Ontario to join Quebec and California in Implementing Carbon Cap and Trade System to Reduce Greenhouse Gas Emissions

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On April 13, 2015, Ontario announced that it would join Quebec and California's harmonized cap and trade system to reduce greenhouse gas (GHG) emissions. Both Quebec and Ontario called on the Government of Canada to engage with all of the provinces and territories to address climate change caused by GHG emissions.

Ontario's announcement came a day after the Canadian government publically released letters from the Environment Minister urging provincial and territorial governments to submit updated GHG emissions information. Canada requires the updated numbers to prepare its new federal goal for reduction of GHG emissions in advance of a world summit in Paris this December. The Canadian government was supposed to have submitted its GHG emissions reduction target to the United Nations by the end of March.

Last fall, Ontario announced its ambitious goals of reducing GHG emissions to 15% below 1990 levels by 2020 and 80% below 1990 levels by 2050. While the Province's recent closure of the last coal-generating plant was an important step, Ontario is hopeful that setting a price on carbon through the cap and trade system will achieve these targets.

Cap and Trade

Under the cap and trade system, the Ontario government will issue permits to companies in certain sectors. A permit specifies the maximum amount of carbon dioxide equivalent that a polluter can emit over a period of time. If a polluter wants to exceed its limit, it must buy extra permits at auctions, obtain offset credits or acquire allowances where eligible. The government will periodically reduce the cap so that the Province can reach its targets.

Ontario has yet to provide pricing details of its cap and trade system. The Province is expected to take months to develop industry-specific targets.

Opponents of the system worry about the expected increased costs for businesses in Ontario. However, proponents point to Quebec's success and argue that lack of action will be more costly to Ontario businesses and taxpayers in the long run.

The Quebec Experience

Quebec implemented its cap and trade system in 2011 under the *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances*, pursuant to section 46.5 of Quebec's *Environmental Quality Act*. Quebec is aiming to reduce GHG emissions to 20% below 1990 levels by 2020.

Quebec was initially concerned about the potential “carbon leakage” that would occur in implementing the cap and trade system. “Carbon leakage” refers to the relocation of industries to jurisdictions without a cap and trade system. Quebec mitigated “carbon leakage” at the outset by granting emitters the maximum emissions allowances needed to comply. Quebec has been gradually reducing the free allowances.

Quebec linked its program with California on January 1, 2014 under the Western Climate Initiative (WCI) to bring flexibility and efficiency to the schemes. The WCI is a group of U.S. states and Canadian provinces working to create a carbon market to reduce emissions.

On November 25, 2014, Quebec and California held their first joint auction. The auction marked the complete alignment of the two markets and established a uniform price for both sets of allowances.

Quebec companies have purchased $190 million worth of credits to reduce emissions to date. Quebec and California will hold their third joint auction on May 21, 2015.

Provisions under Ontario’s Environmental Protection Act

In 2009, the *Environmental Protection Amendment Act (Greenhouse Gas Emissions Trading)* amended Ontario’s *Environmental Protection Act* (EPA) to allow for the creation of emission reduction programs. Section 176.1 of the EPA allows cabinet to make regulations establishing measures for the use of market-based approaches to reduce GHG emissions and to establish an environmental emissions registry.

Under the EPA, revenue generated by the carbon market will be allocated to a Greenhouse Gas Reduction Account (GHGRA). Funds from the GHGRA must only be used for GHG reduction initiatives and to administer GHG regulations.

Ontario Regulation 452/09 *Greenhouse Gas Emissions Reporting* currently requires large industrial GHG emitters to report emissions. Under the Regulation, operators in certain sectors

♦ emitting 25,000 or more tonnes of carbon dioxide equivalent per year (tCO2e/year) are required to report, and

♦ emitting more than 10,000 and less than 25,000 tCO2e/year are encouraged to report voluntarily.

Next Steps

On Tuesday, April 14, 2015 provincial and territorial leaders met in Quebec City to plot out a national strategy on energy and climate policy. Federal representatives did not attend the meeting.

Ontario has criticized the Government of Canada for its lack of action on climate change and its absence from negotiations. The Province has stated that greater convergence among provincial and federal systems is necessary to ensure that GHG reduction initiatives are better met.

Ontario will host a Climate Summit of the Americas from July 7 to 9, 2015 to advance collaborative action on climate change prior to the world summit in Paris this December.

Other GHG Reduction Systems in Canada

Canadian provinces have been taking various approaches to tackle climate change. Aside from Quebec's cap and trade system, British Columbia has instituted a carbon tax and Alberta has established its own carbon pricing system through its *Specified Gas Emitters Regulation*.

A harmonized carbon pricing system across Canada, while encouraged by business leaders, has so far proven to be elusive. Given the federal government's reluctance to get involved in regulatory initiatives, coordinated efforts by provinces is considered a more efficient approach.

On November 6, 2014 we reviewed the patchwork of GHG reduction schemes in place across Canada in an article entitled Positioning Ontario within Canada's Greenhouse Gas Reduction Programs.

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