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Ontario and Québec Collaborate to Reduce Carbon Emissions

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Yesterday, Ontario announced that it will impose a cap-and-trade system under the Western Climate Initiative, which it joined in 2008. The “cap” will set a maximum limit on the amount of greenhouse gas emissions that industry can produce in Ontario. Over time, this emissions cap will be lowered, reducing emissions. The “trade” will create a market for carbon credits distributed or auctioned by the government. Companies that do not use all their credits can sell to emitters that exceed the cap. Over the next six months, the public will be consulted on the details for the “made-in-Ontario” cap-and-trade system.

Ontario and Québec also announced yesterday a statement of intent to reduce carbon emissions through a linked cap-and-trade system. Québec’s cap-and-trade system took effect in 2013 and was linked with California’s system in 2014. Québec’s system currently applies to large electricity generators, industrial facilities and distributors of transportation and heating fuels. Over the coming months, Ontario will work to align its cap-and-trade market with both the Québec and the California markets. This expanded carbon market is expected to help improve market stability, minimize implementation costs and provide a consistent approach to greenhouse gas emitters in both provinces.

Many Canadian business leaders had initially called for a national carbon pricing system to avoid the emerging patchwork of provincial approaches (*e.g.*, British Columbia’s carbon tax, Alberta’s baseline and credit system, Québec’s cap-and-trade system). However, given that the proposed federal sector-by-sector regulatory approach is stalled, coordinated provincial action is increasingly seen as the more practical and efficient way to move forward in reducing Canada’s greenhouse gas emissions.

Davies will follow the creation of Ontario’s cap-and-trade system and its alignment with the Québec and California carbon markets. Key issues to watch will be Ontario’s emissions cap and how quickly it will be lowered, the scope of the industrial sectors to be regulated, how Ontario intends to protect carbon-intensive, trade-exposed industry and opportunities for the creation and trade of offsets.

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