Draft Regulation to amend the Regulation respecting the Cap-and-Trade System for Greenhouse Gas Emission Allowances

Brief submitted to

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By

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JUNE 15, 2026

INTRODUCTION

The year 2026 marks a turning point for climate action in Québec. In an unstable international context marked by the erosion of international law and commercial multilateralism, and by the rise of illiberal regimes, the fight against climate change can no longer be viewed solely through an environmental lens. It is now an issue of economic, industrial, and territorial sovereignty.

In this respect, Québec has major strengths: low-carbon electricity, recognized innovation capacity, and a dynamic ecosystem of SMEs, municipalities, and organizations committed to decarbonization. Yet these strengths remain underleveraged when GHG reductions achieved locally are neither recognized, financed, nor monetized.

This brief is submitted as part of the public consultation on the cap-and-trade system (May 20 to July 3), as announced by the Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs (MELCC-FP). Its purpose is to underscore the importance of prioritizing GHG emission reductions within Québec, strengthening public policies in this regard, accelerating their implementation for the energy transition, and improving governance by correcting certain distortions in existing mechanisms, particularly the cap-and-trade system.

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1. CLIMATE ACTION IN QUÉBEC IN 2026: MOVING BEYOND COMPARATIVE SELF-SATISFACTION

Québec is often presented as one of the most exemplary jurisdictions in North America in terms of per capita GHG emissions. Although this is true, and historically stems from the hydraulic wealth of Québec's territory, it should not serve as justification for slowing down government climate action.

In a context where states are developing new models of cooperation, reducing GHG emissions is becoming both a lever for economic competitiveness and a tool for regional development and the strengthening of the industrial base in the short and medium term. The current fungibility of Québec emission allowances with California's under the WCI market means that Québec's surplus allowances are heavily influenced by California's dynamics[1].

Limiting the climate-economic balance to the cap-and-trade market alone, or to the purchase of GHG reductions in the United States, restricts local economic spinoffs and weakens the structuring impact of the energy transition. Prioritizing climate action in Québec means recognizing that every tonne reduced here simultaneously generates environmental, economic, and social benefits.

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2. SOVEREIGNTY IN QUÉBEC CLIMATE ACTION

a. Developing strategic autonomy in carbon markets

Like Canadian policies aimed at reducing certain dependencies on U.S. protectionist policies, Québec would benefit from strengthening its autonomy in climate management. Today, a notable share of carbon credits comes from outside the province, particularly from the United States. This dependency leads to an outflow of economic value—often described as capital flight—and limits the development of local and provincial expertise.

A sovereign strategy would aim to:

- Use mature methodologies employed by various voluntary carbon market programs, such as the Verified Carbon Standard (VCS) - Verra, Gold Standard (GS), and other internationally recognized programs adapted to the Québec context
- Recognize verified carbon credits originating from projects carried out in Québec and stemming from the elements mentioned above
- Support local and regional project developers—particularly SMEs in the agricultural, forestry, and manufacturing sectors, as well as municipalities
- Consolidate a Québec carbon market management sector

In this context, carbon markets must be viewed as a strategic territorial asset.

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b. Recognizing local climate action

Significant GHG reductions are already being achieved by SMEs, municipalities, cooperatives, non-profits, and actors in the agricultural and forestry sectors in Québec. However, for lack of recognition and accessible mechanisms, these reductions remain largely unvalued.

We recommend:

- The creation of regional project aggregators
- A structured framework for Québec projects to access voluntary carbon markets and the cap-and-trade system
- Financing local reductions on an ex post basis, in order not only to support them effectively, but also to strengthen the regional economy and innovation.

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c. Structuring role of the Québec Sustainable Community

The Québec Sustainable Community, a project validated under the VCS-Verra program, has for several years acted as a catalyst for Québec's voluntary carbon market (VCM).

Its actions include:

- Support for SMEs and municipalities

- The structuring of carbon portfolios
- The development of tailored financial tools that make project financing available

This experience demonstrates the feasibility of a credible voluntary market, complementary to the regulated market and grounded in Québec realities.

The draft regulation provides that the limit on offset credits eligible under the cap-and-trade system will be reduced to 6% of the GHG emissions cap beginning in 2027. Accordingly, for 2027, the emissions cap will stand at 47.84 million emission units (MEUs), which would bring the offset credit limit to approximately 2.80 MEUs. In 2029, that limit would be approximately 2.70 MEUs, of which at least 0.45 MEUs would have to originate in Québec.

However, according to data from the cap-and-trade system registry for 2025, only 0.14 MEUs in offset credits were issued, representing barely 31% of the minimum target required for 2029.. Although 7 offset credit methodologies are recognized under the cap-and-trade system, only three of them have enabled, since 2014, the validation of projects generating eligible credits. In this context, the risk of an insufficient supply of Québec offset credits is considerable.

For comparison purposes, the Québec Sustainable Community project was validated under the VCS program administered by Verra. This grouped project was developed under the VM0018 methodology certified by Verra. It is used in 5 grouped projects and deployed across 3 countries. This project carried out in Québec has generated an annual average of 0.70 MEUs since 2020. This significant contribution illustrates the value and relevance of recognizing this type of credit within the cap-and-trade system. This is all the more important given that capital flight is very real, as demonstrated in the Delorme report, Dec. 2024, and corroborated by a 2023 article in Le Devoir.

Tableau 4. État de situation des crédits compensatoires – Crédits compensatoires utilisés à des fins de conformité par les émetteurs assujettis québécois.

Période de conformité	Obligation totale de conformité (t éq. CO_2)	Crédits compensatoires (t éq. CO_2)					
		Québec	Californie	Total	Part des crédits compensatoires pour la conformité	Part des crédits californiens sur le total des crédits utilisés	Part des crédits québécois sur le total des crédits utilisés
2013-2014	36 664 703		298 812	298 812	0,8 %	100,0 %	0,0 %
2015-2017	176 145 518	585 134	5 503 021	6 088 155	3,5 %	90,4 %	9,6 %
2018-2020	178 178 929	388 051	13 143 303	13 531 354	7,6 %	97,1 %	2,9 %
2021-2023	176 515 597	366 385	13 275 911	13 642 296	7,7%	97,3%	2,7%
Total des périodes	**390 989 150**	**973 185**	**18 945 136**	**19 918 321**	**5,1 %**	**95,1 %**	**4,9 %**

Source : Gouvernement du Québec (6 décembre 2024)

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3. Governance of the Cap-and-Trade System: Transparency and Accountability Issues

The cap-and-trade system is Québec's central carbon pricing instrument. However, a number of concerns are emerging regarding its governance.

Stakeholders in the field point to:

- Opaque decision-making processes
- Technocratic language that is not easily accessible
- Limited participation by local project developers
- Management perceived as centralized and closed-off

The accountability question remains unresolved: do strategic orientations fall under the responsibility of elected officials or the administrative apparatus?

La confiance envers les marchés du carbone repose sur la transparence, la lisibilité et l'ouverture.

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a. Utilisation des revenus des marchés du carbone

Le déplacement de sommes importantes issues du Fonds vert a suscité des interrogations légitimes quant à la traçabilité et à l'affectation des revenus carbone.

Chaque dollar issu de la tarification des émissions de GES devrait contribuer de manière mesurable à la réduction des GES au Québec, renforçant ainsi l'acceptabilité sociale du système.

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b. Additionalité et innovation

L'application actuelle du principe d'additionalité est jugée excessivement restrictive par plusieurs acteurs[1].

Les effets observés sont les suivants :

- Exclusion de projets pertinents entrainant des réductions réelles et mesurables d'émissions de GES
- Délais importants d'approbation
- Frein à l'innovation territoriale

Depuis 2013, des rivalités structurelles entre acteurs du marché ont contribué à rigidifier le système, limitant l'émergence de nouvelles approches.

[1] Rapport Delorme-Lajoie, décembre 2024 https://solutionswill.com/wp-content/uploads/2025/02/Impact-economique-du-marche-du-carbone-et-strategies-doptimisation-Jan-2025.pdf

Une modernisation réglementaire est nécessaire afin de :

- Favoriser l'expérimentation
- Accélérer la reconnaissance du rôle des marchés volontaires du carbone complémentaires au SPEDE
- Faciliter l'accès des PME et collectivités à ceux-ci
- Prioriser les réductions de GES à la source avant les projets de captage et de séquestration
- Encadrer adéquatement les projets de captage et de séquestration de carbone

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Conclusions et recommandations

Face aux défis climatiques, économiques et géopolitiques de 2026, le Québec doit renforcer la souveraineté et l'ancrage territorial de son action climatique.

Nous recommandons de:

1. Prioriser les réductions de GES réalisées au Québec
2. Reconnaître et financer les initiatives locales par le marché volontaire du carbone et reconnaitre et utiliser les crédits carbones équivalents aux CrC du SPEDE
3. Structurer un marché volontaire québécois robuste
4. Développer l'expertise carbone stratégique interne
5. Réformer la gouvernance du SPEDE
6. Éliminer le surplus des droits d'émissions émis gratuitement sur le SPEDE
7. Assurer la transparence de l'utilisation des revenus carbone
8. Ajuster l'additionalité pour stimuler l'innovation

L’action climatique doit devenir un moteur de développement économique territorial, au bénéfice des collectivités, des entreprises et de la transition énergétique québécoise.

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