

# CARBON MARKET BUSINESS BRIEF

## QUEBEC

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

Years in operation	<p>First compliance period: 2013-14            Second: 2015-17            Third: 2018-20            Fourth: 2021-23            Fifth: 2024-26            Subsequent compliance periods last three years.</p>
Overall cap & trajectory	<p>The 2022 cap is 54 million and will decrease by 1.235 million tCO<sub>2</sub>e on average per year to reach 44.14 MtCO<sub>2</sub>e in 2030.</p>
Target(s)	<p>20% reduction from 1990 levels by 2020;            37.5% reduction from 1990 levels by 2030</p>
Sectors covered	<ul style="list-style-type: none"> <li>• Entities emitting 25,000 tCO<sub>2</sub>e or more per year</li> <li>• Voluntary participants emitting 10,000 tCO<sub>2</sub> per year</li> <li>• Fossil fuel distributors</li> <li>• Electricity producers and importers</li> </ul>
GHGs covered	<p>CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>, NF<sub>3</sub>, and other fluorinated GHGs</p>
# of covered entities	<p>130 entities with a compliance obligation</p>
Allocation method	<p>Allowances are allocated for free, purchased at auctions, or sold by mutual agreement with the Minister.</p> <p>Participants must have a CITSS account to bid at an auction. Auctions are held jointly with California.</p> <p>The auctions have a reserve price, set at US\$19.70 in 2022, which increases 5% each year plus inflation. There is no maximum price. Allowances are auctioned in lots of 1000.</p>
Trading rules	<p>Establishments emitting more than 10,000 tCO<sub>2</sub>e but less than 25,000 tCO<sub>2</sub>e may register to participate voluntarily.</p> <p>Investors, brokers, consultants, offset credit promoters, and other unregulated participants are allowed. Clearinghouses allowed.</p>
Use of offsets and linking	<p>Only offset credits issued by the governments of Quebec or California are recognised.</p> <p>Offset protocols defined in the Quebec and California regulations are the only project types eligible.</p> <p>8% limit on use of offsets to meet compliance obligations.</p> <p>Linked with California via the WCI in 2014.</p> <p>Declaration signed in 2019 with Chile to allow collaboration on carbon markets and other matters.</p>

Other features	<p>Holding limits to restrict the number of GHG emission units that can be held by any given emitter or participant. The holding limit is calculated based on the cap.</p> <p>Allowance purchase limits per bidder set at each auction.</p> <p>Allowances must be surrendered by 1 November 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 must be surrendered for each allowance short at the end of the compliance period.</p> <p>Persons legally responsible can be fined for non-compliance and 18 months jail time for individuals. Fines double in second offence.</p> <p>Allocation can be suspended for non-compliant emitters.</p>
Use of revenues	<p>As of 1 November 2020, the Electrification and Climate Change Fund (ECCF) replaces the former Green Fund.</p> <p>All proceeds from auctions go to ECCF which are being used to implement measures in the "2030 Plan for a Green Economy" and will cover ongoing commitments under "2013-2020 Climate Change Action Plan".</p> <p>The "2030 Plan for a Green Economy" is the electrification and climate change policy framework that will serve as the government's roadmap over the next 10 years. It replaces the 2013-20 Climate Change Action Plan, which expired on 31 March 2021.</p>

## MAJOR DEVELOPMENTS

HEC University Montreal released its annual report on the state of emission reduction in Quebec. They found that Quebec has not reduced its emissions – especially from industrial sources – fast enough. One way the Quebec government is planning to accelerate its emission abatement is through the Green Economy Plan 2030 (GEP 2030) and the Implementation Plan (IP) 2021-26. The GEP 2030 is an electrification and climate change policy framework which will contribute to achieving Québec's GHG emission reduction target for 2030 of 37.5% below 1990 levels, and to reaching carbon neutrality by 2050.

### 2030 Plan for a Green Economy

- Reduce GHG emissions by 37.5% below 1990 levels by 2030
- Achieve carbon neutrality by 2050
- Have 1.5 million electric vehicles on the road by 2030
- No sales of new gasoline-powered cars and passenger trucks vehicles as of 2035
- Electrify 100% of governmental cars, SUVs, vans and minivans and 25% of pickup trucks electrified in 2030
- Reduce 50% of emissions related to heating for buildings by 2030
- Reduce 60% of emissions from government buildings by 2030.
- Ensure 10% renewable natural gas in the network in 2030.
- Increase 50% in bioenergy production by 2030
- Provide 70% of off-grid systems energy supply from renewable sources by 2025
- Ensure 15% ethanol in gasoline by 2030 and 10 % in biobased diesel fuel by 2030

Achieving the 2030 target corresponds to an emission level of 54 MtCO<sub>2</sub>e. According to the GEP 2030, it is estimated that GHG emissions in the province could reach 83 MtCO<sub>2</sub>e in 2030 without the continuation of current efforts or the implementation of new measures. The Québec government thus estimates a required reduction of 29 MtCO<sub>2</sub>e by 2030, nearly four times the reductions achieved between 1990 and 2017.

The IP 2021-26 is the first five-year plan guiding the implementation of the GEP 2030. The IP 2021-26 is articulated in five

focus areas that reflect the structure of the GEP 2030:

- Mitigating climate change
- Building tomorrow's economy
- Adapting to climate change
- Creating a predictable and enabling environment for climate transition
- Accelerating knowledge development

The five-year plan will be reassessed annually, during which the government will consider the latest data and what has been achieved, particularly concerning GHG emissions, climate change, and associated scientific knowledge. The transportation sector (43.3%), the industrial sector (30.5%), and the building sector (10.3%) were the three highest GHG-emitting sectors in 2017, accounting for nearly three-quarters of GHG emissions in Québec and will therefore play a key role in the emission reduction targets.

In early May 2022, the government of Quebec released draft regulation, proposing an average 2.7% annual reduction in free allowance allocation over the 2024-30 compliance period, to achieve reductions in alignment with the province's 2030 emissions target. A significant portion of emission units withheld as result of the reduced free allocation would be auctioned off, with proceeds being channelled to regulated emitters to finance emission reduction projects.

## MARKET COMMENTARY

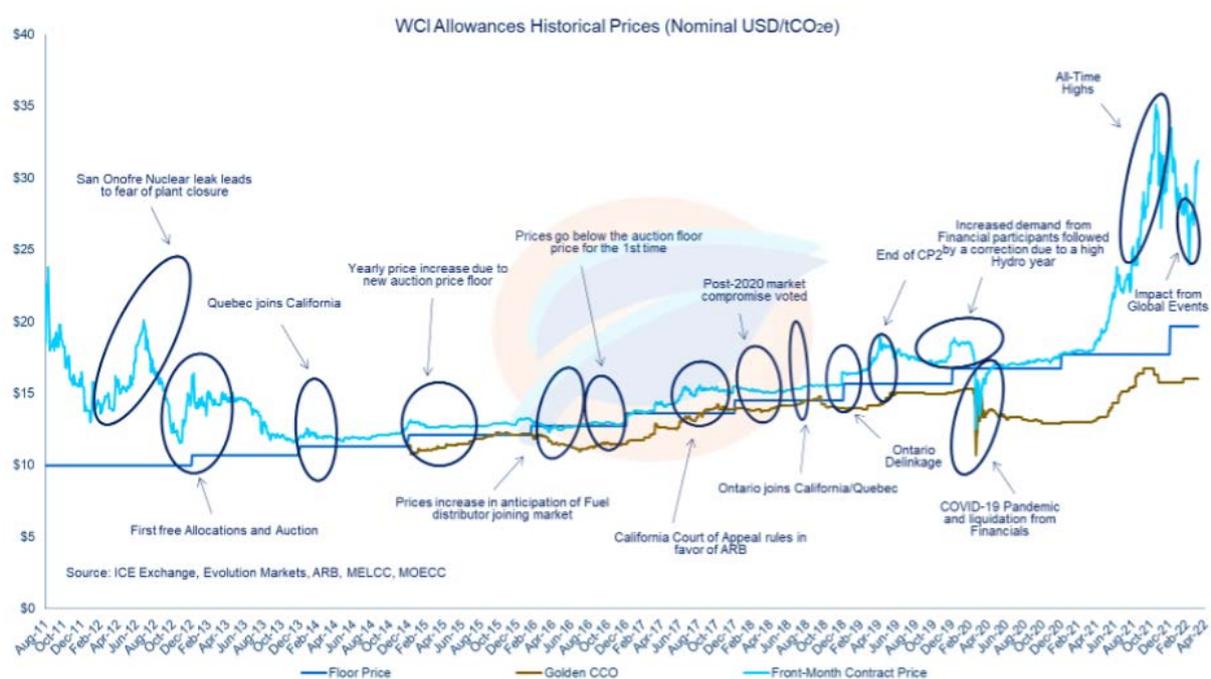
The COVID-19 pandemic has caused considerable economic uncertainty across all industries. On the WCI market, allowance prices on the secondary market were very volatile at the start of the pandemic, as lockdowns were implemented in Quebec and California.

In January 2021, prices hit the 2021 auction floor price (US\$17.71) and remained more or less stuck until April, when the WCI market began to see significant action, as seen in the price chart below. This development is due to various factors:

- 1) the lifting of pandemic-related restrictions and the reopening of the economy;
- 2) higher-than-expected inflation that will drive up the 2022 auction floor price; and
- 3) new US and Canada national emissions targets for 2030 that could lead to stricter programme rules.

The biggest factor, however, was the significant increase in speculative activities in the WCI market during 2021, a similar phenomenon that was previously observed in the EU ETS. As a result, prices in the secondary market increased by almost 70% in 2021. This confluence of trends indicates that it is likely the WCI allowance prices will continue to rise in the immediate term.

WCI allowances started 2022 on a mixed note, with prices stagnating in the first months of the year. This is due to a volatile global situation with potential increases in interest rates and inflation. This has led to some de-risking of investor portfolios leading to some sell-off of risky assets. WCI allowances have recovered some of their losses coming into April, although the precarious global situation points to a volatile environment for the rest of the year.



## USEFUL LINKS

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

[ICAP ETS Quebec Factsheet \(updated March 2022\)](#)

[2030 Plan for a Green Economy](#)

[Plan to fight against climate change](#)

[Use of Revenue](#)

## REFERENCE

[Regulation respecting a cap-and-trade system for GHG allowances \(updated 1 November 2021\)](#)

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