MARKET DEVELOPMENTS

In September, **the leaders of Ontario, Québec and California signed an Agreement on the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions** (aka "linkage agreement"). By signing the trilateral agreement, Ontario will formally join the Québec-California" regional cap-and-trade market, effective 1 January 2018. This will see all three governments host joint allowance auctions and harmonise "regulations and reporting". The first tripartite auction will be held in February 2018.

EU policymakers have moved to "Brexit-proof" the bloc's emissions trading system (ETS), in preparation for the UK's departure from the union in March 2019. Via an amendment to a bill pertaining to aviation in the EU ETS, negotiators from the European Parliament and the Council adopted a proposal to "mark" UK-issued EU allowances from January 2018 so that, in the event of the UK leaving the EU without a deal for the ETS, these units can be nullified. It also prohibits their use for compliance with 2017 emissions; the true-up deadline for this calendar year is end of April 2018. As this issue went to press, the European Commission had proposed a draft regulation to amend the EU ETS Registry Regulation to implement the Brexit safeguard amendment.

Meanwhile, **trilogue discussions on reform to the EU ETS** remain ongoing at the time of going to press in late October. After a mammoth negotiating session between representatives from the European Parliament, the Council and the European Commission that went on until the early hours of the morning in mid-October, the talks broke down over disagreement around the inclusion of Emission Performance Standard for investments benefiting from the Modernisation Fund. Provisional agreements have been reached on doubling the rate at which surplus emissions allowances will be removed from the market and placed in the Market Stability Reserve during the first five years of operation – a proposal which IETA support – as well as a set of measures to address competitiveness concerns of trade-exposed industries, such as dynamic allocation. However, these remain conditional until the whole package is agreed. The next trilogue meeting is scheduled for 8 November.

US Environmental Protection Agency Administrator Scott Pruitt has taken the first step to repealing the Clean Power Plan (CPP), the Obama-era policy to cut emissions from the country's power sector. The Administrator, who in his former role as Attorney General for Oklahoma had contested the rule, sent a Notice of Proposed Rulemaking to the Federal Register in mid-October. In the new proposal, the EPA contends that the former interpretation of 111(d) of the Clean Air Act is not within the bounds of EPA's statutory authority and proposes to establish a narrower interpretation. Specifically, the Agency is proposing that the "best system of emission reduction" should be interpreted "as being limited to emission reduction measures that can be applied to or at an individual stationary source", which means the CPP's use of "outside the fence" reductions to set its performance standards exceeds the EPA's statutory authority and would be repealed. The proposed rule is subject to a 60-day comment period before it can be finalised. The agency is yet to decide if it will replace the CPP with a new rule, nor has it invited comments on the matter.

The government of **Québec is laying the foundations for its post-2020 carbon market.** At the end of August, it proposed draft regulation for the period, including amendments to accommodate its link with Ontario. Final regulations are expected to come into effect in November 2017. It also proposed annual caps for covered sectors for 2021-30, which if adopted will see the overall cap fall to 54.74 million tonnes in 2020, but inch up to 55.26 million tonnes in 2021, and features a slower annual decline to 2030 – at 2.2%, or 1.2 million tonnes – than initially proposed.

In a major step for REDD+ investment, **the Green Climate Fund (GCF) Executive Board at its 18th meeting agreed a programme to channel $500 million to forest countries** that can demonstrate they are reducing emissions from deforestation and degradation in line with UNFCCC and GCF rules. Countries which can demonstrate success in halting deforestation and forest degradation and/or in conserving and enhancing forest carbon stocks by demonstrating results in terms of tonnes of avoided or conserved verified emission reductions can access payments.

This can be achieved at the national level or the subnational level as an interim measure. They must also be in strict compliance with the Cancun Safeguards. The pilot programme for REDD+ Results-Based Payments will pay $5/tonne, but it will offer a learning opportunity, and a tangible incentive for forest countries to continue their efforts to halt deforestation. Furthermore, the programme will require recipient countries to reinvest the proceeds in activities in line with their Nationally Determined Contributions, national REDD+ strategies, or low-carbon development plans. Transference of the emissions reductions or their use for other purposes (eg, as offsets) will not be allowed.

Nova Scotia looks set to become the next Canadian province to introduce emissions trading, with legislation introduced at the end of September. Bill No. 15 would establish an ETS in late 2018, covering 20 companies, Carbon Pulse reported. The legislation would establish a GHG registry and Green Fund, which will use proceeds from carbon allowance sales to support other initiatives to cut emissions. More detailed regulations are expected to be forthcoming.

IETA INSIGHTS

GREENHOUSE GAS MARKET REPORT

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IETA expresses its gratitude to all authors who have contributed to this report, to the editorial committee and to all others who have worked on the publication. **2017 EDITORIAL COMMITTEE:** Kavita Ahluwalia, *Uniper* / Evan Ard, *Evolution Markets* Jessica Butts, *Delphi* Jean-Yves Caneill, *EDF* / Yifeng Li, Shanghai Zhixin / Sophie Lu, *Bloomberg New Energy Finance* / Mark Proegler, *IETA Fellow* Judith Schröter, *ICIS* / Naomi Swickard, *VCS.* **EDITOR:** Katie Kouchakji **DESIGN:** Hitman Creative Media Inc. www.hitmanmedia.com