

The Whole Version: Carbon credit chronicles

There are no climate borders

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The consensus obtained at the signing of the Paris Protocol in 2015 is slowly but surely eroding. The signing states are simply unable to put into action the national policies needed to face climate change challenges. This hollowness of action translated into an GHG increase in 2018 in parallel with new economic protectionism and national populism trends that swept the globe. It would appear that the geopolitical reality of the stabilizing force of globalisation, in full swing since the Washington consensus of 1991, has hit the wall of the 2008-2009 recession.

Since then, there has been a 180 degree turn, first, in political discourse, then, in trade re-negotiations between states. In this context, the climate consensus reached in Paris in December of 2015 was, in retrospect, a true diplomatic miracle. Almost an anomaly when one considers the massive number of countries that have closed their borders and limited their international policies in the last decade.

Yuval Noah Harrari gives us a more historical perspective expressing that humanity finds itself presently at the edge of a precipice, and must face a true threat to its existence, a threat which was barely noticeable 55 years ago. We are still so unaware today of the immense impact that we have on the delicate ecological equilibrium that has taken millions of years to establish itself. Unfortunately for us, there is no real national response to this international problem. Because a country cannot close its borders to climate change, there are no climate borders. Moreover, in the context of accelerated change, there will be winners (countries that transition their economies to renewables faster) and losers (fossil fueled-based economies and South-South axis countries). How can we face this inequity between countries and inject social justice in this equation?

Looking through this perspective of social equity and challenging ourselves to do more than simply acting locally, we must confront the notion of bargain basement carbon credits regardless of their origin. Such a debate was held during interminable discussions on Article 6 of the Paris Accords concerning the implementation of a carbon credit mechanism called ITMO.

For example, Quebec, member of a federated country, is considered an exemplary pupil of the internationalisation of GHG emissions and a fervent disciple of the World Bank’s mantra, “Putting a price on carbon”. Even so, the introduction of a Cap & Trade system (SPEDE) in Quebec has put up barriers for various keep players - SMBs, NGOs, municipalities - who would want to contribute to reducing GHGs. These smaller players who carry out GHG reductions cannot participate in the Cap & Trade system and must turn towards the voluntary market. A report by Quebec’s Environment Ministry in 2018 confirms that large companies in Quebec must purchase carbon offsets from the United States as the SPEDE does not recognize voluntary market efforts.

The result is that **a staggering 91% of officially-recognized carbon credits under the SPEDE originate outside of Quebec.** In Table 3, it is clear that there is an underutilization of these regulated carbon credits (CrC) by big Quebec companies for the 2015-2017 period.

All of the large Quebec companies under this Cap & Trade system have purchased CrCs in the United States. It is a paradoxical situation as many of these local companies wish to purchase their carbon offsets locally or, at the very least, at the regional or national level, in order to respond to questions of social acceptability in their own operations and projects.

Table 3 Usage regulated carbon credits by companies under the SPEDE

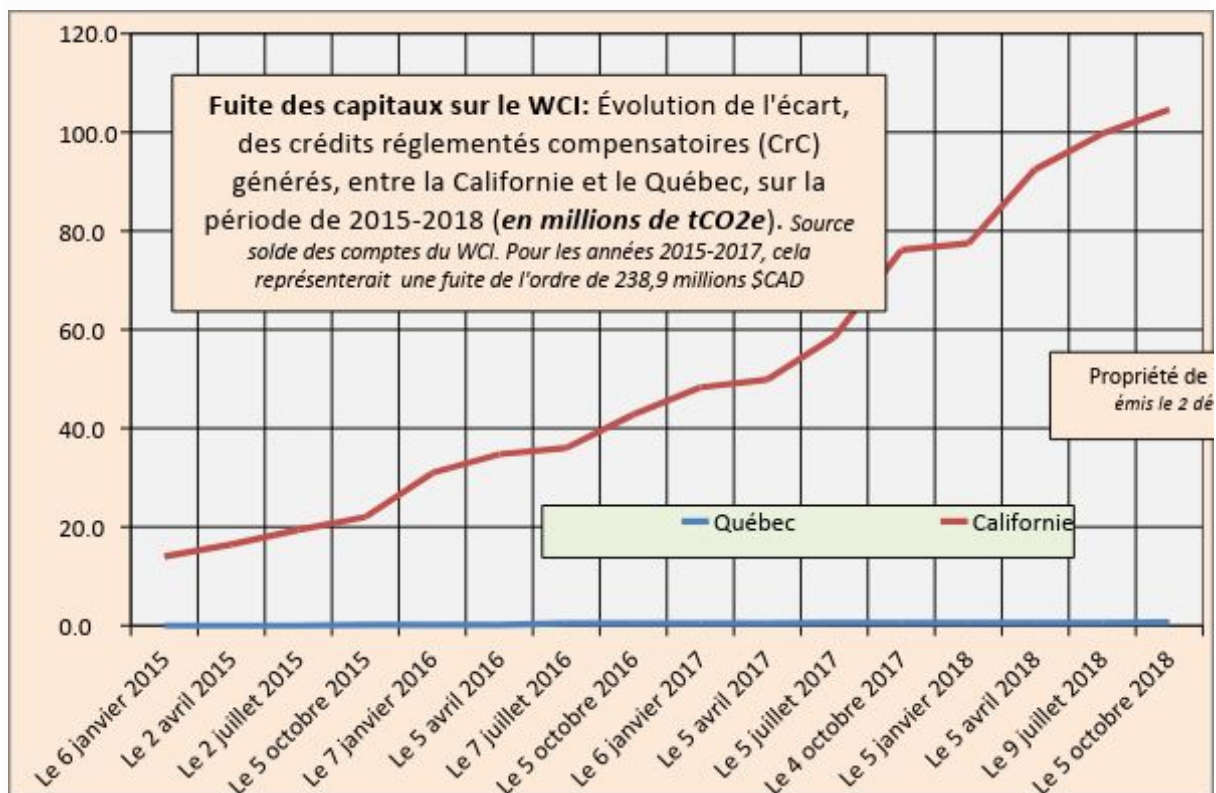
Tableau 3: utilisation des Crédits réglementés Compensatoires (CrC)

Catégorie d'organisations assujetties au SPEDE	Nombre d'organisations assujetties	2013-2014	2015-2017	Total	% par catégorie	CrC réalisé en sol québécois	% de CrC réalisés en sol québécois
Émetteurs + de 25 000 tCO ₂ e	78	298 812	1 624 572	1 923 384	30,11%	0	0,0%
Distributeurs d'énergie fossile; depuis le 1er janvier 2015	40	0	4 463 583	4 463 583	69,89%	585 134	13,1%
Total	118	298 812	6 088 155	6 386 967	100,00%	585 134	9,2%

The graph below shows the **extreme divergence** of CrC availability emitted by California and Quebec from officially sanctioned GHG reduction projects. The gap between both territories is widening exponentially. Without any corrections for the 2018-2020 period, purchases of carbon credits outside of Quebec will only increase. This is what is called a flight of capital providing no incentive whatsoever for quality GHG reductions within the Quebec borders.

The use of CrCs is a way for companies to conform to the targets of the SPEDE and has been limited to 8% of their annual emissions targets. These emissions reductions must come from 5 carbon credit protocols recognized by the SPEDE. **We estimate, that the total amount of flight capital going to American carbon offsets to be no less than CAN\$ 2.8 billion** for the 2018-2030 period. In order to reach this number we have calculated that there are 4 million CrCs available annually over a 13 year period which gives us 52 million CrCs at an average price of CAN\$ 60/CrC.

In this graph, we see the evolution of the availability of regulated carbon credits generated in Quebec and in California on the WCI market (over the 2015-2018 period).



Certain insiders have already highlighted the contradiction between the need for local actions reducing GHGs and the use of carbon offsets under the SPEDE which encourage reductions outside of Quebec. California, Quebec's partner in the Western Climate Initiative (WCI), introduced protectionist regulation as early as July 2017 forcing companies to purchase 50% of their CrCs from reductions done on California soil.

Quebec's contradiction lies in the face of a participative social justice and the social acceptability of these GHG-reduction projects. Many jurisdictions in the world have brought nationalist or protectionist adjustments to their Cap & Trade system. Simple administrative or regulatory changes can correct market distortions for the SPEDE. It is what reputed scientist Claude Villeneuve suggests as well as a host of economists in the Fall of 2018.

We find a similar political ambiguity at the federal level. For example, during a public call to tender in January 2019 for the purchase of carbon credits to offset the footprint of the G7 meeting at Malbaie in May of 2018, the Minister of the Environment opted for purchasing Turkish carbon credits... This shows how respecting international trade laws can erode the local actions of those trying to reduce GHGs as governments constantly choose the lowest price rather than valuing local GHG reductions which contribute to attaining the national GHG reduction target.

In the meanwhile, the federal government has imposed a floor price of CAN\$ 20/ton on GHGs which will rise to CAN\$ 50/ton by 2022. With these prices, Canada will once again be choosing to hit its 2030 targets by purchasing carbon offsets outside of its own borders.

Taking on the challenge of reducing GHG emissions aligned with the 2030 targets in Quebec will allow the province to have a profound impact on the demand side of the equation of carbon credits (stimulating new consumer behaviour, new sharing-economy business models and innovation technologies). Once other territories will have decarbonized their electricity production, Quebec will be able to show them a way towards efficient GHG offsetting and be a model. Without stopping all companies from purchasing from outside of Quebec, it appears beneficial, not say critical, to maintain that 50% of GHG reductions under the SPEDE be done on Quebec soil.