

Updated December 2023

## QUEBEC'S CAP-AND-TRADE SYSTEM AT A GLANCE

Years in operation	<p>First compliance period: 2013-2014</p> <p>Second: 2015-2017</p> <p>Third: 2018-2020</p> <p>Fourth: 2021-2023</p> <p>Fifth: 2024-2026</p> <p>Subsequent compliance periods also last for three years.</p>
Overall cap & trajectory	The 2023 cap is 52.79 million tCO <sub>2</sub> e and will decrease by 1.235 million tCO <sub>2</sub> e annually to reach 44.14 million tCO <sub>2</sub> e by 2030.
Target(s)	A 20% reduction from 1990 levels by 2020, followed by a 37.5% reduction from 1990 levels by 2030
Sectors covered	<p>Entities emitting 25,000 tCO<sub>2</sub>e or more per year</p> <p>Voluntary participants emitting 10,000 tCO<sub>2</sub> per year</p> <p>Fossil fuel distributors</p> <p>Electricity producers and importers</p>
GHGs covered	<p>CO<sub>2</sub></p> <p>CH<sub>4</sub></p> <p>N<sub>2</sub>O</p> <p>HFCs</p> <p>PFCs</p> <p>SF<sub>6</sub></p> <p>NF<sub>3</sub>, and other fluorinated GHGs</p>
# of covered entities	133 entities with a compliance obligation under the emissions trading scheme in 2023.
Allocation method	<p>Allowances can be allocated for free, acquired at auctions, or obtained through mutual agreements with the Minister.</p> <p>Participants are required to have a CITSS account to participate in auctions, which are conducted in collaboration with California.</p> <p>Auctions feature a reserve price, set at US\$22.21 in 2023, increasing by 5% each year plus inflation. There is no maximum price limit. Allowances are sold in lots of 1,000.</p> <p>A new feature for Quebec, effective in 2024, involves consigned allowances (free allocations intended for auction sales to finance reduction projects, subject to certain conditions).</p>
Trading rules	<p>Establishments emitting between 10,000 tCO<sub>2</sub>e and 25,000 tCO<sub>2</sub>e have the option to register and participate voluntarily.</p> <p>Investors, brokers, consultants, offset credit promoters, and other unregulated participants are permitted. Clearinghouses are also allowed.</p>
Use of offsets and linking	Only offset credits issued by the governments of Quebec or California are recognized.



	<p>Offset protocols defined in the Quebec and California regulations are the only eligible project types.</p> <p>There is an 8% limit on the use of offsets to meet compliance obligations.</p> <p>Quebec became linked with California via the WCI in 2014.</p> <p>A declaration was signed in 2019 with Chile to allow collaboration on carbon markets and other matters.</p> <p>Washington Ecology released a preliminary report on October 12, 2023 discussing the potential linkage of the state's carbon market with the Western Climate Initiative (WCI) linked Quebec and California market.</p>
Other features	<p>Holding limits are in place to restrict the number of GHG emission units that any given emitter or participant can hold. The holding limit is calculated based on the cap.</p> <p>There are allowance purchase limits per bidder set at each auction.</p> <p>All allowances must be surrendered by November 1 following the end of the compliance period.</p>
Penalties for non-compliance	<p>Suspension of the entity's account and a fine of three additional allowances is imposed for each allowance shortfall at the end of the compliance period.</p> <p>Individuals legally responsible for non-compliance can face fines and up to 18 months of imprisonment for individuals. The fines double for a second offense.</p> <p>Allocation can be suspended for non-compliant emitters.</p>
Use of revenues	<p>Starting from November 1, 2020, the Electrification and Climate Change Fund (ECCF) has replaced the former Green Fund.</p> <p>All auction proceeds are directed to the ECCF, which funds initiatives outlined in the '2030 Plan for a Green Economy' and sustains commitments from the '2013-2020 Climate Change Action Plan.'</p> <p>The '2030 Plan for a Green Economy' is the government's 10-year electrification and climate change policy framework, supplanting the 2013-20 Climate Change Action Plan that expired on March 31, 2021.</p>

## Major Developments

On February 28, 2023, the California Air Resources Board (CARB) and the Ministère de l'Environnement, de la Lutte contre les changements climatiques (MELCC) announced regulatory amendments to the Cap-and-Trade Regulation, emphasizing the need to align the program with the climate goals of each jurisdiction.

The goal of this approach is to ensure that the Cap-and-Trade System remains an effective tool in achieving greenhouse gas emissions reduction targets by 2030 and carbon neutrality by 2050. A similar process is taking place in California, Quebec's partner in the Western Climate Initiative carbon market. Both

governments are working together as their carbon markets are linked.

On June 14, 2023, CARB and the MELCC held a workshop to inform the public and entities registered with the Cap-and-Trade System about the elements that will be addressed and the timeline for assessing the system's operating parameters.

The discussions revolve around several main themes common to both jurisdictions:

- Annual emission allowance caps within the context of carbon neutrality by 2050 and saved and accumulated emission allowances.



- Market control mechanisms.
- Offsets, carbon sequestration, and new green energies in a market context.

Quebec is also addressing specific elements:

- The publication of market data.
- Reporting GHG transfers between facilities.
- Modification of the global warming potentials (GWP).
- Duration of compliance periods and the possibility of adding emission allowances surrender as part of partial compliance.

In Quebec, two workshops have already been conducted to assess these elements.

- The primary objective of enhancing data publication is to increase transparency and promote better data assessment for all stakeholders.
- Another goal is to improve data reconciliation concerning compliance periods and partial compliance. This aims to provide deeper insights into the market and ensure a fairer distribution of emission allowances over time.
- Additionally, there is a priority to update Global Warming Potentials (GWPs), values used for comparing the warming potential of GHGs to carbon dioxide. These values influence emission intensity calculations by the MELCC, impacting free allowances and holding limits. The existing GWP values date back to the IPCC's 4th report in 2007, and there's a desire to potentially update them to align with the IPCC's 5th Assessment Report from 2014.

In November and December, two more workshops were held covering the following topics.

- California reaffirmed its commitment to reducing emissions through three pathways: aiming for a 40% reduction by 2030 (equivalent to 115 million credits), targeting a 48% decrease (265 million credits), and striving for a 55% reduction (390 million credits). Quebec, for the first time, explored reducing allocations by 17 million by 2030, aligning with observed supply and demand from 2013 to 2020.
- Modeling forecasts from California and Quebec suggest higher carbon prices, projecting a range of CAD 102 to CAD 127 by 2030. Quebec's corresponding reduction could range between 18.7 to 20 million credits.
- MELCC and CARB are finalizing details for allocation reductions, considering options like reserves, price cap units, auctions, and free allocations. California leans towards unit withdrawal, while Quebec, lacking units for the price cap, considers auctions or reserves.
- Capturing and permanently storing emissions from sectors challenging or impossible to electrify or decarbonize under the WCI in Quebec. These deductions could be applied to reporting.

These workshops pave the way for formal rulemaking and program re-adoption by each jurisdiction. CARB's timeline aligns with finalization by the end of 2024 with implementation of tighter caps in 2025. Quebec's website indicates the enactment of new regulations in the summer of 2024, potentially placing it on an accelerated timeline compared to CARB.

WCI Program Re-Adoption Timeline	
California	Quebec
14 June 2023 Joint Kick-Off Workshops	
27 July 2023: Workshop on Cap Trajectories and Allowance Allocations (comments accepted through 17 August)	August to November 2023: Webinars on the main themes, collection and publication of stakeholder feedback
Detailed timeline TBD:	Winter 2024:





Expectation for 2023 Pre-Rulemaking followed by Formal Rulemaking, which may or may not be initiated this year. Final regulations likely adopted in 2024 for 2025 implementation. By law, CARB has one year to submit rulemaking record once the Initial Statement of Reasons (ISOR) is published

Publication of a draft regulation or other legislative instrument

Summer 2024:

Enactment of regulations or other legislative instruments

The regulatory landscape regarding offset credits is rapidly changing as well. Offset credits within Quebec have been integrated into the Regulation respecting the cap-and-trade system for greenhouse gas emission allowances (RSPÉDE) to facilitate the creation, modification, and enhancement of these projects. The MELCC has worked to simplify the existing regulations, reducing the number of protocols from 5 to 3 regulations (related to methane destruction, hydrocarbon destruction, and afforestation on private lands).

To enable the realization of a greater number of offset credit projects and increase the supply of Quebec credits, a new regulation concerning offset credit projects is being developed. Work is underway to finalize the regulation project related to biomethanization projects. Taking into account the types of projects applicable in Quebec and their potential for greenhouse gas emission reduction, more project types have been selected for feasibility analysis, potential assessment, or technical development work. Up to October 2023, only 1.48 million of credits have been issued in Quebec (versus 253.8 million in California).

## Market Commentary

### California Cap-and-Trade Market: Regulatory Developments and Price Trends

The California Cap-and-Trade (CCA) market has seen significant shifts in 2023 due to regulatory developments and anticipations of future policy changes.

#### Price Momentum and Regulatory Developments

At the beginning of the year, CCA prices had a relatively slow start, opening at USD 28.30 in January 2023. This was primarily due to the absence of significant WCI-specific drivers that could decisively influence prices. Consequently, CCAs were likely to follow the broader financial market trends during this period. However, from February onwards, they began to gain momentum, reaching \$29.44 in April 2023. This shift in momentum can be largely attributed to crucial regulatory developments and upcoming changes. The joint workshop held in June by Quebec and California triggered a price rally, reflecting broader financial market movements. Speculative trading gained more interest as investor confidence increased with each subsequent workshop. The price of CCAs continued to climb, reaching USD 31.57 in June 2023 and eventually reaching an all-time high of USD 37.08 on September 12, 2023. However, as market participants digested the workshop outcomes, CCA prices have started to decrease in recent days, settling at USD

36.00 in October. Continued speculative interests on the regulatory updates have pushed CCA prices close to USD 40 by the end of 2023.

#### Driving Factors for CCA Prices

The catalyst behind the price surges in the CCA market has been a series of workshops held in California. Notably, an anticipation workshop played a pivotal role in driving CCA prices upward. This upward trend was instigated by the California Air Resources Board's (CARB) intention to reduce surplus allowances. They aimed to achieve this by adjusting cumulative supply based on lower inventory emissions.

#### Rulemaking Workshop

One of the most anticipated events in the CCA market is a CARB Cap-and-Trade rulemaking workshop scheduled to take place between June and December 2023. During this event, stakeholders expect California to align its cap trajectory with the ambitious goal of a 48% reduction in emissions by 2030, compared to 1990 levels. This alignment with California's climate goals has had a ripple effect on CCA prices, resulting in gradual increases throughout the year.

July 27 CARB Cap-and-Trade Workshop:



- At the July 27 CARB Cap-and-Trade Workshop, important steps were taken to align the program with the 2022 Scoping Plan. Notably, this event introduced cap scenarios designed to tighten regulations for the 2030 targets. These scenarios, with emission reductions of 40%, 48%, or 55%, are not just about numbers; they symbolize CARB's proactive approach to meet its 2030 goals through specific regulatory adjustments. Post-2030 Cap-and-Trade Allowance Budget Scenarios

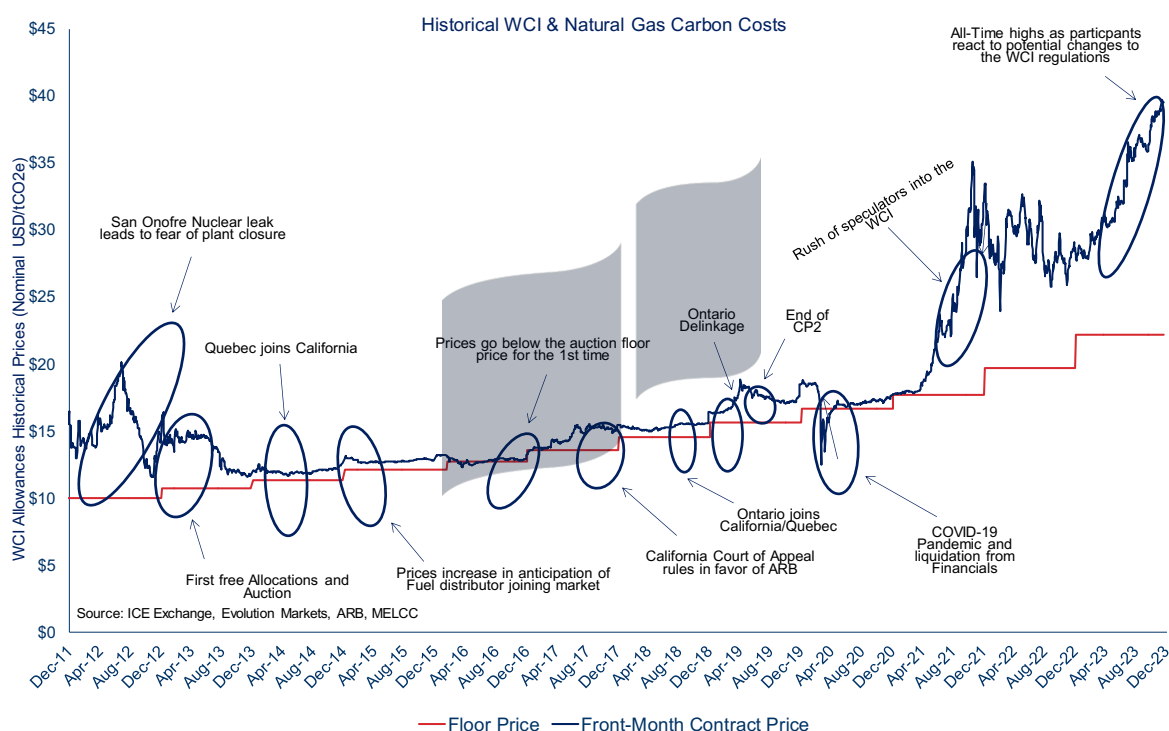
October 5 CARB Cap-and-Trade Workshop:

- Additionally, post-2030 Cap-and-Trade allowance budget scenarios were discussed. They revolve around

the aim of an 85% emission reduction by 2045, resulting in a 2045 allowance budget of 30.3 million allowances. This budget, reflecting a 47% share of Cap-and-Trade in the 2045 statewide target, contrasts with the 77% share anticipated for the 2030 cap. Over time, a decrease in the portion of state emission sources governed by Cap-and-Trade is projected between 2030 and 2045.

## Trading Activity and Future Expectations

The average daily trading volume for CCA over the year 2023 has been around 5.4 million contracts. As stakeholders eagerly await the outcome of regulatory discussions, it is anticipated that activity within the CCA market will continue to increase.



## Useful Links

[Program details, Quebec Environment and Climate Change Ministry](#)

[ICAP ETS Quebec Factsheet](#) (updated March 2023)

[2030 Plan for a Green Economy](#)

[Plan to fight against climate change](#)

[Use of Revenue](#)

## References

[Regulation respecting a cap-and-trade system for GHG allowances](#) (updated March 1<sup>st</sup>, 2022)

[Assessment of the operating parameters of the Cap-and-Trade System](#)

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