishing a precedent that would encourage their own separatists. With Korea, these factors would likely not affect negotiations. A key challenge here is that any of Alberta's potential partners already have trade negotiations planned or underway. This means that, in addition to political and economic considerations, the capacity constraints and prioritization choices of potential partners would likely be an issue even for simple TCAs.

In contrast, the U.S. is likely to be open to rapid negotiations, as the costs involved would likely be offset by the benefits of eliminating numerous minor irritants and impediments for communities at the borders between a separate Alberta and the U.S. The terms of any negotiation would be set by the broader U.S. global trade agenda and the precedents of previous ARTs, not with Alberta-specific conditions in mind. As much as the U.S. depends on Alberta oil and gas exports, Alberta depends on making those exports more, and the U.S. administration knows this.

Continuation agreements would have to include provisions to ensure a separate Alberta's compliance with sector-specific measures such as, in agriculture, phytosanitary requirements for food. While a separate Alberta could create its own food inspection agency by recruiting former federal personnel in the province and adopting Canadian policies, convincing international buyers these moves are acceptable would be complicated, costly and time-intensive. To shift from export customers to the RoC transportation companies, a separate Alberta would need to convince them it was safe to mingle Albertan-inspected agricultural product with Canadian-inspected product. In the short term, a separate Alberta would likely have to “rent” inspection services from the Canadian government, adding to costs and ceding control of agriculture, processed food and livestock policy to Ottawa. There are few if any gains imaginable from this scenario, only costs.

4.2.2 Long Term Impacts

A separate Alberta would then need to negotiate permanent trading arrangements. By far the most important would be with the U.S., followed by membership in the WTO. If there is no opposition from Ottawa or foot-dragging from WTO members facing their own secessionist movements, the quickest Alberta could accede to the WTO, based on precedent, is three years. This was the case with the Kyrgyz Republic, the fastest accession on record.^[See 46] A more likely “best-case-no-active-opposition” estimate would be five to seven years, as negotiations would involve assurances that a separate Alberta could build the institutions and capacity to sustain existing WTO-compliant practices, rather than negotiations to change or build institutions and practices to create such capacity. Examples of longer recent WTO accessions include seven years for Montenegro, eight years for North Macedonia and a decade for Taiwan.

A separate Alberta would likely be able to survive this period if it has agreements with the U.S. However, the case with the U.S. is more complicated. Canada faces two sets of negotiations: one for renewal of the CUSMA agreement and another for a new ART. A separate Alberta would have to decide whether to join CUSMA and whether to ask to negotiate a separate ART. The choice, of course, is the United States' to make.

An agreement to replace CUSMA would have the advantage of not requiring Canada's or Mexico's consent. An ART would be done directly with Alberta via executive order. As we have noted, the current U.S. administration's track record in negotiating ARTs suggests a separate Alberta would be unlikely to secure improved terms of trade beyond what it presently enjoys as a province — no tariffs on oil and gas. Where a separate Alberta might be more likely to benefit, although inadvertently, from a separate ART deal would be if it made certain concessions to the U.S. These concessions would free it from constraints that the RoC faces, such as the Investment Canada Act, restrictions on foreign ownership in banking, airlines and telecommunications and the cultural exemption to CUSMA.

CUSMA membership would provide a separate Alberta almost tariff-free access to the U.S. The barriers that do exist — such as country-of-origin labelling on cattle and tariffs on softwood lumber — are there at the behest of politically powerful sectors. Fights with groups like the Ranchers-Cattlemen Action Legal Fund are likely to be easier to lose than to win for a smaller country. Beyond irritants like this, there would also be significant advantages to being in the same trade agreement as Alberta's fifth-largest export market, Mexico. Chief among those would be maintaining, rather than complicating by signing separate ARTs, how the rules of origin affect goods.^o

^o As an example of these complications in action, consider the following: If a separate Alberta concluded different trade agreements with the U.S. and Canada, it could be the case that petrochemicals produced in a separate Alberta and then used to make plastic in Ontario would not count as CUSMA content once the finished product reached the U.S. border. The rules of origin for CUSMA require a substantial amount of the content to come from within the signing parties' territory. This is why being part of a plurilateral agreement like CUSMA is usually considered better than being part of a series of bilateral agreements and is why Canada worked hard to join the precursor of CUSMA when it was proposed in the early 1990s.

For its part, the U.S. is likely to prefer allowing a separate Alberta into a renegotiated CUSMA than to negotiate a separate agreement. The marginal gains from negotiating concessions with a separate Alberta would likely not be worth the added time, effort and cost for U.S. teams already burdened by a heavy ART negotiation schedule. If this U.S. preference prevailed, Mexico would likely follow suit. While the U.S. has negotiated separate ARTs with economies such as Taiwan that have export volumes similar to those of a separate Alberta, a more likely precedent would be the agreement made with the customs union of Switzerland and Liechtenstein. In that agreement, two countries that are intimately linked get the same deal. If a separate Alberta were to have a customs union-type agreement with the RoC, this path becomes even more likely. For Canada's part, once it had arranged a largely tariff-free trading arrangement with a separate Alberta, it too would likely see advantages in Alberta joining CUSMA, as it would also benefit from simplified rules of origin.

Even with all these factors in its favour, the legislatures of the other three countries would still have to approve Alberta's accession to CUSMA. In the U.S., a vote would face reflexive opposition from the growing ranks of those who oppose any trade agreement. This includes the Democratic Socialists of America (DSA) who have endorsed the Green New Deal and the Red Deal. As a single illustration of the implications, it is in the DSA's interest, and those of the more moderate Democratic Party, to deal with a separate Alberta's energy and environmental issues outside of CUSMA. As this example shows us, local politics inside the CUSMA countries are likely to compound and persist the challenges presented by the now-familiar unpredictability of the Trump administration as a separate Alberta seeks to find its way.

4.3 SUMMARY

- In the short term, there is likely to be significant uncertainty about Alberta's continued ability to access foreign markets until temporary agreements can be negotiated. The importance of Alberta's energy resources increases the likelihood of a quick, but not better, accession to CUSMA. Alberta already has a better deal than the RoC on tariffs due to oil-related exemptions, and that is unlikely to change. The lack of significant American concessions in its recent ARTs further dims the prospects of a separate Alberta securing a better deal than what it has and likely will have as part of Canada.
- Instead of gaining concessions from the U.S., benefits for a separate Alberta in negotiation would likely come from dropping Canadian mandates such as cultural carve-outs that hinder investment.
- In the long term, it is likely that a separate Alberta would become part of CUSMA, providing advantages for all countries concerned. However, the process could be lengthy. TCAs to allow continued access to Canadian agreements are a possibility, but uncertain. Accession to these agreements will be difficult, costly, lengthy and uncertain.

Smooth scenario: Major trade partners agree to no-limit TCAs with no-time-limit grace periods to negotiate and implement.

The federal government agrees to provide critical services, including consular coverage, food inspection, civil aviation and similar, at a reasonable charge and with a lengthy transition period. There is no objection to WTO accession, and this takes three to five years. Alberta negotiates CUSMA accession with a Trump or America First administration favourable to Alberta's energy industry and secures the same deal for tariffs and trade facilitation services as Canada, without cultural exemptions and other unnecessary items. Foreign operations are established gradually over three to five years, and the total annual cost is at the lowest end of comparator jurisdictions, \$565 per year.

Difficult Scenario: Alberta is unable to negotiate TCAs with key trade partners and WTO accession faces opposition, forcing Alberta exporters to pay WTO non-MFN tariffs. The federal government refuses to provide critical trade and transportation-enabling services or charges exorbitant fees. An independent Alberta negotiates entry into CUSMA with a DSA-influenced Democratic administration hostile to Alberta tar sands and receives a worse deal than the RoC. Stand-up of foreign operations is rushed, drastically increasing set-up costs; Alberta spends at the average of comparator jurisdictions for foreign operations and pressure from the international community and OECD on ODA spending forces Alberta to the higher end of total foreign operations spending at \$1.5 billion per year.

5. TRADE WITH THE REST OF CANADA

Replacing a provincial boundary with an international border would, at least potentially, have significant implications for trade with the RoC. Trade barriers between nations come in two types. The first is tariffs, which are taxes levied on imports from other countries. The second is non-tariff barriers, which are other impediments to trade.

At present, there are no formal tariffs levied on trade between provinces.^P A separate Alberta would of course be free to levy any tariffs it wished; however, so would the RoC. While Canada has relatively low tariffs by international standards,^[47] it still has significant tariffs on some goods, even with its free-trade partners. One extreme example is supply-managed products such as dairy, where the imports of milk, butter or cheese face tariffs of more than 200 per cent. Another example is beef, where countries in the WTO, but with which Canada does not have a free-trade agreement, face a 26.5 per cent tariff on exports over a certain level.

Non-tariff barriers include different product standards and labelling rules, customs and border procedures, government monopolies that control imports (such as provincial liquor boards), food inspection regimes, restrictions on labour mobility and government procurement rules that favour domestic suppliers. These are common across countries — although free-trade agreements provide some discipline — and certainly exist within Canada. This is because provinces, under the Constitution, have broad powers to regulate economic activity, as well as to set up government monopolies and set their own procurement rules. There has been some attempt in recent years to reduce the number of these non-tariff barriers, most notably the Canada Free Trade Agreement (CFTA) in 2017, but many remain.

In some important sectors, there are currently no interprovincial trade barriers. This is true in banking, rail and air transportation, and telecommunications, all of which are federally regulated. There is also a federal food inspection regime that simplifies movement of food and animals across provincial boundaries. A separate Alberta would be free to set up its own regulatory regimes in these areas. However, this would come at a cost: differences in regulation would create barriers as firms wishing to do business across the border would need to deal with two regulators and two sets of rules, increasing compliance costs.

5.1 EVIDENCE ON THE IMPACTS OF NON-TARIFF TRADE BARRIERS

There is a considerable academic literature that assesses the impacts of borders — both national and sub-national — on trade. These studies compare trade within a country or region to trade outside it, controlling for the effect of distance. Across the studies, it turns out that borders are significant. One influential study found the U.S.-Canada border reduced trade by 44 per cent over what it would be if Canadian provinces treated U.S. states the same way they treat other provinces (and vice versa).^[48] Recently, authors Stephane Dion and Francois Vaillancourt^[49] found the Canada-U.S. border remains a significant impediment, more than 25 years after the implementation of the Canada-U.S. FTA. They found that a typical Canadian province is 14 times more likely to trade with another province than an American state, after controlling for distance and relative GDP.

British economist David Comerford^[50] found border effects between countries within the EU's single market are an average of 40 per cent higher than those present between Canadian provinces. This is relevant for a separate Alberta as it suggests that even within a common integrated market, the impact of national borders is significantly higher than the role of provincial boundaries.

^P Interprovincial tariffs are expressly forbidden by Section 121 of the Constitution Act, 1867.

^Q The trade-weighted average tariff for MFN partners was 3.6 per cent in 2025, according to the WTO.

Work has also been done on the impacts of provincial boundaries in Canada. Robby Bemrose et al.^[51] find interprovincial borders in Canada are equivalent to a 6.9 per cent tariff. ^r Another way to gauge the trade cost of borders is to look at historical cases. Two cases relevant to a separate Alberta are U.K./Ireland in 1922, and Czechia/Slovakia in 1993. In both cases, trade between the two countries declined significantly.^[8] In the U.K./Ireland case, the decline was slow. Even though Ireland is geographically much closer to the U.K. than to any other country, little more than 20 per cent of its exports now go to the U.K., compared to 60 per cent of Scotland's.^[8] In the Czechia/Slovakia case, the decline was quite swift, taking place over just a few years — in part because Slovakia shares a land border with five other countries.

While the U.K.'s Brexit departure from the EU is not a case of a region becoming an independent country, it is a case of an economy that left a very close trading relationship for one that looks much more like a conventional free-trade agreement such as CUSMA.^s Prior to Brexit, British goods and services faced no tariffs or quotas, little in the way of customs or border red tape and a high degree of regulatory harmonization enforced by EU authorities. While the U.K. now has complete freedom to set its own regulations and tariffs, including signing its own trade deals, the price for this freedom is a thicker border with the EU. A recent study^[52] found that Brexit-induced non-tariff barriers, created as the U.K. set up its own systems and processes, saw trade costs increase by 30 per cent.

To provide some context on trade costs, we present estimates of tariff-equivalent bilateral trade costs between Alberta and other provinces. These estimates are trade weighted and use the methodology developed by economists Lukas Albrecht and Trevor Tombe.^[53] We show our estimates in Table 10, breaking them out separately for the costs of exporting to, and importing from, other provinces.

Table 10. Non-Distance Tariff Equivalent Bilateral Alberta–Rest of Canada Trade Costs

	N.L. (%)	P.E. (%)	N.S. (%)	N.B. (%)	QC (%)	ON (%)	MB (%)	SK (%)	B.C. (%)	All (%)
Exports	13.7	15.9	7.5	5.8	1.4	1.2	8.9	11.0	6.8	4.7
Imports	30.9	23.1	16.5	23.5	4.5	3.0	8.5	11.4	11.9	7.1
Average	22.3	18.8	11.3	12.5	2.7	2.2	8.8	11.2	8.8	5.8

Source: Authors' calculations based on data provided by Trevor Tombe, based on Albrecht and Tombe.^[53]

Note: Trade costs are expressed as tariff equivalent percentages. Average is weighted by trade flows.

Overall, the table shows that weighted average trade costs for Alberta when trading with other provinces are equivalent to a tariff of 5.8 per cent. It is greatest for some of the smaller provinces and smallest for the large provinces of Ontario and Quebec. Post-separation, we would expect these trade costs to grow.

^r Interestingly, Bemrose et al. find that the borders between U.S. states create no tariff effect at all.

^s The Trade and Cooperation Agreement between the EU and the U.K. came into effect in January 2021. Under the agreement, there are no tariffs or quotas on trade between the two economies.

5.2 IMPACTS OF SEPARATION

It seems likely that neither a separate Alberta nor Canada would impose tariffs, having instead concluded — perhaps after prolonged and difficult negotiations — a free-trade agreement with essentially tariff-free trade, except for supply-managed products^t. As a historical precedent, tariff-free trade is what happened in the case of the EU and the U.K. after Brexit.^u

Even with a free-trade agreement in place, however, trade costs are likely to increase as non-tariff barriers between what are now two separate countries kick in. Increased trade costs would suppress trade between Alberta and the RoC. The resulting losses would hurt Alberta's economy and on average would also hurt the economies of provinces currently trading with Alberta, resulting in reduced real GDP and reduced capital and labour income.

Smooth scenario: Regulations are harmonized, including in previously federally regulated sectors, border checks and paperwork are avoided and no tariffs are imposed. There are no increases in the costs of trading across the new international border.

Difficult scenario: The border “thickens” considerably, in similar fashion to the U.K.'s border with EU countries after Brexit. Regulatory differences, paperwork and border inspection, additional administrative costs, dealing with a different currency, and lack of recognition of professional credentials all combine to increase trade costs. This reduces trade between Alberta and the RoC and harms economies on both sides.

5.3 SUMMARY

One unavoidable cost of Alberta separation is the thickening of the border with the RoC. The literature finds that borders, even provincial ones, have significant impacts, and substituting a national border for a provincial boundary is very likely to make trade more costly.

6. MIGRATION AND IMMIGRATION

For its population growth, Alberta is heavily dependent on both interprovincial migration and international immigration. Table 11 shows that only 0.4 percentage points of Alberta's 2.5 per cent population growth in 2024 were from the natural increase (births less deaths); most of the increase came from interprovincial migration (0.6 percentage points) and international immigration (1.5 percentage points). In both cases, this is higher than the RoC, which has population growth from immigration of only 0.9 per cent and which lost population to Alberta.

Table 11. Population Growth (per cent growth rate by source)

	Alberta (%)	Canada (%)	Canada excl. Alberta (%)
Total population increase	2.5	0.9	0.7
Natural increase (births – deaths)	0.4	0.1	0.0
Net international immigration	1.1	0.9	0.9
Net interprovincial migration	0.6	N/A	-0.1
Net temporary immigration	0.4	0	-0.1

Source: Statistics Canada.^[18, 54] Data are for 2024.

^t It is reasonable to imagine the currently high tariffs on supply-managed goods from other countries would translate into tariffs for a separate Alberta. However, this would not in practice make much difference as interprovincial exports of supply-managed products are quite low.

^u A free-trade agreement would also facilitate transshipment of goods to and from Eastern Canada to B.C. through Alberta, and from Alberta to the U.S. through Canada (particularly for oil). It should be noted, though, if Alberta joins the WTO, both it and Canada (already a member) would be obliged to allow tariff-free transshipment.

6.1 INTERNATIONAL IMMIGRATION

A separate Alberta would gain control over international immigration. This was a key issue in the Brexit debate — perhaps the most important one. Many in the U.K. objected to the freedom of movement which is one of the EU's core freedoms. As a relatively wealthy country, the U.K. was a magnet for immigrants from the relatively poorer Eastern and Southern Europe. A separate Alberta would be able to decide both the overall numbers entering its borders, as well as the ratio of temporary and permanent immigrants, and the mix of skills they brought.

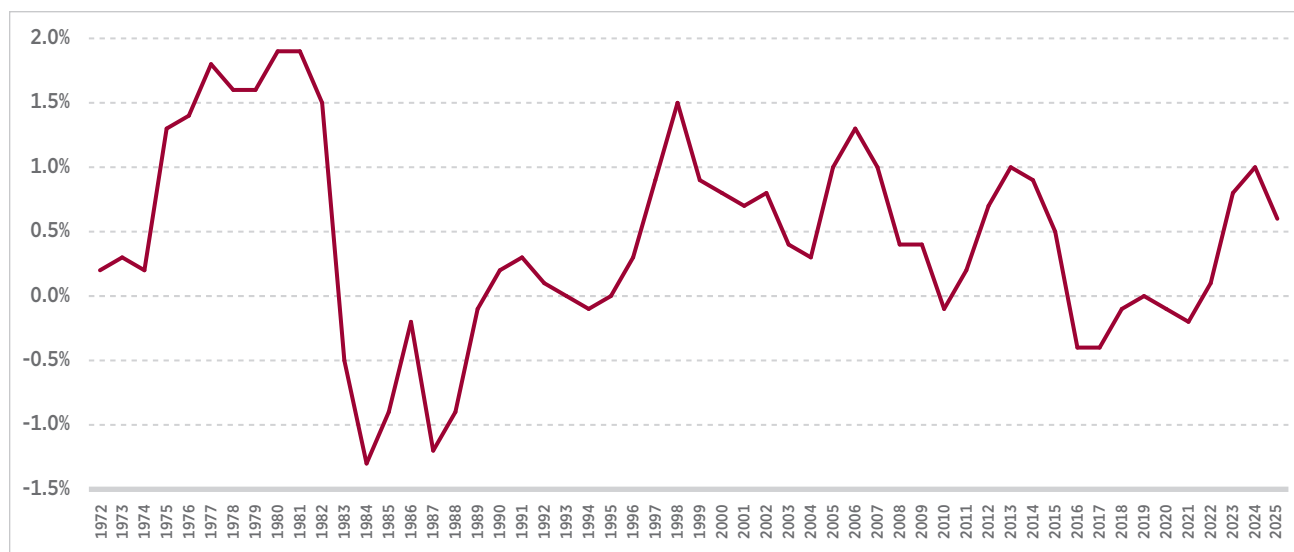
This could be a potential benefit for a separate Alberta. As Table 11 above showed, immigration into Alberta was very high, equivalent to 1.5 per cent of the population. Much of the increase came from non-permanent residents, temporary workers, students and refugees. Absorbing a flow of immigrants this large has put significant strain on Alberta's infrastructure, housing stock and education and health-care systems. These are costs provinces, not the federal government, bear. It is notable the federal government has now moved to curtail temporary immigration.^[55]

It is also possible a separate Alberta would become a less popular destination for immigrants from abroad, especially if the ability to move within Canada is curtailed. Interprovincial in-migration of skilled workers to Alberta might also be negatively affected. However, a separate Alberta would have more leeway to implement an attractive personal tax regime, assuming fiscal conditions permitted this.

6.2 INTERPROVINCIAL MIGRATION

We can see from Figure 2 that migration rates have generally been positive: Alberta usually gains more people from the RoC than it loses. However, there are two periods when this was not true: the 1980s and the late 2010s. Both correspond to a slump in oil prices and point to interprovincial migration as a shock absorber for Alberta's economy. When times are good, labour can be brought in from the RoC to help increase output; when times are bad, people can seek work in the RoC rather than remaining in Alberta and unemployed. This has been particularly important in the energy sector, where workers have commuted from as far as Newfoundland and Labrador to work in remote parts of the province such as Fort McMurray. Border communities such as Lloydminster or Grande Prairie-Dawson Creek also have significant numbers of people who live in one province and work in another.

Figure 2. Net Interprovincial Migration into Alberta (per cent of total population)



Source: Statistics Canada.^[17, 18]

This might not continue to be true for a separate Alberta. Albertans might no longer have the automatic right to live and work in the RoC, and vice versa. If either of the countries forced their residents to choose whether to be Albertan or Canadian citizens and then treated the other country's citizens the same as other foreign nationals, this would seriously impede border traffic, with people needing to apply for visas. In the short term, there might be considerable movement of people between Alberta and the RoC as there could be a scramble to be on the "right" side of the border to be able to claim the desired citizenship.

However, given the complexity of the situation, with many in Alberta wanting to retain Canadian citizenship, and many living in the RoC who would be expecting Alberta citizenship based on birth or parentage, it is likely both countries would permit some form dual citizenship (as Canada already does).

Indeed, a precedent can be found in Eire's (Ireland) separation from the U.K. in 1922. Given close family and cultural ties, and with Ireland at that time an important source of immigration, the U.K. chose to allow Irish passport-holders to live, work and even vote in the U.K. This arrangement has persisted to today.^[56] U.K. citizens also have the right to live and work in Ireland, although they do not have the right to vote. The case of Australia and New Zealand is another relevant example: citizens of both countries have the right to move to the other country to live and work, with no requirement for a visa or any other form of special authorization.^[57]

However, an arrangement like that shared by Australia and New Zealand would make it harder for a separate Alberta to control international immigration, as immigrants could settle in Canada and then move to Alberta. To the extent that free movement was extended only to citizens or permanent residents, this would at least control the flow of temporary residents, which is where the biggest increases have been in recent years. Even if Canada did make it more difficult for a separate Alberta's citizens to come and work, Alberta need not reciprocate and could free movement in from Canada, particularly when the demand for labour was strong.

Beyond mobility frictions, it is worth recalling that it is not, at the moment, always easy to practise a profession or a trade in another province. These frictions are unlikely to be reduced by a now-international border between a separate Alberta and the RoC.

6.3 SUMMARY

- A separate Alberta could control international immigration, allowing it to tailor policy more closely to Alberta's needs. It might also attenuate the swings that have characterized federal immigration policy in the recent past.
- Migration between Alberta and the RoC has been an important shock absorber for the Alberta economy and could be impeded by separation. However, it is quite possible that agreement would be reached to allow some measure of free movement for each other's citizens, as has happened elsewhere.

Smooth scenario: Citizenship rules are quickly established that provide broad eligibility for Alberta citizenship. Alberta is able to conclude an agreement with Canada that allows for seamless movement of people across the border, so that citizens of either country can work and live in either Canada or Alberta. There is no exodus of skilled workers from Alberta and flows of temporary workers into parts of the economy such as the energy sector continue as before.

Difficult scenario: Citizenship rules are restrictive and there is an exodus from Alberta as people seek to maintain Canadian citizenship. The lack of an Australia/New Zealand-like arrangement means that unemployment is higher in bad times and labour shortages are more acute in good times.

7. CURRENCY AND THE EXCHANGE RATE

One of the more important and immediate decisions facing a separate Alberta would be its choice of monetary regime. Would it use the Canadian dollar, set up its own currency or pursue another arrangement, such as a monetary union? Whatever choice the government made would have significant implications for economic performance and financial stability. In both Scotland and Quebec's separation debates, the nature of the new country's monetary policy and currency was a key issue.

7.1 DOLLARIZATION

The most straightforward option for a separate Alberta would be to continue to use the Canadian dollar for all transactions. The new country could simply announce it was unilaterally adopting the Canadian dollar as legal tender, which would not require any agreement from the Canadian government. This would minimize transaction costs as there would be no currency conversion when doing business with the RoC. Transactions with the U.S. and the rest of the world would continue to occur in a currency that is widely used and accepted.^v A number of small countries have adopted a version of this approach, including Panama, Ecuador, El Salvador and Zimbabwe, each of which uses the U.S. dollar as its sole legal tender.^w

However, this dollarization approach places severe constraints on macroeconomic policy, which explains in part why so few countries have adopted it. Because they cannot print their own money, dollarized countries must accumulate currency by running balance-of-payments surpluses. With no ability to set interest rates, the only tool of macroeconomic stabilization is fiscal policy, which means borrowing to support the economy in foreign currency, without any ability to print money to pay off debt. Furthermore, dollarized countries are affected by interest-rate decisions made by the U.S. Federal Reserve which has no mandate to consider these countries as it makes its decisions. Perhaps most importantly, dollarized countries' inability to print money makes it much more difficult for them to act as a lender of last resort to commercial banks. Any emergency lending must be financed through accumulated foreign exchange reserves.^x

How relevant would these considerations be for a separate Alberta? As Table 2 showed, Alberta usually runs a large trade surplus with foreign countries whereas trade with the RoC is largely balanced. This suggests that, barring a steep fall in the price of oil, a separate Alberta would likely acquire U.S. dollars quite readily, accumulating foreign cash reserves to provide liquidity for its economy.

It might even be argued dollarization would be much like the status quo: a separate Alberta would still be subject to Bank of Canada interest-rate decisions and it would remain reliant on fiscal policy to deal with Alberta-specific shocks. At present, however, Alberta can at least in theory receive net fiscal transfers from the RoC and has some influence over the Bank of Canada, neither of which would be true after separation.

^v Another dollarization option would be to adopt the U.S. dollar rather than the Canadian dollar. This might make more sense in the long term for a separate Alberta because its U.S. dollar-denominated trade is greater than its trade with the RoC and would likely be more so after separation. However, the short-term costs would be greater, as it would require prices in the Alberta economy to be converted to U.S. dollars, which would entail significant transaction costs.

^w In Zimbabwe's case, its currency became worthless after an episode of hyperinflation; Ecuador adopted the U.S. dollar after a banking crisis; and El Salvador and Panama were motivated by a desire to be more integrated into the U.S. economy.

^x Being without a lender of last resort for financial institutions is not on the face of it a significant problem for a separate Alberta. This is because, with the purchase of the Canadian Western Bank by Montreal-based National Bank in 2025, Alberta has no major federally regulated institutions that might need emergency liquidity support. Assuming a separate Alberta continued to rely on the major Canadian banks for its financial services, these banks would continue to be able to rely on the Bank of Canada for liquidity. However, the banks are likely to view lending into a separate Alberta as a riskier proposition than when Alberta was part of Canada, leading to a higher cost of credit, an issue we consider in the next section.

7.2 MONETARY UNION

A second option — favoured by both Quebec and Scottish nationalists in the past — is a formal monetary union. This is an arrangement where independent countries share a common currency and a central bank. In this model, the countries in the monetary union have a say on the governance of the central bank and so have influence on decisions such as interest rates, and whether and how to bail out financial institutions or even governments that are facing severe financial difficulty.

The best-known example of a monetary union is the euro: most EU countries use a common currency and share a common institution (the European Central Bank).

This option is perhaps, functionally, the closest to the status quo, as Alberta is currently in a monetary union with the RoC. It uses the Canadian dollar and the Bank of Canada takes Alberta's interests into account in its decisions (and Alberta's elected representatives in Ottawa are there to ensure this is the case). Proponents of monetary unions in the wake of separation argue it is in all parties' economic interests to enter into such a relationship, given the generally close economic linkages that will almost certainly persist.

It is not obvious, however, that the RoC would see great benefit to entering a formal monetary union with a separate Alberta. To do so would potentially pressure the Bank of Canada into bailing out Alberta in the case of a fiscal crisis. In return, the RoC might reasonably require that Alberta maintain a tight fiscal policy to prevent this possibility. This sort of condition would limit a separate Alberta's macroeconomic autonomy.^y

From the perspective of a separate Alberta, it is not obvious that monetary union has great advantages over either dollarization or the status quo. Except for backstopping its debt, which is precisely what the RoC would likely want to avoid, the new country would not gain a great deal. While the largest EU economy, Germany, is still only about 30 per cent of total euro-area GDP, the RoC is around 85 per cent of Canadian GDP and so would simply outvote Alberta whenever there was disagreement. As a separate Alberta does not, like Quebec or Scotland, have large financial institutions that would benefit from emergency lending from a central bank, it is not clear monetary union would have significant benefits.

7.3 A NEW ALBERTA CURRENCY

A third option would be for a separate Alberta to establish its own currency. Given enough time, this would not only be possible, but it is probably the most likely outcome as the vast majority of nation states have chosen this route. A separate Alberta would then have to choose between a floating exchange rate where the value of its currency fluctuated with market conditions, or a fixed exchange rate, where it was tied to another currency.

Having its own currency could be of significant benefit to a separate Alberta. The new Alberta central bank would have the ability to print money, providing liquidity for Alberta-based financial institutions or for the Alberta government. Indeed, this backstop liquidity would likely be necessary if a separate Alberta sought to have its own financial institutions.

Perhaps the most important benefit of a new currency would be Alberta's increased ability to manage macroeconomic shocks. As a small open economy that depends very heavily on exports of one commodity, Alberta is highly vulnerable to swings in the price of that commodity. A sudden drop in the oil price can lead to a significant recession — as Albertans experienced in 2015–16. A separate Alberta with its own central bank and a floating currency would be able to lower interest rates, which would buffer the economy by stimulating interest-sensitive sectors of the economy. At the same time, a weaker exchange rate would mean that wages and incomes would not need to fall as much in domestic currency terms, cushioning the blow. Also, a weaker exchange rate would mean that import prices would rise,

^y This is what the EU did with the countries that joined the euro, although it was insufficient to prevent the euro crisis in 2010–2012. The euro area also has a supranational authority — the EU, to provide political oversight — as well as fiscal transfer mechanisms. Both would be absent in a Canada-Alberta monetary union.

rebalancing the economy away from the export sector by stimulating domestic industries. This flexibility is not possible with a fixed exchange rate.

For these reasons, other developed commodity-dependent comparators, such as Norway and New Zealand, have their own currencies. Those currencies are allowed to float, making them freely exchangeable for other currencies and so the exchange rate varies continuously.

If the broader Canadian economy were subject to similar shocks as a separate Alberta, then having the new country with its own independent monetary policy would be of little advantage. With a similar economy, Canadian interest rates and the Canadian dollar would cushion the blow. However, the RoC's economy is much more diversified and less dependent on oil and gas, and so the correlation between economic shocks to Alberta and shocks to the rest of the country is not particularly strong.^{[25] z}

There are downsides to a floating exchange rate.

The exchange rate for a separate Alberta would likely be quite volatile, as it would largely reflect the price of oil. This could cause problems for non-commodity exporters, who would see their export revenues become more volatile in domestic currency terms.^{aa} In the long term, however, the advantages to a separate Alberta of having a floating exchange rate are likely to outweigh the volatility costs.

Arriving at the end-state of its own currency will require a separate Alberta to deal with some challenging transition issues. We describe these below, showing how it would likely be many years before a separate Alberta could have a fully functioning floating exchange rate currency.

- First, there would be the mechanics of setting up an entirely new currency. A new central bank would need to be created, and pricing, accountancy and IT systems would need to adjust.
- Second, there would be the question of what to do about contracts denominated in Canadian dollars. While a separate Albertan government could decree a given exchange rate between the new Albertan currency and the Canadian dollar (presumably one-for-one), this would not work for contracts entered into in other jurisdictions. The most obvious example is Alberta's existing stock of government debt. International investors will expect repayment in the currency in which the bond was issued (mostly Canadian dollars) and attempts to substitute Alberta currency would be seen as a default. Over time, the debt could be rolled over into the new currency but that would take years.
- Third, precisely because the economies of Alberta and the RoC are not closely aligned, it is not clear what the underlying value of the Alberta dollar would be going forward, and how it would change with macroeconomic conditions. There could be considerable volatility until the "right" price is reached, and many businesses and individuals might prefer to simply use the Canadian dollar (or the American dollar) until the situation becomes more certain, slowing adoption of the new currency.

Smooth scenario: Alberta transitions smoothly from using the Canadian dollar to its own currency. Alberta runs a healthy trade surplus, which will support the value of the new currency. Both Albertans and foreign investors have confidence the new Albertan central bank will competently manage the currency and will not let inflation get out of control. Transaction costs for converting to other currencies are minimal. Control over monetary policy allows for better cushioning of economic shocks.

Difficult scenario: There is a difficult transition to the new currency. Alberta does not have a healthy trade surplus, and so Albertans are reluctant to use the new currency. International investors demand a large premium to invest in assets denominated in the new currency. Transaction costs are elevated. Policy rates must be kept high for markets to gain confidence in the central bank's ability to keep inflation under control.

^z Alberta's correlation coefficient is 0.53, compared to 0.78 for B.C. and 0.83 for Quebec. Estimates made using nominal GDP growth 1982–2024. Data are from Statistics Canada.^[18]

^{aa} This is why countries such as Denmark, which exports mostly manufactured goods into one main market (the EU), prefer to fix their currency to protect their exporters from exchange rate fluctuations.

- Fourth, and most importantly, it would likely take many years for a separate Alberta's government to gain the confidence of financial markets. The new government would need to show a commitment to low inflation so that investors in Alberta-currency denominated assets could have confidence that their returns would not be eaten away by reckless monetary policy.

7.4 SUMMARY

- In the long term, a separate Alberta would likely want to have its own independent monetary policy, which means its own currency and central bank. Indeed, from a macroeconomic perspective, such an arrangement could be more beneficial for Alberta than being part of a Canadian monetary union because the Alberta economy is not that closely aligned with that of the RoC. An independent currency would also allow a separate Alberta to more closely tailor policy to its own needs. The new currency would likely be quite volatile however, as it would be closely linked to the price of oil.
- The transition costs to arrive at a floating independent currency would be substantial. It could take a long time for a separate Alberta to build up a track record of monetary policy competence. An independent currency would also impose transactions costs on ongoing trade with Canada.

8. BORROWING AND THE COST OF CREDIT

One of the most important prices in most economies is the cost of credit. These are the interest rates that households and businesses must pay when they borrow to consume or invest. As interest rates rise, spending falls and the economy contracts. This is why central banks use interest rates as their primary policy tool for stimulating or slowing the economy.

In modern economies, the interest rates that households and businesses pay are ultimately based on the safest asset in that economy, which is almost always a government bond. Private-sector borrowers are charged a premium over the government bond rate.^[58] That premium varies depending on their individual creditworthiness. As this suggests, changes in the government bond rate affect interest rates throughout the economy.

8.1 CURRENT CREDIT RATINGS

Government bond rates are themselves influenced by investors' assessments of the government's ability to repay its loans. This assessment is based heavily on ratings provided by independent agencies, such as Moody's. As of August 2026, as Table 12 shows, Canada has a credit rating of Aaa from Moody's, one of only 11 countries in the world to have this highest-possible rating.^{ab} This is the result of Canada's strong fiscal position, as well as the fact it has largely borrowed in its own currency and has a central bank that could backstop the repayment of government debt. Canada, as a major borrower on world markets, also benefits from a liquidity premium: it is easier to trade Canadian debt than, for example, Alberta debt because the market is substantially larger and higher in trading volume, allowing investors to buy or sell large positions faster and at lower transaction costs.

Table 12. Country Credit Ratings

	Credit Rating as of July 2026
Norway	Aaa
New Zealand	Aaa
Canada	Aaa
United States	Aa1
Alberta	Aa2
British Columbia	Aa2
Ontario	Aa3
United Kingdom	Aa3
Japan	A1

Sources: Government of British Columbia,^[59] Moody's Ratings,^[60, 61] Ontario Financing Authority.^[62]

^{ab} The 11 sovereign countries with a Aaa credit rating from Moody's are Australia, Canada, Denmark, Germany, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Sweden and Switzerland.

Alberta has a lower credit rating from Moody's: Aa2. This is the same as B.C. and higher than Ontario, which has more debt. Alberta's Aa2 rating reflects not only the fact Alberta is not a sovereign country with its own central bank, but also the greater volatility of its revenues, which reflects Alberta's less diversified economy. This means Alberta must pay more to borrow, since investors demand a premium to lend to jurisdictions with a higher risk. Based on official data on effective interest rates, this premium is around 0.46 percentage points.

8.2 IMPACTS OF SEPARATION ON ALBERTA GOVERNMENT BOND RATES

As explored in Processes in Building a Separate Alberta, separation would have significant implications for Alberta's governance and institutions. The implications of a separate Alberta building its state and institutions may also extend to how investors perceive the risks inherent in investing in the new country's businesses. As the economic expenditures paper will explain, in taking on its portion of the existing federal debt, a newly separate Alberta would incur a significant extra debt burden. While Alberta would also get all the revenues collected in its territory, these revenues are quite volatile, as will be shown in other papers. A separate Alberta would be encountering those volatilities without the implicit backing of the federal government should it run into fiscal trouble.

This means it is very likely borrowers would demand an elevated risk premium from a separate Alberta, particularly in the near term. As a result, the new country's credit rating would fall and its cost of borrowing would rise.

How much might interest rates on government debt rise? In the context of the Scottish independence debate, a study from the U.K. National Institute of Economic and Social Research^[63] calculated a separate Scotland would face between 0.72 and 1.65 percentage points higher borrowing costs. While Scotland is not a perfect comparator for Alberta, and Scottish separation did not actually happen, it is a similar-sized economy that would also depend heavily on oil revenues. It would also have a similar debt-to-GDP ratio. An important difference is that North Sea oil reserves on which Scotland relies are declining rapidly, whereas Alberta's reserves are not.

Over the long term, a separate Alberta might see the risk premium it needs to pay on its credit diminish, as uncertainty about its future political and economic direction also diminishes. This would be more likely if a separate Alberta's government maintained healthy public finances and established its own central bank and currency. Both Norway and New Zealand, which are economies of comparable size to Alberta, have Aaa ratings, as shown in Table 12. Both also depend heavily on a single commodity for export: oil in the case of Norway and dairy products for New Zealand. However, it should be noted Norway has a large sovereign wealth fund that is much larger than its sovereign debt, and New Zealand's dairy exports are not subject to the same price volatility as Alberta's oil exports. Both also have central banks with a long history of prudent economic management. Reducing its costs of borrowing by attaining Canada's top Aaa rating, or even the Aa1 rating the United States has, would be a challenge for a separate Alberta.

8.3 IMPACTS OF HIGHER GOVERNMENT BOND RATES ON THE ECONOMY

The rise in interest rates for the Alberta government would then be reflected in the interest rates paid by households and businesses. As noted above, the interest rate paid by the government sets a floor on interest rates for the rest of the economy, and we would expect higher government borrowing rates to feed through to the rest of the economy.

This increase would have two components. First, there would be the increase to reflect the switch from Canada to Alberta as the sovereign lender in the economy. As noted above, this is around 0.46 percentage points. Second, an increase in the government bond rate in Alberta as a result of separation. If we use the lower bound from the study of Scotland mentioned above —0.72 percentage points — this would give a total increase in the cost of credit of around 1.18 percentage points.

However, while the literature is clear that changes in government bond rates directly affect interest rates in the broader economy, the impact is not necessarily one for one. Economist Julia Bevilaqua et al.,^{[58] ac} looking at large companies that issue corporate bonds, find that 63 per cent of an increase in government bond rates in an advanced economy are passed through to borrowers.

This increase in interest rates across the Alberta economy would lower real GDP, as households and businesses would borrow less, leading to lower consumption and investment. Less investment means a smaller capital stock, which would reduce productivity and ultimately wages and income.

Smooth scenario: A short-term increase in rates is likely unavoidable, as Alberta's government bond rate becomes the new, higher floor on interest rates in the economy. By prudent economic and fiscal policy, including building up substantially more assets in the Heritage Fund and keeping inflation low and stable, a separate Alberta is able to join Norway and New Zealand in attaining the best possible credit rating. This means Alberta businesses and households are able to borrow at low rates.

Difficult scenario: The risk and uncertainties associated with the separation, the loss of implicit backing by Canada, the absence of large fiscal reserve like Norway's sovereign wealth fund and concerns about the high exposure of Alberta to oil price volatility mean that Alberta's credit rating slips two notches. This raises interest significantly for the households and businesses, reducing consumption and investment.

8.4 SUMMARY

- In the first few years after separation, Albertans would likely see interest rates rise, reflecting the increased risk from no longer being part of a country with the highest possible credit rating.
- Over the long term, with prudent economic and fiscal management, a separate Alberta could improve its credit rating, although attaining the highest rating would be challenging given the economy's dependence on the volatile oil and gas sector.

^{ac} See Bevilaqua et al. Table 3.

9. HEAD OFFICES

Another question for a separate Alberta is the status of head offices located in the province. Head offices are desirable for many reasons. They provide high-paying jobs, not only for the CEO and senior management, but also for a wide variety of professionals who provide legal and financial services, accounting, research and development and advertising. Perhaps just as important for governments, head offices also bring in revenue from corporate income and property taxes. Beyond these tangible benefits, head offices also mean that economic decisions are being made in the province, rather than elsewhere.

9.1 HEAD OFFICES IN ALBERTA

In Table 13, we show the relative importance of head offices and head office employment in Alberta. Between them, Calgary and Edmonton have 423 head offices which employed 40,417 people in 2024. This is about 15 per cent of the Canadian total, significantly above Alberta's population share in Canada of 12 per cent. Indeed, Calgary has the second-largest number of head offices in Canada, after Toronto, which has 702.

Table 13. Head Offices and Head Office Employment

	Calgary	Edmonton	Alberta	Canada	Alberta/Canada (%)
Head offices	221	136	423	2,865	14.8
Head office employment	29,824	8,462	40,417	269,908	15.0

Source: Statistics Canada.^[64] Data are for 2024. Alberta is the sum of Edmonton and Calgary.

Which are the most important head offices? Table 14 shows the largest public companies by revenue headquartered in Alberta in 2023. All are in Calgary and all but two are in the energy sector. Missing from the list is WestJet, which is headquartered in Calgary, but which is a private company and so is not shown.

Table 14. Top 10 Public Companies Headquartered in Alberta by Revenue

Rank 2023	Company	Industry	Revenue (\$bn)	Employees
1	Cenovus Energy Inc.	Energy	52.204	6,925
2	Imperial Oil Ltd.	Energy	50.702	5,300
3	Suncor Energy Inc.	Energy	49.092	14,906
4	Enbridge Inc.	Energy	43.649	11,500
5	Canadian Natural Resources Ltd.	Energy	35.968	10,272
6	Parkland Corp.	Energy	32.452	6,181
7	TC Energy Corp.	Energy	15.934	7,415
8	AltaGas Ltd.	Utility	12.997	2,893
9	Canadian Pacific Kansas City Ltd.	Transport	12.555	19,927
10	Gibson Energy Inc.	Energy	11.015	475

Source: Calgary Economic Development.^[65]

Note: Employees means total employees, not just in head offices.

9.2 IMPACTS OF SEPARATION

The prospect of separation might mean some firms move their head offices out of Alberta. This occurred in Quebec in the run-up to the 1980 referendum and was seen again during Catalonia's attempt to leave Spain in 2017.

While we cannot make predictions for any specific company, those with most of their assets in Alberta — upstream oil and gas companies, or utilities, for example — are probably less likely to move if Alberta separates. For them, being close to their assets is likely to remain advantageous.

For companies which have most of their assets outside of Alberta — pipeline companies or railways, for example — the question of staying or going is more complicated. For pipelines, companies may wish to remain close to sources of supply of oil and gas in the Western Canadian Sedimentary Basin and to Calgary's specialist energy-sector expertise. However, it may become harder to recruit qualified labour if migration between Alberta and the RoC becomes more difficult, and for those companies that have significant U.S. operations, they may look seriously at relocating south, given the advantages of a larger pool of capital and labour in the U.S. Proximity to the Canada Energy

Regulator's (CER) head offices may also be a factor, as the Canadian government would certainly relocate the CER out of Calgary to keep it in Canada post-separation. However, proximity to the Alberta Energy Regulator (AER) offices (also in Calgary) could also be a factor.

WestJet's position might be awkward after separation. Absent some sort of special arrangement, Canada would treat it as a foreign airline, and under the usual kind of air transportation agreement it would lose the right to fly between Canadian cities, although it could still fly between Canada and Alberta.

There is also the possibility a separate Alberta might see more head offices, depending on the policy choices it makes. Lower and simplified corporate taxes, reduced regulation and lower personal taxes might all contribute to greater attraction and retention of head offices. Luxembourg, Switzerland, Singapore and Norway are all small countries with a high concentration of head offices per capita.

Smooth scenario: Alberta is able to keep the head offices it has and can attract new ones by better tax and regulatory policy.

Difficult scenario: Alberta loses a significant number of head offices, particularly from companies that have a significant share of their operations in the RoC.

10. QUANTITATIVE ANALYSIS

Drawing on the preceding qualitative assessments we will now use our CGE model to make quantitative estimates of how various separation shocks might affect a separate Alberta's economy. We introduce shocks related to specific economic outcomes and the model then solves for a new equilibrium. This is to say, the CGE produces an estimate where product markets, labour markets and capital markets all return to balance with the shock taken into account and relative to their inter-sector, inter-region and international linkages. This means we do not need to speculate on or make direct projections on specific issues like investment, total factor productivity and sales. The CGE model generates those projections based on the shocks fed into it.

Of the seven economic areas we've discussed so far in this paper, we formulate shocks for four of them. Specifically, we model shocks across:

- Alberta's trade with other provinces
- The cost of credit
- The energy sector
- Alberta's international (energy) trade^{ad}

That means we do **not** model specific shocks for:

- Alberta's international (non-energy) trade^{ae}
- Migration^{af}
- Currency and the exchange rate^{ag}
- Head office location^{ah}

Non-energy trade is not modelled because it is only a small portion of overall trade, and we do not expect large changes. Migration is important as a shock absorber to the Alberta economy, but not necessarily important as a direct shock itself. When considered in the context of CGE modelling, changes to migration change how labour supply reacts to other economic variables (most notably real wages).^{ai} Varying this, and only this, parameter in the model results in no change from the benchmark level. As a result, we treat this as a secondary effect and do not model it directly. Similarly, changes to currency and exchange rates and impacts on head office location are subsumed within our treatment of borrowing costs as an economic shock.

^{ad} The shocks we model in international trade are confined to trade in energy, and specifically to crude oil.

^{ae} Since energy trade with the United States accounts for about 65 per cent of Alberta's international exports (see section 2.4), we feel this sector deserves more attention in our simulations. We recognize that by not considering other international trade costs we are not fully modelling the difficult scenario. In this scenario, a separate Alberta's accession to the WTO would be drawn out or opposed, causing Alberta exporters to pay higher tariffs (see Section 4.3).

^{af} While we recognize the importance of migration and labour mobility, changes to these factors are uncertain post-separation and do not necessarily reflect an important model shock on their own. From a macroeconomic perspective, migration (specifically labour mobility) governs how quickly population size and labour supply will adjust to changes in other economic outcomes. From the perspective of our CGE model, changes in migration would relate to how quickly the economy adjusts to a long-term equilibrium and not necessarily the economic outcomes once the equilibrium is reached. Speed of adjustment is an area we do not specifically comment on in our quantitative analysis.

^{ag} As we have discussed, monetary issues are closely tied to the question of borrowing costs. Given the level of abstraction in our model, we feel the general macroeconomic effects of these items are best modelled as cost of credit shocks, which are included in our four covered areas.

^{ah} Our model is too aggregate to introduce shocks to specific businesses or office locations. As such, simulations of the impact of these decisions are not feasible.

^{ai} Real variables are those that have been adjusted for prices. So, for example, if wages rise, but prices rise by the same amount, real wages are unchanged.

Prior to discussing the estimates provided by the CGE, we briefly provide an overview of the shocks we used that fed into the model. Since these shocks interact with each other, we run separate simulations for every permutation. This helps us demonstrate how the various aspects of a separate Alberta's economy impact one another.

10.1 SHOCKS TO ALBERTA'S TRADE WITH OTHER PROVINCES

As noted in Section 5, it is improbable that either a separate Alberta or Canada would impose tariffs on trade. But, even with a free-trade agreement in place, trade costs are likely to increase due to non-tariff barriers. The scenarios we model to get a sense of the range of possible impacts are:

- Alberta/RoC Scenario 1: *Benchmark Trade Costs*
 - As an extreme upper limit, trade costs stay at their observed benchmark levels.
- Alberta/RoC Scenario 2: *Least-Favoured Province Trade Costs*
 - In this scenario, a separate Alberta takes on the status of a least-favoured province. This assumes it sees its trade costs with each Canadian province rise to a level where those costs are at least as high as between that province and any other province.^{aj}
- Alberta/RoC Scenario 3: *Brexit-like Trade Costs*
 - In this scenario, we assume a separate Alberta encounters an additional shift in trade costs similar to what the U.K. experienced as it left the EU.^{ak} In line with Ahmet Kaya et al.,^[52] a separate Alberta sees its trade costs scaled up by a further 45 per cent as a result of the kind of increased bureaucratic hurdles, administrative costs and border controls the U.K. has experienced with its trade with the EU.^{al}

^{aj} We arrive at this number by looking at estimates of how much it costs each province (controlling for distance) to trade with another province. For many sectors in Alberta, the cost of exporting to, for example, Ontario, is not as high as it is for some other provinces. This could be due to closer regulatory alignment, easier administrative procedures or something else. It is unlikely a separate Alberta would continue to see its export costs to Ontario be lower than Quebec or Saskatchewan's. In this way, Alberta becomes the least-favoured province (an inversion of the usual most-favoured-nation principle in international economic relations).

For example, if, before separation, Quebec's exporters in a particular sector had the highest cost of exporting to Ontario, Alberta exporters would now have to pay the same costs. However, if Alberta exporters were already paying the highest costs of any province, then in this scenario, nothing would change.

We apply the same approach to imports. The cost to import into each of a separate Alberta's sectors rises to the level of whichever province was the costliest to import from before separation. It is important to note the import costs are just as important as export costs: higher costs for goods and services from the RoC will push up prices and reduce living standards for Albertans. They may also, if they are used by a separate Alberta's businesses as intermediate inputs, increase the cost of Alberta's exports.

^{ak} While the Trade and Cooperation Agreement between the U.K. and the EU provided for tariff-free trade, it did not harmonize regulatory requirements. Indeed, one of the initial rationales for the U.K. leaving the EU was to give the country greater scope to set its own regulations; for many on the Brexit side of the debate, leaving the EU's single market would allow the U.K. to significantly simplify and streamline its regulatory system.

Brexit therefore provides a possible historical parallel for what happens when an economy leaves an arrangement where regulations are essentially harmonized — the EU's "single market" — and creates its own regulatory structure. We do not see it as implausible that an independent Alberta might decide to deviate from federal regulations or from what other provinces do. One example might be federal regulations requiring bilingual labelling, which an independent Alberta might abolish given Alberta's relatively small francophone population.

Even leaving aside regulatory differences, it could well be that the increased bureaucratic hurdles, administrative costs and border controls might increase costs well above what we have assumed in our reasonable smooth scenario: certainly, that is the message of the studies that look at the costs of Brexit.

^{al} Kaya et al.^[43] estimate that EU membership reduced U.K. to EU country trade costs by 31 per cent. The resulting policy experiment is then to scale trade costs up by 45 per cent. To see this, note that [EU Costs = Non-EU Costs x (100 per cent - 31 per cent)] which implies [Non-EU costs = EU Costs x [100 / (100 - 31)]] which simplifies to implies [Non-EU costs = EU Costs x 1.45].

10.2 SHOCKS TO THE COST OF CREDIT

In Section 8.3, we described three shocks to the cost of credit in a separate Alberta. We model all these shocks along with a baseline outcome in which the cost of credit does not change at all. These shock scenarios are:

- Risk Premium Scenario 1: *Benchmark Private Borrowing Costs*
 - As an extreme upper limit, we model a scenario where there is no change to borrowing costs.
- Risk Premium Scenario 2: *+0.46 per cent*
 - In this scenario, a separate Alberta maintains (or regains) its current credit rating and interest rates rise 0.46 percentage points.
- Risk Premium Scenario 3: *+0.72 per cent* (incomplete pass-through)
 - Borrowing rate rises, and there is 62 per cent pass-through, which yields a rise of 0.73 percentage points.
- Risk Premium Scenario 4: *+1.18 per cent*
 - Borrowing rate rises, and there is full pass-through of the 1.18 percentage point increase;

10.3 SHOCKS TO THE ENERGY SECTOR

Given the various options for regulatory, tax and market access reform in the oil and gas sector, and the role of global energy demand unrelated to separation (see Section 3), our approach to modelling this shock is more abstract than the others. Rather than adjusting specific policy variables, we introduce this shock into the CGE model by changing Alberta's resource productivity. This leads us to two scenarios:

- Resource Productivity Scenario 1: *Benchmark*
 - As a lower limit, we model a scenario with no change to a separate Alberta's ability to exploit its natural resources.
- Resource Productivity Scenario 2: *High Productivity*
 - In this scenario, the new country's ability to set its own tax and regulatory policies leads to a moderate but still significant increase in the exploitation of natural resources.^{am}

^{am} This shock is specifically modelled by increasing the resource factor supply by 10 per cent (see [Technical Appendices](#) for more information). This is not a 10 per cent increase in available resources. Nor is it a 10 per cent increase in production. It is a 10 per cent increase in the productivity of non-resource inputs into the resource sector, which in turn allows for better exploitation and a higher return on the resource itself.

10.4 SHOCKS TO ALBERTA'S INTERNATIONAL (ENERGY) TRADE

The positive scenarios for the energy sector shock assume that pipeline access would be available as needed. However, there is the possibility that a future U.S. administration would either restrict pipeline access (as happened when the Biden administration cancelled the Keystone XL permit) or there would be an attempt to elicit concessions on Canadian export prices for crude oil as discussed in Section 3.2.

As a result, we model two scenarios for Alberta/U.S. trade in crude oil.

- WCS/WTI Differential Scenario 1: *Benchmark*
 - In this scenario, we assume excess pipeline capacity, allowing for any increase in production to access U.S. markets. On its own, this scenario reflects the current status quo, but when paired with the positive resource exploitation scenario in Section 4.3 it allows for increased exports to the U.S. with no impact on the implied price differential between the U.S. crude oil production and Canadian pricing.
- WCS/WTI Differential Scenario 2: *High*
 - In this scenario, we increase the benchmark observed price differential between U.S. West Texas Intermediate (WTI) and Western Canadian Select (WCS) oil prices by 20 per cent of the WCS baseline price. This reflects an outcome where either a lack of pipeline access or pressure from the U.S. leads to a wider differential.

10.5 RESULTS

We present results consistent with all permutations and combinations of the shock scenarios we've just described. We do this for two variants of our CGE model.^{an}

- A short-term version, which can broadly be interpreted as impacts within the first five years of separation such that wages remain “sticky” and real capital investment has not yet had time to fully adjust to the implied shocks, and
- A long-term version, which can broadly be interpreted as impacts likely to prevail after multiple decades (20 to 40 years), allowing for real wage and capital investment adjustments.

Given all permutations of shocks and model variants, we run 96 separate simulations.^{ao}

- Model Variants: Short- and Long-Term (x2)
- Alberta vs. RoC Trade costs: Benchmark, Least-Favoured Province, Brexit-Based (x3)
- Cost of Credit: Benchmark, +0.46 per cent, +0.72 per cent, 1.18 per cent (x4)
- Energy Sector: Benchmark, Improved Productivity (x2)
- Energy Trade: Benchmark, Wider WCS/WTI Differential (x2)

All results are presented as percentages relevant to a no-separation baseline.

Tables 15 through 17 illustrate the results for real GDP, real capital income and real labour income respectively.

^{an} In the short term, we assume nominal wages are fixed and that the labour market cannot quickly grow. Whereas, in the long term, the size of the employment is proportional with changes in real wages consistent with an upward sloping labour supply curve. In the short term, the stock of productive capital in each sector is fixed. In the long term, we assume Alberta would have open capital markets such that investment would adjust to accommodate any positive or negative shocks to the economy. See [Technical Appendices](#) for more information.

^{ao} $2 \times 3 \times 4 \times 2 \times 2 = 96$

Table 15. Alberta Separation Impacts on Alberta's Real GDP (per cent change)

			Short Term			Long Term		
Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-2.07	-2.41	0.00	-3.22	-3.73
		0.46	-3.22	-5.18	-5.52	-3.72	-6.82	-7.31
		0.73	-5.02	-6.93	-7.25	-5.79	-8.82	-9.30
		1.18	-7.88	-9.69	-10.00	-9.07	-12.00	-12.46
	High	0.00	-0.04	-2.11	-2.46	-2.14	-5.65	-6.22
		0.46	-3.30	-5.26	-5.59	-6.31	-9.72	-10.28
		0.73	-5.11	-7.02	-7.34	-8.65	-12.01	-12.56
		1.18	-8.00	-9.80	-10.12	-12.40	-15.69	-16.23
Improved	Benchmark	0.00	1.19	-0.89	-1.24	3.41	0.25	-0.24
		0.46	-2.24	-4.21	-4.55	-0.37	-3.41	-3.88
		0.73	-4.14	-6.06	-6.38	-2.48	-5.46	-5.92
		1.18	-7.16	-8.98	-9.29	-5.83	-8.71	-9.15
	High	0.00	1.06	-1.01	-1.37	0.59	-2.90	-3.47
		0.46	-2.38	-4.36	-4.69	-3.70	-7.10	-7.66
		0.73	-4.30	-6.21	-6.54	-6.11	-9.47	-10.02
		1.18	-7.33	-9.15	-9.46	-10.00	-13.29	-13.84

Source: Authors' calculations.

Table 16. Alberta Separation Impacts on Alberta's Real Capital Income (per cent change)

			Short Term			Long Term		
Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-2.22	-2.60	0.00	-2.72	-3.20
		0.46	-3.17	-5.31	-5.68	-2.85	-5.50	-5.97
		0.73	-4.95	-7.05	-7.41	-4.46	-7.07	-7.53
		1.18	-7.77	-9.80	-10.15	-7.06	-9.60	-10.05
	High	0.00	-8.61	-10.90	-11.30	-9.99	-12.88	-13.39
		0.46	-11.51	-13.74	-14.12	-13.14	-15.96	-16.46
		0.73	-13.13	-15.31	-15.69	-14.93	-17.71	-18.21
		1.18	-15.69	-17.80	-18.17	-17.83	-20.56	-21.05
Improved	Benchmark	0.00	1.12	-1.12	-1.51	3.59	0.75	0.24
		0.46	-2.27	-4.43	-4.80	0.68	-2.09	-2.58
		0.73	-4.15	-6.27	-6.63	-0.97	-3.70	-4.18
		1.18	-7.13	-9.17	-9.52	-3.63	-6.29	-6.76
	High	0.00	-7.83	-10.13	-10.53	-7.65	-10.60	-11.14
		0.46	-10.89	-13.12	-13.51	-10.88	-13.77	-14.29
		0.73	-12.58	-14.77	-15.16	-12.73	-15.58	-16.09
		1.18	-15.26	-17.37	-17.74	-15.74	-18.54	-19.04

Source: Authors' calculations.

Table 17. Alberta Separation Impacts on Alberta's Real Labour Income (per cent change)

Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Short Term			Long Term		
			Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-1.95	-2.26	0.00	-4.00	-4.53
		0.46	-2.87	-4.72	-5.02	-4.57	-8.44	-8.95
		0.73	-4.47	-6.27	-6.56	-7.09	-10.89	-11.39
		1.18	-7.02	-8.73	-9.00	-11.06	-14.75	-15.23
	High	0.00	0.78	-1.23	-1.54	-1.32	-5.88	-6.54
		0.46	-2.17	-4.07	-4.37	-6.28	-10.76	-11.41
		0.73	-3.81	-5.65	-5.95	-9.03	-13.47	-14.11
		1.18	-6.41	-8.16	-8.45	-13.38	-17.75	-18.38
Improved	Benchmark	0.00	1.12	-0.84	-1.14	2.85	-0.87	-1.34
		0.46	-1.91	-3.76	-4.06	-1.80	-5.40	-5.85
		0.73	-3.60	-5.40	-5.68	-4.37	-7.90	-8.34
		1.18	-6.28	-7.99	-8.27	-8.42	-11.85	-12.27
	High	0.00	1.73	-0.28	-0.60	0.80	-3.61	-4.24
		0.46	-1.35	-3.26	-3.57	-4.29	-8.62	-9.24
		0.73	-3.07	-4.92	-5.22	-7.11	-11.41	-12.03
		1.18	-5.80	-7.56	-7.84	-11.59	-15.84	-16.45

Source: Authors' calculations.

The tables are largely self-explanatory, but there are some aspects worth highlighting. It is intuitive that larger shocks tend to precipitate larger changes in the reported metrics. For example, holding other scenario areas constant, increasing the cost of credit always leads to lower real GDP, lower capital income and lower labour income. Long-term impacts also tend to be larger than short-term impacts, holding shocks constant. There is one area that violates this pattern. When we improve resource productivity with a benchmark WTI/WCS differential, the resulting capital attraction in the long term implies more favourable long-term outcomes for all three metrics and all Alberta/RoC trade cost scenarios. Holding all other shocks at their benchmark levels, real GDP increases by 1.2 per cent in the short term but by 3.4 per cent in the long term as a result of improved resource productivity.

This does not happen in scenarios where the WTI/WCS differential is increased, because the negative impact of that shock more than offsets the positive impact of the resource productivity shock.

When we consider the distinction between long- and short-term outcomes, it's important to consider how the shocks themselves might be contingent on the timeframe under consideration. If, over years, Alberta built strong institutions and maintained fiscal discipline, it is reasonable to expect the risk premium borrowers demanded might be lower in the long term than in the short term. So, it may be that a +1.18 per cent or +0.73 per cent risk premium would be a more reasonable short-term shock whereas a +0.46 per cent or zero per cent risk premium might be a more reasonable long-term shock.

When we consider labour market outcomes, it is useful to divide labour income into changes to wage rates and changes to employment. Table 18 shows how the real wage rate changes in response to the slate of shocks. Recall from the description above that nominal wages are fixed in the short term, so any short-term changes in real wage are the result of changes to price levels giving the same nominal wage more or less purchasing power.

Table 18. Alberta Separation Impacts on Alberta's Real Wage Rate (per cent change)

			Short Term			Long Term		
Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-0.39	-0.52	0.00	-3.08	-3.48
		0.46	-0.78	-1.19	-1.33	-3.51	-6.53	-6.92
		0.73	-1.20	-1.63	-1.76	-5.47	-8.45	-8.84
		1.18	-1.85	-2.30	-2.44	-8.57	-11.49	-11.87
	High	0.00	3.80	3.77	3.70	-1.01	-4.53	-5.05
		0.46	3.03	2.97	2.90	-4.84	-8.35	-8.85
		0.73	2.61	2.53	2.46	-6.99	-10.48	-10.99
		1.18	1.95	1.85	1.77	-10.41	-13.89	-14.40
Improved	Benchmark	0.00	-0.53	-0.96	-1.10	2.17	-0.66	-1.02
		0.46	-1.22	-1.67	-1.81	-1.38	-4.16	-4.51
		0.73	-1.60	-2.06	-2.20	-3.36	-6.10	-6.45
		1.18	-2.18	-2.66	-2.80	-6.51	-9.20	-9.53
	High	0.00	3.41	3.33	3.26	0.61	-2.77	-3.26
		0.46	2.70	2.60	2.53	-3.30	-6.67	-7.15
		0.73	2.32	2.20	2.13	-5.49	-8.86	-9.34
		1.18	1.71	1.58	1.50	-8.99	-12.36	-12.85

Source: Authors' calculations.

In the short term, the real wage is most uniformly sensitive to changes in the WTI/WCS differential. This may not be an intuitive outcome for many readers as it's hard to see a direct link between crude oil prices and consumer goods price levels. However, this is the result of changes in price levels for other goods in the economy. When oil prices are low, the resource sector requires less labour as it reduces production. Even if nominal wages are fixed, this excess labour migrates to other sectors looking for work, thus increasing production in those sectors, which brings down the equilibrium price for goods and services. But this is not a positive outcome. While the reduction in price levels means higher real wages increase for those who still have jobs, as Table 19 shows, this increase in real wage is consistent with a contraction in employment. This can be interpreted as an increase in involuntary unemployment.

If we consider the least-favoured province / 0.73 per cent / Short-term outcome under benchmark resource productivity and High WTI/WCS Differential, we see that real wages increase by 2.5 per cent, but unemployment rises by a whopping eight per cent. This would be an eight per cent addition to the usual frictional unemployment in the economy. When the Alberta economy is healthy, unemployment runs at between five and eight per cent. As such, this scenario results in unemployment running between 13 and 16 per cent, similar to the rates experienced in the immediate aftermath of the COVID-19 pandemic. In this scenario, those who keep their jobs have slightly more purchasing power, because those who have lost their jobs are buying less.

Table 19. Alberta Separation Impacts on Alberta's Employment (per cent change)

			Short Term			Long Term		
Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-1.57	-1.75	0.00	-0.95	-1.08
		0.46	-2.11	-3.57	-3.74	-1.09	-2.05	-2.18
		0.73	-3.32	-4.72	-4.88	-1.71	-2.67	-2.80
		1.18	-5.27	-6.58	-6.73	-2.71	-3.68	-3.81
	High	0.00	-2.91	-4.81	-5.06	-0.31	-1.41	-1.58
		0.46	-5.05	-6.83	-7.06	-1.51	-2.64	-2.81
		0.73	-6.26	-7.98	-8.20	-2.20	-3.34	-3.51
		1.18	-8.21	-9.83	-10.04	-3.32	-4.49	-4.66
Improved	Benchmark	0.00	1.65	0.12	-0.05	0.66	-0.20	-0.32
		0.46	-0.70	-2.13	-2.29	-0.43	-1.29	-1.41
		0.73	-2.03	-3.41	-3.56	-1.04	-1.91	-2.03
		1.18	-4.19	-5.48	-5.63	-2.04	-2.92	-3.03
	High	0.00	-1.62	-3.49	-3.73	0.19	-0.86	-1.01
		0.46	-3.95	-5.71	-5.94	-1.02	-2.10	-2.25
		0.73	-5.27	-6.97	-7.20	-1.72	-2.81	-2.97
		1.18	-7.38	-9.00	-9.21	-2.85	-3.97	-4.13

Source: Authors' calculations.

We see that as the economy adjusts to separation in the long term, wages fall and the employment returns part of the way, but not fully, to pre-separation levels under most scenarios. This happens as workers adjust their wage expectations to the new post-separation economy. Essentially, labour becomes more willing to work at a lower nominal wage, after adjusting to the new price levels. While we consider our long-term scenarios to be no less than 20 years post-separation, these adjustments in wage expectation could occur faster. Full transition to the long-term outcomes might take more time as inherent lags in changes to capital stock — which are a function of several factors, including physical and financial depreciation rates and investment timelines — play out.

Box 2. Alberta Separation Effects on the RoC

Given the economic linkages between Alberta and other provinces in Canada, one might expect that separation would have economic impacts on the rest of the country. Indeed, our computational general equilibrium projects impacts to other provinces as a result of separation related shocks.

Table 20. Real GDP in the RoC

Province	Least-Favoured Province (%)	Brexit-based (%)
AB	-8.82	-9.30
SK	-3.86	-4.34
MB	-1.06	-1.22
ON	-0.72	-0.87
QC	-0.56	-0.63
N.B.	-0.47	-0.55
B.C.	-0.44	-0.56
N.L.	-0.47	-0.52
N.S.	-0.39	-0.45
P.E.	-0.34	-0.40
Risk premium	-0.73	-0.73
Resource productivity	Benchmark	Benchmark
WTI/WCS differential	Benchmark	Benchmark

Source: Authors' calculations.

Table 20 shows the real GDP impacts of Alberta separation, by province, for a mid-range set of shocks. Intuitively, the shocks to interprovincial trade costs generate the most significant impacts

to the rest of the country. Saskatchewan is hit hardest due to the strong Alberta/Saskatchewan trading relationship. While Saskatchewan may not seem like a particularly important partner for Alberta relative to the other provinces (see Tables 5 and 6), Alberta is an important partner for Saskatchewan. This relationship is similar for Manitoba, the other Prairie province.

Alberta separation matters less for the larger provinces, Ontario, Quebec and British Columbia. There are two reasons for this. First, these provinces are larger, implying more diverse economies because of their size. Second, the most dominant exports from Alberta to these provinces come from the manufacturing sector and the mining, quarrying and oil and gas sectors. These sectors have low observed trade costs and similarly have low relative trade costs in our least-favoured province and Brexit-based trade cost shocks. It is worth noting that if these trade costs were to increase, these provincial economies would suffer more as a result of a separate Alberta, but so would Alberta's economy.

An element missing from these projections is the overall impact on the Canadian dollar and resulting impacts on import costs. As discussed in Section 7, there are multiple options for monetary policy in an independent Alberta. If Alberta were to adopt its own currency, it is possible the Canadian dollar would weaken relative to the currencies of its trading partners, which would be reflected in larger reductions in real GDP compared to what is modelled here.

Outside of the shift in borrowing costs, much of the potential economic damage to Alberta that could result from separation comes from a reduction in interprovincial trade. Specifically, interprovincial trade between Alberta and other provinces falls, which reduces Alberta's ability to benefit from gains from trade with the RoC. Tables 21 and 22 show the relative change to interprovincial (Alberta vs RoC) exports and imports under our set of simulations.

Table 21. Alberta Separation Impacts on Alberta Interprovincial Exports (per cent change)

			Short Term			Long Term		
Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-26.84	-30.60	0.00	-27.45	-31.30
		0.46	-2.21	-28.29	-31.92	-2.59	-29.33	-33.06
		0.73	-3.44	-29.09	-32.66	-4.03	-30.37	-34.03
		1.18	-5.37	-30.37	-33.83	-6.30	-32.00	-35.56
	High	0.00	32.67	2.22	-2.68	37.99	6.28	1.28
		0.46	30.23	0.57	-4.19	35.36	4.27	-0.61
		0.73	28.87	-0.37	-5.05	33.89	3.14	-1.67
		1.18	26.69	-1.86	-6.41	31.53	1.34	-3.38
Improved	Benchmark	0.00	-0.04	-26.78	-30.50	-1.67	-28.42	-32.12
		0.46	-2.23	-28.22	-31.83	-4.20	-30.25	-33.83
		0.73	-3.44	-29.02	-32.57	-5.61	-31.26	-34.78
		1.18	-5.36	-30.30	-33.75	-7.82	-32.86	-36.27
	High	0.00	32.89	2.53	-2.38	37.57	6.29	1.33
		0.46	30.44	0.85	-3.92	34.97	4.30	-0.55
		0.73	29.07	-0.10	-4.79	33.52	3.19	-1.60
		1.18	26.88	-1.62	-6.18	31.22	1.41	-3.28

Source: Authors' calculations.

Table 22. Alberta Separation Impacts on Alberta Interprovincial Imports (per cent change)

			Short Term			Long Term		
Resource Productivity	WTI/WCS Differential	Risk Premium (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)	Benchmark Trade Costs (%)	Least-Favoured Province (%)	Brexit-Based (%)
Benchmark	Benchmark	0.00	0.00	-35.14	-42.31	0.00	-36.21	-43.31
		0.46	-1.43	-36.04	-43.11	-2.04	-37.47	-44.44
		0.73	-2.27	-36.57	-43.59	-3.18	-38.18	-45.07
		1.18	-3.66	-37.47	-44.39	-4.98	-39.30	-46.07
	High	0.00	-13.97	-46.08	-52.67	-13.80	-47.35	-53.90
		0.46	-15.25	-46.88	-53.37	-16.20	-48.84	-55.20
		0.73	-16.01	-47.34	-53.79	-17.57	-49.69	-55.94
		1.18	-17.24	-48.12	-54.48	-19.79	-51.08	-57.16
Improved	Benchmark	0.00	1.47	-34.13	-41.43	4.76	-32.91	-40.41
		0.46	-0.19	-35.19	-42.38	2.67	-34.20	-41.56
		0.73	-1.16	-35.81	-42.93	1.51	-34.92	-42.20
		1.18	-2.74	-36.84	-43.84	-0.34	-36.08	-43.23
	High	0.00	-12.81	-45.28	-51.96	-10.39	-45.03	-51.85
		0.46	-14.29	-46.20	-52.78	-12.94	-46.62	-53.25
		0.73	-15.15	-46.74	-53.26	-14.40	-47.53	-54.05
		1.18	-16.54	-47.63	-54.04	-16.79	-49.05	-55.38

Source: Authors' calculations.

From Table 21, we can see that increasing Alberta/RoC trade costs reduces interprovincial exports by about a third. The effect is exacerbated, but only marginally, by increases to the risk premium. However, this impact is offset by changes to the WTI/WCS differential in scenarios where we consider worsening trade with the US. This occurs because reduced Alberta/US trade reduces the opportunity cost to Alberta of trading with the RoC. Essentially, Alberta output becomes less valuable (since the US economy is purchasing less of it) and as a result Alberta trades more with the RoC as a substitution for the lost US market, increased trade costs notwithstanding. The situation is largely mirrored on the import side, however AB/RoC trade costs harm imports to Alberta more than exports from Alberta. Meaning it will end up costing Alberta more to import from the RoC such that the Alberta will import less from the RoC instead substituting to more domestic production (at higher production costs) and more imports from abroad (which, again, will be more expensive than pre-separation interprovincial imports but less expensive than post-separation interprovincial imports).

10.6 QUANTITATIVE ANALYSIS SUMMARY

Table 23 shows a summary of the short-term versions of the detailed results for a subset of our scenario permutations. Specifically, it shows the long-term outcomes for the reasonable (if extreme) difficult scenario, the reasonable (if extreme) smooth scenario and a select mid-range scenario. If we focus on short-term scenarios, it's notable that this table does not include results in which the cost of credit remains at the benchmark level. We report these outcomes in the tables in Section 10.5 for completeness, but as discussed in Sections 7 and 8, it is not reasonable to expect that there would be no increase in perceived risk, and so demanded risk premium, in the short term following separation. As a result, we do not feel scenarios with no increases in borrowing costs would be reasonable in the short term.

Table 23. Short-Term Summary (per cent change)

	Smooth Scenario (%)	Mid-Range Scenario (%)	Difficult Scenario (%)
Real GDP	-2.24	-9.69	-10.12
Nominal wage rate	0.00	0.00	0.00
Real wage rate	-1.22	-2.30	1.77
Employment	-0.70	-6.58	-10.04
Real labour income	-1.91	-8.73	-8.45
Real capital income	-2.27	-9.80	-18.17
Resource-sector revenue	0.93	-6.24	-21.13
Resource-sector price	-0.11	0.24	-12.99
<i>Risk premium</i>	0.46	0.73	1.18
<i>Resource productivity</i>	<i>High</i>	<i>Benchmark</i>	<i>Benchmark</i>
<i>WTI/WCS differential</i>	<i>Benchmark</i>	<i>Benchmark</i>	<i>High</i>
<i>AB/RoC trade costs</i>	<i>Benchmark</i>	<i>Least-favoured province</i>	<i>Brexit-based</i>

Source: Authors' calculations.

*All values are for long-term scenarios.

Table 24 shows a summary of the long-term versions of the previous results for a subset of our scenario permutations. Specifically, it shows the long-term outcomes for a reasonable difficult scenario, a reasonable smooth scenario and a select mid-range scenario. The smooth scenarios here assume normalization of borrowing costs as a separate Alberta builds and maintains strong financial and regulatory institutions.

Table 24. Long-Term Summary (per cent change)

	Smooth Scenario (%)	Mid-Range Scenario (%)	Difficult Scenario (%)
Real GDP	3.41	-8.82	-16.23
Nominal wage rate	2.90	-6.37	-12.91
Real wage rate	2.17	-8.45	-14.40
Employment	0.66	-2.67	-4.66
Real labour income	2.85	-10.89	-18.38
Real capital income	3.59	-7.07	-21.05
Resource-sector revenue	8.53	-2.05	-24.78
Resource-sector price	-0.66	-0.15	-12.37
<i>Risk premium</i>	0.00	0.73	1.18
<i>Resource productivity</i>	<i>High</i>	<i>Benchmark</i>	<i>Benchmark</i>
<i>WTI/WCS differential</i>	<i>Benchmark</i>	<i>Benchmark</i>	<i>High</i>
<i>AB/RoC trade costs</i>	<i>Benchmark</i>	<i>Least-favoured province</i>	<i>Brexit-based</i>

Source: Authors' calculations.

*All values are for long-term scenarios.

We conducted our CGE modelling to generate reasonable estimates for each of the shocks considered. As such, the smooth and difficult scenarios are intended to establish the “bookends” for how the shocks would affect a separate Alberta’s economy. Specifically, relative to a no-separation baseline, separation would result in long-term GDP impacts between +3.4 per cent and -16.2 per cent with corresponding changes to labour income of between +2.2 per cent (a +2.2 per cent change in real wage and a +0.7 per cent change in employment) and -18.4 per cent (reflecting a -14.4 per cent change in real wage and a -4.7 per cent change in employment). For clarity, the negative GDP impacts and others should not be interpreted as a projection that Alberta’s economy would necessarily shrink in the long term relative to its size today, but rather that it would be smaller than it otherwise would have been if Alberta had chosen not to separate.

The reasonable range of short-term outcomes is similarly a real GDP impact of between -2.2 per cent and -10.1 per cent with corresponding changes to labour income of between -1.9 per cent and -8.5 per cent (through increased unemployment and inflation as nominal wages are assumed to be sticky — to move relatively slowly).

11. SUMMARY

As a relatively small open economy, and one that is currently part of a large and stable federation, Alberta is highly dependant on trade. This is true for both imports and exports interprovincially and internationally, although the international market matters more for exports than it does for imports. The province's energy exports are at the core of this trading relationship.

Separation presents a potential opportunity for Alberta to improve productivity in the resource sector, allowing the province to better exploit its non-renewable resources. But improved resource-sector performance is contingent on continued market access, both to the RoC and far more importantly, to the U.S. market which in turn requires a favourable attitude from Washington and strong world energy prices.

In considering world energy prices and other exogenous shocks to the Alberta economy, particularly those unrelated to separation itself, we note that migration and labour mobility are an important aspect of separation. Currently, the labour mobility between Alberta and the RoC constitutes an important shock absorber for the Albertan economy, allowing more labour in when positive shocks arrive, and for it to leave in the wake of negative shocks. Absent this migration, price levels would rise faster in boom times and unemployment would increase more during busts. These represent real costs of labour immobility. However, we expect that a substantial degree of labour mobility could be maintained, with separation giving Alberta more control over international immigration.

The most likely outcome for international trade would be a short-term disruption in international trade agreements followed by normalization of trade relationships. However, trade with the U.S. remains an area of significant uncertainty. This is particularly relevant for a separate Alberta's energy trade as the United States is the province's single biggest export sector and single biggest export partner by a wide margin.

In the short term, we see no reasonable expectation of economic improvements. Our projections show reductions in real GDP of between 2.2 per cent (a moderate recession) and 10 per cent (a much more devastating contraction). This is largely due to the expected increase in borrowing and credit costs faced by the province and the resulting chill on capital income and investment.

In the long term, there is scope for economic benefits from separation, but in our view these benefits are likely to arise from growth in only one sector: mining, quarrying and oil and gas extraction. The impact on GDP is negative across most of our long-term projections due mostly to expected increases in trade and borrowing costs. To be consistent with our modelling results, those arguing for the economic benefits of separation in the long term are obliged to be optimistic about where trade and credit costs are headed or very optimistic about the benefits for productivity in the non-renewable resources sector.

- The most optimistic outcome we can credibly produce when reviewing the existing literature and feeding reasonable shocks into our model is a positive impact of 3.4 per cent relative to a no-separation benchmark. The implication is that several decades after separation, Alberta's economy is permanently 3.4 per cent larger than it would have been had it remained in Confederation.
- On the opposite end, the most reasonable pessimistic outcome results in real GDP falling by 16.2 per cent. Again, the implication is that in the long term, a separate Alberta's economy is permanently 16.2 per cent smaller than it would have been if it had remained in Confederation.

This is admittedly a very wide range of possible outcomes, but it allows for confidence that the actual outcome of separation would be within these bookends.

The more detailed tables above allow readers to explore several intermediate scenarios with less or greater severe shocks. Implicit in these scenarios is the possibility that some companies might relocate away from Alberta, although others might come if there were a favourable tax and regulatory environment.

Finally, we note a separate Alberta would likely need to keep the Canadian dollar in the very short term. This would have the benefit of reducing separation's impact on borrowing costs, but the new country would likely want, in the long term, to have its own currency. This would allow it to run its own monetary policy, thus improving long-term outcomes, particularly those involving real wages. Sovereign monetary policy would permit more effective responses to inflationary or deflationary shocks to a separate Alberta's economy.

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