

# Federal Carbon Pricing Memoir :

## Factors to consider for the development of protocols in the Federal Greenhouse Gases (GHG) Offset System



Let's GREEN it up with *Will*

WILL brings solutions such as carbon credits generated by the GHG reduction initiatives of our regional SMEs and local leaders.

With 80% of the sale of credits paid in royalties, it's a great way to get the green wave going again.

Will Solutions Inc. logo: a stylized green character with large eyes and a wide smile, wearing a white circular headband.

Social media icons: LinkedIn, Facebook, Instagram, and Twitter.

The graphic features a stylized landscape with rolling hills in shades of orange and red. White silhouettes of various buildings, including houses, schools, and industrial structures, are scattered across the hills. A large green arrow points from the top right towards the text.

### Contribution from *Will Solutions Inc.*

<https://www.solutionswill.com/>

August 27, 2020

To the attention of: Mrs. Jackie Mercer  
Manager, Offset Credits Division  
Environment and Climate Change Canada (ECCC)

## **Subject: Federal Carbon Pricing Memoir**

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Ms. Mercer,

Will Solutions Inc. (Will) is a Canadian private company that has been certified B Corp.<sup>1</sup> since March 2019 and has been actively involved in solving sustainable development issues since 2012. Will has focused its mission and operations on auditing GHG emission reductions by Canadian small and medium-sized enterprises (SMEs) and non-profit organizations (NPOs) and transforming them into carbon credits by promoting Sustainable Development (SD) and climate-challenged actions<sup>2</sup>.

Will has a social philosophy based on sharing. It lies on two major pillars: democratizing access to greenhouse gas (GHG) reductions and converting them into carbon credits through the pooling of local GHG reduction projects, which could be carried out by hundreds of thousands of SMEs, small Canadian municipalities and NPOs, and returning as much money as possible to these partners following the sale of carbon credits by Will. The main objective is to encourage a local economy focused on environmental issues, accelerate the energy and ecological transition in Canada and export this approach at the international level.

To this end Will has initiated, developed and implemented since 2007<sup>3</sup>, a solution called Sustainable Community (SC)<sup>4</sup>. It is based on a protocol for quantifying and verifying<sup>5</sup> GHG reduction projects, grouped in clusters; this protocol was developed by Will (2009-2012) and was validated under the VCS<sup>6</sup> program: the world's largest voluntary market scheme. A first cluster-type project based on this VM0018 protocol has been developed and has been in operation in the province of Quebec since mid-2013. This project is currently in the recruitment of its fifth cohort. The SC project has had a significant ripple effect throughout its third cohort (January 2017 – July 2019)<sup>7</sup>, both in terms of the number and nature of the active partners in the regions who have been sensitized, educated about sustainable climate issues and actions and who have committed themselves as a member in SC, as well as the amount of GHG reduction converted into carbon credits.

The results of this 3<sup>rd</sup> cohort have enabled the submission of carbon credits sales proposals that have materialized through sales with end-buyers<sup>8</sup>, since the fall of 2019, both in Canada and in

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<sup>1</sup> <https://www.solutionswill.com/en/will-announces-its-b-corp-certification/>

<sup>2</sup> [https://www.solutionswill.com/en/blog\\_post/action-2020-decade-measure-reduce-and-contribute/](https://www.solutionswill.com/en/blog_post/action-2020-decade-measure-reduce-and-contribute/)

<sup>3</sup> [https://www.solutionswill.com/en/blog\\_post/wills-social-innovation-model/](https://www.solutionswill.com/en/blog_post/wills-social-innovation-model/)

<sup>4</sup> <https://www.solutionswill.com/en/our-community/>

<sup>5</sup> <https://verra.org/methodology/vm0018-energy-efficiency-and-solid-waste-diversion-activities-within-a-sustainable-community-v1-0/>

<sup>6</sup> <https://verra.org/project/vcs-program/>

<sup>7</sup> <https://www.newswire.ca/news-releases/will-announces-3-million-tons-of-greenhouse-gas-offsets-released-for-sale-870212697.html>

<sup>8</sup> Direct, non-intermediary sales of brokers, resellers or other agents in a secondary market to: Canadian Pension Funds, property owners, banks, Canadian food companies, NPOs, consumers around the world and international organizations.

Europe. On the 21<sup>st</sup> of July 2020, the Sustainable Community project was awarded the **Solar Impulse**<sup>9</sup> label, a European foundation based in Geneva that qualifies, validates and promotes innovative solutions for the climate and ecological challenges of the 21<sup>st</sup> century.

In this context, and with its experience in developing international protocols, Will took notice this summer of the proposals from the Department of Environment and Climate Change of Canada (ECCC) concerning the identification of factors to consider for the development of protocols in a federal greenhouse gases offset system (FGGOS)<sup>10</sup>. Hereby, Will hopes to share and contribute its experience for the benefit of all stakeholders in Canadian society.

Thereby, on behalf of the hundreds of SMEs, municipalities and community organizations involved in its Sustainable Community project, Will saw fit to write this memoir on the implementation of a Canadian offset credits system. We thank you in advance, on behalf of all members of his Sustainable Community, ECCC for receiving it. We allow ECCC to share our remarks, comments and proposals with any other relevant agency and department, including all levels of provincial, territorial and municipal governments.

In the introduction to the ECCC<sup>11</sup> document, it is noted that *“Putting a price on carbon pollution is an essential part of Canada’s plan to fight climate change and grow the economy. Pricing carbon pollution is the most efficient way to reduce GHG emissions and stimulate investments in clean innovation. A price on carbon pollution creates incentives for individuals, households, and businesses to choose cleaner options”*.

Under the GHG Pollution Pricing Act, which came into force on June 21, 2018, the federal carbon pollution pricing system consists of two parts:

1. A fossil fuel levy that is generally to be paid by fuel producers or distributors, and whose rates are to be set for each propellant at 10\$ per ton of carbon dioxide equivalent (CO<sub>2</sub>e) in 2018, and will increase by 10\$ per ton per year to 50\$ per ton of CO<sub>2</sub>e in 2022;
2. An Output-Based Pricing System (OBPS) for facilities engaged in certain industrial activities for which the Minister of Environment and Climate Change Canada is responsible, and which came into effect on January 1, 2019 in Ontario, New Brunswick, Manitoba, Prince Edward Island, and two sectors in Saskatchewan (electricity and natural gas pipelines).

Compensation for the installation subject to the OBPS, if emissions exceed the applicable<sup>12</sup> limit, will be made according to the following options:

1. the payment of an excess emissions levy to the Receiver General of Canada, at the same rate as the 20\$ per ton of CO<sub>2</sub>e fuel charge due for the 2019 compliance period, increasing by 10\$ per ton of CO<sub>2</sub>e each year, to 50\$ per ton of CO<sub>2</sub>e for the 2022 compliance period and subsequent compliance periods, unless otherwise stated;

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<sup>9</sup> <https://solarimpulse.com/efficient-solutions/sustainable-community>

<sup>10</sup> <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/pricing-pollutionProtocol-Development-GHG-Offset-System-v6.pdf>

<sup>11</sup> <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/Options-systeme-credits-compensatoires.pdf>

<sup>12</sup> Page 29 of the Canadian Policy [https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/7112\\_OptIn\\_Policy\\_Regarding\\_OBPS\\_EN\\_FINAL.pdf](https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/7112_OptIn_Policy_Regarding_OBPS_EN_FINAL.pdf)

2. The Minister's remittance of surplus credits to the OBPS
3. The remittance of compensatory credits issued by the Minister, if the regulations permit;
4. The rebate of recognized units (e.g. eligible offset credits from provincial offset credit systems);
5. A combination of the four options above.

As of the 2021 compliance period, a facility subject to the OBPS will be able to remit carbon credits as compliance units to offset 75% of its facility's excess emissions<sup>13</sup>. The space available for the offsets proposed in this performance-based pricing system, according to our estimate, would be within an annual range of 1.7 to 8.5 million tons of carbon credits. We note a few observations:

1. In Canada, the last national GHG inventory was completed in 2018, and stands at 730 000 Kt of GHGs, or 730 million tons of GHGs, and the road to achieving Canada's 2030 target remains colossal. Table 1 shows the representative weight of each Canadian territory, 10 provinces and 3 territories, and allows us to point to the 7 territories subject to the OBPS, which together account for ≈38% of all Canadian emissions;
2. In these 7 territories, 571 companies could participate in the OBPS, either in a regulated manner or on a voluntary basis. For the year 2018, these 571 companies reported jointly emitting 85 184 Kt of GHGs;
3. Ontario and Saskatchewan are the two largest jurisdictions subject to the OBPS for the number of companies reporting emissions above 10 Kt with 324 and 180 companies, respectively, and for reported quantities with 45 609 Kt and 29 359 Kt of GHGs respectively for 2018;
4. For Canada as a whole, a total of 1 706 companies with emissions above 10 Kt reported emitting 294 531 Kt of GHGs;
5. It should be noted that the Canadian National Inventory for 2020 will certainly be affected by COVID-19 and that there will likely be a downward impact on subsequent years.

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<sup>13</sup> Page 30 of the Canadian Policy [https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/7112\\_OptIn\\_Policy\\_Regarding\\_OBPS\\_EN\\_FINAL.pdf](https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/7112_OptIn_Policy_Regarding_OBPS_EN_FINAL.pdf)

**A) Table 1: Annual amounts reported in 2018, by companies with GHG emissions > 10 Kt, per territory across Canada**

		More than 10 Kt		Kt GHG	
Territories		Targeted business basin 2018	Total GHG emissions from targeted companies 2018 Kt GES)	GHG emissions 2018; national inventory 2018	% of Canada
1	Ontario	324	45 609	165 000	22.6%
2	New Brunswick	18	6 982	13 000	1.8%
3	Manitoba	35	2 595	22 000	3.0%
4	Prince Edward Island	5	96	1 700	0.2%
5	Yukon	2	36	600	0.1%
6	Nunavut	7	507	700	0.1%
7	Saskatchewan	180	29 359	76 000	10.4%
<b>Subtotal subject to OBPS</b>		<b>571</b>	<b>85 184</b>	<b>279 000</b>	<b>38.2%</b>
8	Québec	191	21 872	83 000	11.4%
9	Alberta	713	156 558	273 000	37.4%
10	British Columbia	185	17 236	66 000	9.0%
11	Nova Scotia	25	7 636	17 000	2.3%
12	Newfoundland	16	5 434	11 000	1.5%
13	NWT	5	611	1 200	0.2%
<b>Subtotal not subject to OBPS</b>		<b>1 135</b>	<b>209 347</b>	<b>451 200</b>	<b>61.8%</b>
<b>Total</b>		<b>1 706</b>	<b>294 531</b>	<b>730 200</b>	<b>100.0%</b>

<i>Reference: GHG emissions of enterprises &lt; 10 Kt</i>	<a href="http://publications.gc.ca/collections/collection_2020/eccc/En81-6-1-2018-fra.pdf">http://publications.gc.ca/collections/collection_2020/eccc/En81-6-1-2018-fra.pdf</a>
<i>Reference: national inventory 2018</i>	<a href="http://donnees.ec.gc.ca/data/substances/monitor/canada-s-official-greenhouse-gas-inventory/RIN - FR - Sommaire.pdf">http://donnees.ec.gc.ca/data/substances/monitor/canada-s-official-greenhouse-gas-inventory/RIN - FR - Sommaire.pdf</a>

In addition, Canada's 2030 target has been set at 511 000 Kt of GHGs<sup>14</sup>. This would, in a linear way, require an annual reduction of 22 000 Kt of GHGs (730 000 Kt – 511 000 Kt/10 years) or an annual reduction rate of 3%. According to this projection, the contribution of companies subject to the OBPS could be between 3% and 13% of their annual emissions in 2018. It is this last range that we used on Table 2 to project the pool of overshoots of OBPS emissions, to model/project reasonably and thus be able to estimate the demand for carbon credits of Canadian origin. Over a 10-year period (2020-2030) this range could represent a demand of between 15 and 85 million carbon credits.

<sup>14</sup> <https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/progress-towards-canada-greenhouse-gas-emissions-reduction-target.html>

**B) Table 2: Estimated annual amounts of offset credits for the OBPS, by the target companies (overtaking range 2% to 10%)**

Subjected Territories	Annual GHG Quantities on OBPS (estimate of KtGHG overruns) Benchmark Year 2018					
	2.67%	5.33%	8.00%	10.67%	13.33%	100% overtaking
	2%	4%	6%	8%	10%	75%: limits on the use of offset credits
Ontario	912.2	1 824.4	2 736.5	3 648.7	4 560.9	
New Brunswick	139.6	279.3	418.9	558.6	698.2	
Manitoba	51.9	103.8	155.7	207.6	259.5	
Prince Edward Island	1.9	3.8	5.8	7.7	9.6	
Yukon	0.7	1.4	2.2	2.9	3.6	
Nunavut	10.1	20.3	30.4	40.6	50.7	
Saskatchewan	587.2	1 174.4	1 761.5	2 348.7	2 935.9	
<b>Subtotal</b>	<b>1 703.7</b>	<b>3 407.4</b>	<b>5 111.0</b>	<b>6 814.7</b>	<b>8 518.4</b>	

Taking into account the space of a Canadian request, here are our key observations on the proposed development of protocols in a federal GHG offset system:

Currently, there are various carbon credit markets in Canada, including voluntary markets. Some are supported by recognized international programs such as VCS, CDM, Gold Standard<sup>15</sup> of the CSA Group program<sup>16</sup>, which benefited from some aura during the 2000-2010<sup>17</sup> decade, as well as projects operating outside the program<sup>18</sup>. In parallel with voluntary contracts, there are provincial offset carbon credit systems that are regulated, such as Quebec's *Cap-n-trade system*<sup>19</sup> (CTS). Moreover, in the context of the Paris Agreement, there have been international discussions since 2015 on the establishment of market mechanisms under the name "International Trading Mitigation Outcome" (ITMO) spelled out in the article 6<sup>20</sup> of this treaty.

We understand the general interest in globally addressing the climate crisis, but we still need to consider the following elements to have a real impact:

1. The impacts of the rise of economic protectionism since 2016<sup>21</sup>;
2. The impacts of the recent national withdrawal caused by the COVID-19 health crisis;
3. Discussions on the imposition of carbon tariffs<sup>22</sup> that are underway as part of the post-Covid economic recovery.

<sup>15</sup> Page 7 published in August 2018 <https://www.forest-trends.org/wp-content/uploads/2019/04/VCM-Q1-Report-Final.pdf>

<sup>16</sup> Link to the register of the CSA Group [https://www.csaregistries.ca/reductions/masterprojects\\_e.cfm?all=yes](https://www.csaregistries.ca/reductions/masterprojects_e.cfm?all=yes)

<sup>17</sup> The 4th carbon wave [https://www.solutionswill.com/blog\\_post/une-4ieme-vague-carbone/](https://www.solutionswill.com/blog_post/une-4ieme-vague-carbone/)

<sup>18</sup> Carbone boréal project <http://carboneboreal.uqac.ca/introduction/>

<sup>19</sup> [http://www.environnement.gouv.qc.ca/changementsclimatiques/marche-carbone\\_en.asp](http://www.environnement.gouv.qc.ca/changementsclimatiques/marche-carbone_en.asp)

<sup>20</sup> <https://www.ieta.org/page-18192/7895908>

<sup>21</sup> Slide 15 : Limiting the use of carbon credits in California, with a requirement from January 1, 2020, that 50% of them must come from California [https://ww2.arb.ca.gov/sites/default/files/classic/cc/capandtrade/offsets/compliance\\_offset\\_protocol\\_task\\_force\\_meeting\\_3-2-2020.pdf](https://ww2.arb.ca.gov/sites/default/files/classic/cc/capandtrade/offsets/compliance_offset_protocol_task_force_meeting_3-2-2020.pdf)

We believe that any GHG reduction or sequestration in Canada is the first step to achieving our 2030 and 2050 national targets and contributing to the global climate challenge. All this should be done by prioritizing local actions while leaving room for fair and equitable international trading, of International Trading Mitigation Outcome (ITMO) primarily with undeveloped countries and signatories to the Paris Agreement.

Quite a challenge given the following:

1. The anticipated request, which we have estimated in previous pages;
2. Prioritizing GHG reductions in Canada as desired by ECCC<sup>23</sup>;
3. The time required, in terms of years, to implement a new program, as observed by the World Bank<sup>24</sup>: the development of protocols, follow-up of the development of projects based on these protocols, their life cycle, that is from their creation, quantification, third-party verification to their market availability;
4. The importance of reaching Canada's 2030 targets to contribute to global efforts.

In this context, we believe and recommend that we pay particular attention to the real opportunity of a fair interface between the use of carbon credits from existing and available Canadian projects and those that will emerge from the Canadian program.

Thus, we agree on the broad principles of program development and the stated protocols<sup>25</sup>. We would like to stress the paramount importance of fostering projects that involve broad participation of civil society stakeholders, in the form of agglomeration of aggregated micro-projects as highlighted by ECCC<sup>26</sup>; and if possible, that can cover different "sectoral scope"<sup>27</sup> in one-stop-shop mode to engage as many stakeholders as possible in GHG reduction projects. This could be done via ECCC by accrediting an internationally recognized methodology on such cluster-based projects as well as recognition of their verified carbon credits, which are available in significant volume. This type of "cluster"<sup>28</sup> project can lead to greater participation in climate efforts through their innovative and sharing business models. In addition, the pooling of carbon expertise avoids the burden of training "carbon experts" for each SME.

This accreditation would allow this methodology to be Canadianized in the Federal Greenhouse Gases Offset System (FGGOS) project. We noted the types of projects that ECCC considers priority to develop<sup>29</sup>. We find that all draft protocols are outside the "sectoral scope" of fossil energy, which is already priced directly (federal) or indirectly (for example in Quebec) in terms of its consumption. We note ECCC's willingness to avoid *offset credits and credit stacking*

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<sup>22</sup> July 21st, 2020 <https://news.cgtn.com/news/2020-07-24/EU-considers-tax-emissions-trading-for-carbon-border-plan-SnHhU7xaRg/index.html>

<sup>23</sup> Page 5 <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/pricing-pollutionProtocol-Development-GHG-Offset-System-v6.pdf>

<sup>24</sup> World Bank (WB) analysis on the complexity and bureaucratic burden of carbon programs such as the CDM <https://www.worldbank.org/en/news/feature/2020/06/19/standardized-crediting-framework-promises-less-paperwork-more-payments-for-carbon-emissions-reductions>

<sup>25</sup> Page 5 and 6 <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/pricing-pollutionProtocol-Development-GHG-Offset-System-v6.pdf>

<sup>26</sup> Page 8 <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/Options-GHG-Offset-System.pdf>

<sup>27</sup> <https://verra.org/project/vcs-program/projects-and-jnr-programs/vcs-sectoral-scopes/>

<sup>28</sup> Such as the Sustainable Community <https://www.solutionswill.com/en/our-community/>

<sup>29</sup> Page 13 <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/pricing-pollutionProtocol-Development-GHG-Offset-System-v6.pdf>

considerations<sup>30</sup>. We find ECCC's concern commendable. However, it appears to us to be detrimental to the majority of Canadian small businesses and municipalities.

In fact, as long as ownership of emissions and reductions is confirmed under the responsibility of the emitter, carbon credits that are rigorously verified remain advantageously complementary to carbon pricing/tax. In doing so, the "carbon revenues" from the sale of these credits provide a positive incentive for effort/positive gesture. This reinforces the stimuli towards changes<sup>31</sup> (the carrot and the stick). Indeed, normative solutions can be accompanied by incentive solutions where different possible combinations would help achieve the desired results. This is the case of green or incentive taxation, which has become a pivotal instrument of Swedish environmental policy as part of its 1991 tax reform<sup>32</sup>. Internationally recognized today as a "Success story", Sweden took the plunge more than 20 years ago by introducing a tax on nitrogen oxides (NOx) with a redistribution to the sector: the Pigouvian approach<sup>33</sup>. The associated revenues are donated by discriminating virtuous practices and practices that are harmful to the environment: a Pigouvian virtue that invites actors to change their behavior. The success of this reform shows that this is an economically effective approach. The tax has also been tested in several countries, including Norway, Denmark, Switzerland and France.

This approach has the advantage of addressing the competitiveness of international markets, accentuated by the health crisis that favors an economic downturn. It then allows us to move closer to the social cost of carbon (SCC)<sup>34</sup> or to a price of impact, which represents a price that will promote change<sup>35</sup>, and which constitutes a powerful antidote to "greenwashing"<sup>36</sup>. We must stop confusing/encompassing the coverage of a sectoral scope without considering the price that is affixed to it. Thus, for example, for 2017, GHG emissions coverage by CTS instruments in Quebec (in Phase I and II) covers 84.4%<sup>37</sup> of Quebec's emissions with an average price of CDN\$17.21/tCO<sub>2</sub>e<sup>38</sup>.

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<sup>30</sup> Page 13 <https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/pricing-pollution/Options-GHG-Offset-System.pdf>

<sup>31</sup> Matthieu Ricard, « *Plaidoyer pour l'altruisme, la force de la bienveillance* ». Éditions NIL, Paris ISBN 978-2-84111-623-2, page 600-601

<sup>32</sup> Paris: Ministry of the Environment, 2016. <http://temis.documentation.developpement-durable.gouv.fr/document.html?id=Temis-0084265&requestId=0&number=6>

<sup>33</sup> The Pigouvian-like approach to cost internalization through tax incentive is part of the panoply of environmental instruments and policies that have been well established for years to ensure the acceptability of a government's environmental measures. The economist Pigou was the first to imagine, in 1920, a type of tax that added to the private cost of using a good. In order for agents to pay prices that incorporate all dimensions of the social cost of goods, two technical solutions are possible: the introduction of Pigouvian taxes or the allocation of polluting rights which can then be exchanged in a market. On the distributional level, the solution with the rights market leads to results that depend on their allocation and the Pigouvian solution depends on the use of the revenue generated by the tax (subsidy or remuneration of explicit services). Moreover, there is no insurmountable economic difficulty in reconciling equity and efficiency with the Pigouvian approach. Besides, the structure of green taxation incorporates competitiveness constraints taking into account the efficient use of local factors.

<sup>34</sup> Technical update of ECCC's estimates of the social cost of greenhouse gases, March 2016 + <http://www.environnement.gouv.qc.ca/changements/ges/2017/inventaire1990-2017.pdf>

<sup>35</sup> World Bank, Report of the High-Level Commission on Carbon Prices 2017, conclusion on the Executive Summary page 3 [https://static1.squarespace.com/static/54ff9c5ce4b0a53deccfb4c/t/59b7f2409f8dce5316811916/1505227332748/CarbonPricing\\_FullReport.pdf](https://static1.squarespace.com/static/54ff9c5ce4b0a53deccfb4c/t/59b7f2409f8dce5316811916/1505227332748/CarbonPricing_FullReport.pdf)

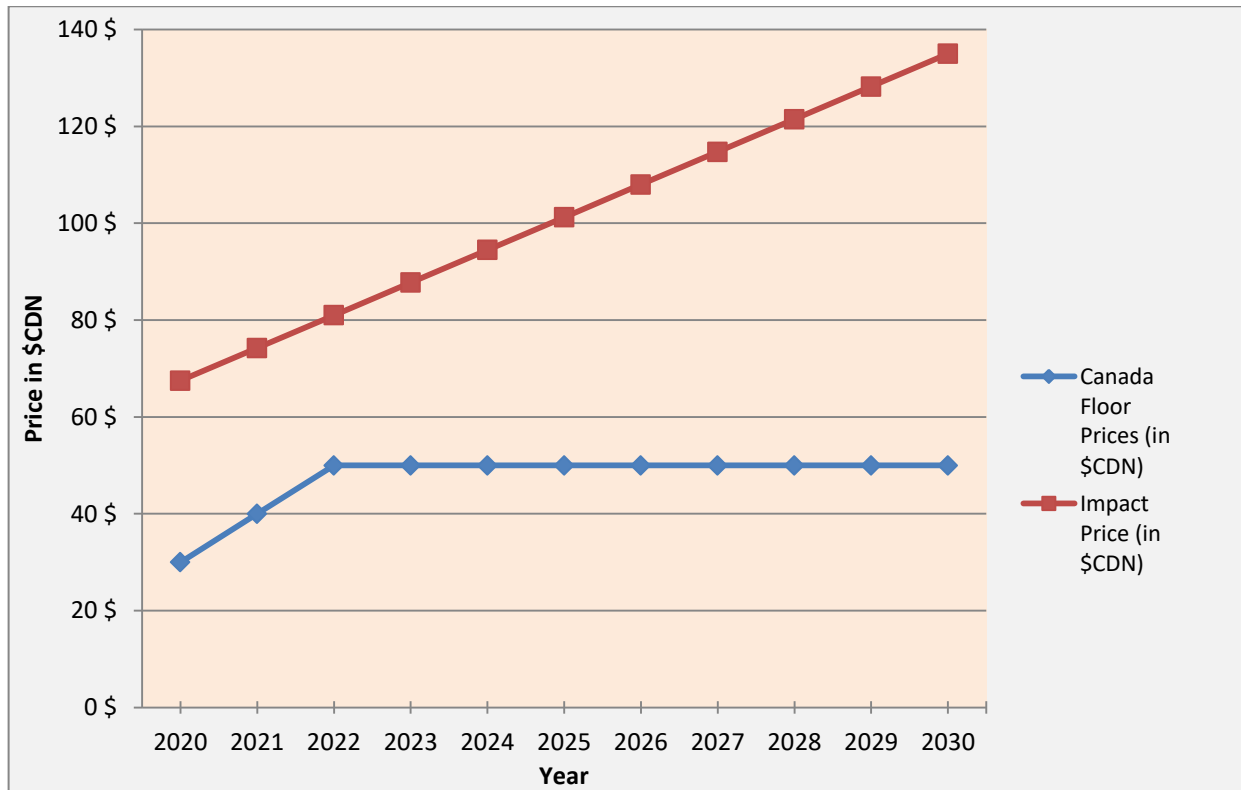
<sup>36</sup> <https://fr.wikipedia.org/wiki/Greenwashing>

<sup>37</sup> Page 12 (7,72+4,55) /78,64 MtCO<sub>2</sub>e <http://www.environnement.gouv.qc.ca/changements/ges/2017/inventaire1990-2017.pdf>

<sup>38</sup> <http://www.environnement.gouv.qc.ca/changements/carbone/ventes-encheres/2017-09-15/resultats-vente20171114.pdf>



**Graphic 1: Canadian floor price differential with impact price**



So, Graphic 1 on the difference between an impact price announced by a World Bank document in 2017 and the Canadian floor price in \$CDN/t CO<sub>2</sub>e established by the Canadian government shows a difference of a minimum of CAD\$30 to a maximum of CAD\$85 per ton of CO<sub>2</sub>e.

It is no longer enough to put all the attention on double counting as an immutable dogma, but rather to consider as many economic mechanisms as possible to stimulate and accelerate GHG reductions. It is achievable, simply with tags and rigor for the benefit of accelerated change. This leads us to comment on our Quebec experience on this issue.

### **Experience in the Quebec context of regulated carbon credits**

Carbon credits made in Quebec are effective reductions in qualified, measured and verified GHGs. They are achieved in a “regulated” space or in a “voluntary” space. Stimulating and increasing them, under control, remains a practical opportunity to meet the 2030 targets. The volume authorized by the regulations, up to 2030, is 72 million<sup>39</sup> regulated offsets<sup>40</sup>. As of December 31, 2017, 585 000 of the 6 088 000 offset carbon credits used came from Quebec<sup>41</sup>. Thereby, the authorized space is currently underutilized.

<sup>39</sup> Fast-forward on the Cap-n-trade slide 3 <https://www.solutionswill.com/wp-content/uploads/2019/09/SPEDE-acc%C3%A9l%C3%A9r%C3%A9-Avril-2019.pdf>

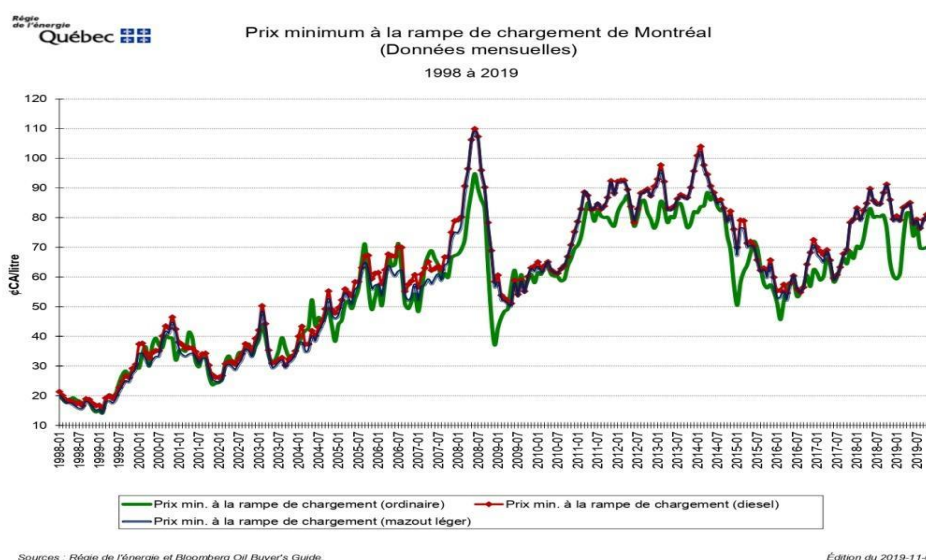
<sup>40</sup> Offset credits definition <http://www.environnement.gouv.qc.ca/changements/carbone/credits-compensatoires/index-en.htm>

<sup>41</sup> See Table 3 in the document <https://www.solutionswill.com/en/about-us/corporate-documents/>

Québec's cap-n-trade system<sup>42</sup> (CTS), is now in its eighth year. An offset credit component has been grafted since its implementation in 2013. Five protocols were regulated and enabled 16 projects<sup>43</sup> to be completed, which together resulted in 876 726 tons of GHG reductions verified and converted to offset credits and sold on the C&T System. This gives an annual average of  $\approx$  125 000 tons of GHGs or about 0.15% of Québec's annual emissions. These projects were given a 6-year anteriority, which means their project could have begun retroactively as early as January 1, 2007<sup>44</sup>.

It must be noted that the impact of the CTS and offset credits on the evolution of the price of fossil energy (2012-2019)<sup>45</sup> has not or has played little or no role in the expected decrease in fossil energy consumption<sup>46</sup> and its likely high volatility over the next few decades<sup>47</sup>.

**Graphic 2: Minimum Price at the Montreal Loading Ramp (monthly data) 1998 to 2019**



Sources : Régie de l'énergie et Bloomberg Oil Buyer's Guide.

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Our recommendation to the MELCC in November 2019<sup>48</sup> was in line with the *Cap-n-Trade* adjustment measures recently implemented in Europe and California. It took into account Québec's economic and social reality on the physical and methodological limits of the creation of tens of millions of additional offset credits under protocols currently regulated at the CTS or those that would be in development<sup>49</sup>. It was aware that the objective is not to offer more regulated

<sup>42</sup> A brief look at the C&T System <http://www.environnement.gouv.qc.ca/changements/carbone/documents-spede/in-brief.pdf>

<sup>43</sup> As of July 31, 2020 <http://www.environnement.gouv.qc.ca/programmes/biogaz/biogaz.pdf> some of whose projects were stimulated by the MSDEP 2007-2012 biogas program: <http://www.environnement.gouv.qc.ca/programmes/biogaz/index.htm> and <http://www.environnement.gouv.qc.ca/programmes/biogaz/appel-offre-0725.pdf>

<sup>44</sup> As of July 31, 2020 <http://www.environnement.gouv.qc.ca/changements/carbone/credits-compensatoires/index-en.htm>

<sup>45</sup> Quebec Energy Authority <http://www.regie-energie.qc.ca/en/index.html>

<sup>46</sup> Auditor General's Report, Spring 2016, Chapter 4, page 32 paragraph 105-106 <https://www.vgq.ca/fr/publications?lang=fr&typeRapport=RA&annee=2016>

<sup>47</sup> International Energy Agency (IEA), World Energy Outlook 2019 <https://www.iea.org/reports/world-energy-outlook-2019>

<sup>48</sup> [https://www.solutionswill.com/wp-content/uploads/2020/01/Solutions\\_Will\\_Memoire\\_sur\\_le\\_SPEDE\\_VF.pdf](https://www.solutionswill.com/wp-content/uploads/2020/01/Solutions_Will_Memoire_sur_le_SPEDE_VF.pdf)

<sup>49</sup> Presentation at the Air and Climate Change Symposium, September 2018, slide 6, item 4 [https://www.solutionswill.com/wp-content/uploads/2014/01/reseau\\_env\\_27septembre\\_2018-v5finale.pdf](https://www.solutionswill.com/wp-content/uploads/2014/01/reseau_env_27septembre_2018-v5finale.pdf)

offset credits of Québec origin on the WCI market, but to stimulate and use first and for all verified and credible GHG reductions made on Quebec soil.

### **Issue of Double Accounting with Fossil Energy Consumption Already Priced (taxed) Since January 1, 2015**

It is useful to note the limits of the solo use of a carbon tax currently transmitted through fossil fuel distributors as analyzed, over the 2023 and 2030 horizons, by the Ministry of the Environment and the Fight against Climate Change (MELCC) and the Ministry of Finance in August 2017<sup>50</sup>. The impact of the CTS, as a price signal<sup>51</sup>, which was calculated by these two departments, would contribute only 16% of the achievement of the 2030 reduction targets. This positive approach of combining taxation and carbon credits can limit the negative social impacts (associated with a carbon tax), as was experienced in France with the yellow vest movement, while maintaining Québec's competitiveness in the North American economic context.

It would be very simple to clear the "spread" (that is the difference between the average annual Canadian floor price and an impact price), and to recognize the sale of carbon credits at the average price of this difference without double counting. It would be appropriate to stimulate the purchase of unregulated carbon credits under the CTS and the OBPS by granting tax credits for their purchase provided they were made and acquired in Canada.

### **The Limits of Carbon Taxation and the Use of Economic Incentives**

We indicated in our memoir to the MELCC in November 2019 that the use of complementary economic incentives would currently be preferable to an increase in carbon taxation in the context of Québec's isolation on its *Cap-n-Trade System* and increasing economic protectionism, avoiding the repercussions of this approach on Québec exports. These incentives, such as carbon credits, would be a co-financing tool and concurrent with the carbon price reported by the C&T.

1. We can already see the prosperity to use such incentives by major project proponents currently under discussion in Québec<sup>52</sup>;
2. Social and community innovation, that is the pooling of expertise and costs that encourage broad participation in GHG reduction efforts, remains an avenue to be favored;
3. The use of emerging technologies in Artificial Intelligence (AI), internet of things (IoT) and block chain technologies around a one-stop shop would encourage greater participation by all stakeholders in society, not just the 100 or so organizations currently subject to the CTS.

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<sup>50</sup> Direct contribution of the C&T to Quebec's climate targets for 2023, page 21 Table 7 and 2030, Table 10, page 30  
<http://www.environnement.gouv.qc.ca/changements/consultation/spede/impact-econo201708.PDF>

<sup>51</sup> [http://www.regie-energie.qc.ca/energie/archives/graphiques/ordinaire\\_graph\\_historique\\_mtl2019.pdf](http://www.regie-energie.qc.ca/energie/archives/graphiques/ordinaire_graph_historique_mtl2019.pdf)

<sup>52</sup> [https://www.solutionswill.com/en/blog\\_post/test-2/](https://www.solutionswill.com/en/blog_post/test-2/)

## Conclusion and Recommendations of our Memoir

- A. Recognition of the relevance of the OBPS project as an appropriate component of Canada's carbon pricing with a foreboding demand of between 15 and 85 million carbon credits by 2030;
- B. Recognition of the factors considered by ECCC for the development of the proposed Federal Greenhouse Gas Offset System (FGGOS) as well as the framework criteria considered for the development of new protocols regulated under this system;
- C. The need and opportunity to recognize eligibility in the FGGOS, existing multi-sectoral scope agglomeration protocols, which have been validated under recognized international programs, demonstrate their participatory business models and which inexorably require carbon revenues for their development and expansion and which stimulate the emergence of non-current practices: behavioral changes, new business models and the implementation of new technologies;
- D. Permission to use, in the Canadian FGGOS, carbon credits verified and developed under protocols mentioned in Point C by agreeing to be retroactive by January 1, 2020 with a maximum limit of 7 million tons of GHGs<sup>53</sup> over the period 2010 to December 31, 2016;
- E. Relevance to address at the front-line the dual accounting issues of concurrent economic incentives, with the recognition of ownership (responsibility) of emissions and reductions as the determining factors, on the basis of green taxation in reference to the tax and its approach, and to consider them in the FGGOS. This recognition will allow:
  - a. A more accurate reflection of the impact price required to achieve Canada's 2030 and 2050 targets;
  - b. A greater co-financing action (mentioned in the preamble to the Paris Agreement);
  - c. A signal in favor of the circular economy of local reductions that are bought locally, with the fewest intermediaries, in order to return the maximum carbon money to those who carry out the reduction efforts;
  - d. Respect for the annual mantra: measure, reduce and contribute to the efforts of others.
- F. We provide to the Canadian government, hereby to ECCC, an operational perspective, in the form of a partnership, in conjunction with the proposed Federal GHG Offset System (FGGOS), for the deployment of ***Sustainable Community*** across Canada over the next five years to stimulate 10 to 50 million tons of GHG reduction, all Canadian, verified and converted into carbon credits; this volume will be increased tenfold by ripple effect over the period 2025-2030. Will is currently working on version 6 of its traceability platform,

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<sup>53</sup> That would be about 1% of Canada's annual GHG emissions

which is operated in the cloud. This development of the automation of version 6 of its GHG traceability platform will include:

1. The collection and analysis of data related to measured and verified GHG reductions, adding those related to transport with the building as a computational perimeter (consumer behavioral change, new business models and vehicle fuel conversions) + the automation of our traceability platform in cloud mode;
2. Will has ratified agreements with a network of Canadian universities and various technology partners (IoT, AI and Chain Bloc);
3. Its project of an ecosystem of 1,000 buildings connected to our Sustainable Community.



## About WILL

Will Solutions Inc. (WILL) is a B Corp.-certified Canadian private company headquartered in Beloeil, QC. The company has been active in the voluntary carbon market since 2007<sup>54</sup> with the Sustainable Community project. WILL has been carbon neutral since 2007 and is committed to returning 10% of its net profit to community-based projects and initiatives supporting sustainable development.

## About Sustainable Community

The Sustainable Community (SC) is a project that aims to democratize access to the voluntary carbon market under the internationally recognized VCS/VERRA program. SC is the first community-based project of 1 495 projects validated worldwide under the VCS/VERRA program. It brings together, in a one-stop-shop, the GHG reductions of its members. This community business model of clustering hundreds of micro-projects for GHG reductions is intended to be a catalyst for local action. It allows many players (SMEs, municipalities, NPOs) to engage in the energy transition and the decarbonization of the Canadian and Québec economy through the voluntary purchase of their GHG reductions at the local level. These are converted, after verification by a third party, into carbon credits, and purchased by citizens, businesses and different levels of government.

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<sup>54</sup> [https://www.solutionswill.com/en/blog\\_post/wills-social-innovation-model/](https://www.solutionswill.com/en/blog_post/wills-social-innovation-model/)