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# QUÉBEC'S CAP-AND-TRADE SYSTEM AT A GLANCE

IETA Business Brief

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## EXECUTIVE SUMMARY

Québec's cap-and-trade system has operated since 2013 and is linked with California through the Western Climate Initiative. The system covers large emitters, fossil fuel distributors, and electricity producers and importers, with 127 covered entities participating in 2026. The 2026 cap is 49.08 million tCO2e and is set to decline to 44.14 million tCO2e by 2030. Recent amendments retain the 8% offset limit for the 2024-2026 compliance period, reduce it to 6% from 2027, revise compliance-period timing, and introduce updated programme rules. Québec, California and Washington signed a linkage agreement on 25 June 2026, although implementation remains subject to regulatory and legal approvals.

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| **Years in operation** | First compliance period: 2013-2014<br>Second: 2015-2017<br>Third: 2018-2020<br>Fourth: 2021-2023<br>Fifth: 2024-2026<br>Sixth: 2027-2028 (This and below as per Updated Regulation– September 2026)<br>Seventh: 2029-2030<br>Eighth: 2031-2033<br>Subsequent compliance periods will alternate between 3 calendar years and 2 calendar years. |
| **Overall cap and trajectory** | The 2026 cap is 49.08 million $tCO_2e$ and will decrease by 1.235 million tCO2e annually to reach 44.14 million $tCO_2e$ by 2030. No annual caps have yet been set for years after 2030. |
| **Target(s)** | A 20% reduction from 1990 levels by 2020, followed by a 37.5% reduction from 1990 levels by 2030, which was extended to 2035 on February 11, 2026, per Decree 62-2026 (Page 61) |
| **Emissions reduced to date** | Québec's total GHG emissions were 57.55 MtCO2e in 2024, down approximately 15.9% from 1990 levels. |
| **Sectors covered** | • Entities emitting 25,000 $tCO_2e$ or more per year<br>• Voluntary participants emitting 10,000 tCO2 per year<br>• Fossil fuel distributors<br>• Electricity producers and importers |
| **GHGs covered** | • CO2<br>• CH4<br>• N2O<br>• HFCs<br>• PFCs<br>• SF6<br>• NF3, and other fluorinated GHGs |
| **Number of covered entities** | 127 covered entities participating in the emissions trading scheme in 2026. |
| **Allocation method** | Allowances can be allocated for free, acquired at auctions, or obtained through mutual agreements with the Minister.<br>Participants are required to have a CITSS account to acquire, hold and transfer emission allowances. They may also participate in auctions, which are conducted in collaboration with California.<br>Auctions feature a reserve price, set at US$26.47 in 2026, increasing by 5% each year plus inflation. There is no maximum price limit. Allowances are sold in lots of 1,000.<br>Effective in 2024, a portion of the intended free allocations will be consigned for business and sold at auction with the funds available for reduction projects, subject to certain conditions. |



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| **Trading rules** | Establishments emitting between 10,000 tCO2e and 25,000 tCO2e have the option to register and participate voluntarily.<br><br>Investors, brokers, consultants, offset credit promoters, and other unregulated participants are permitted. Derivatives clearing houses may also register, provided they have an establishment in Canada and are recognized by a Canadian financial-market regulatory authority. |
| **Use of offsets and linking** | Only offset credits issued by the governments of Québec or California are recognised.<br><br>Offset protocols defined in the Québec and California regulations are the only eligible project types.<br><br>There is an 8% limit on the use of offsets to meet compliance obligations for current compliance period which ends 2026 with surrender in 2027. Going forward, the newly published regulation – which came into effect on 10 September 2026 – introduced an offset limit of 6% from next compliance cycle onward. Of that 6%, at least 1% should be originated from Quebec only for 2027-2029 and then at least 2% for all subsequent periods.<br><br>Québec became linked with California via the WCI in 2014.<br><br>A declaration was signed in 2015 with Mexico and in 2019 with Chile to allow collaboration on carbon markets and other matters.<br><br>Québec, California and Washington announced their intention to explore linkage in March 2024. The three jurisdictions subsequently signed a linkage agreement on June 25, 2026. The agreement is not yet operational, with regulatory and statutory approvals still under consideration, but the process remains ongoing. |
| **Other features** | Holding limits are in place to restrict the number of GHG emission units that any given emitter or participant can hold. The holding limit is calculated based on the cap.<br><br>There are allowance purchase limits per bidder based on a percentage of the total number of auctioned units. Bidders that are related entities have an overall shared purchasing limit.<br><br>All allowances must be surrendered by November 1 following the end of the compliance period. |
| **Penalties for non-compliance** | Suspension of the entity's account and a fine of three additional allowances is imposed for each allowance shortfall at the end of the compliance period.<br><br>Individuals legally responsible for non-compliance can face fines and up to 18 months of imprisonment for individuals.<br><br>Allocation can be suspended for non-compliant emitters. |
| **Use of revenue** | Starting November 1, 2020, the Electrification and Climate Change Fund (ECCF) replaced the former Green Fund.<br><br>All auction proceeds are directed to the ECCF, which funds initiatives outlined in the '2030 Plan for a Green Economy' and sustains commitments from the '2013-2020 Climate Change Action Plan.'<br>The '2030 Plan for a Green Economy' is the government's 10-year electrification and climate change policy framework, supplanting the 2013-20 Climate Change Action Plan that expired on March 31, 2021. |

## MAJOR DEVELOPMENTS
## Biomethane and GHG Reporting

There have been multiple regulatory changes introduced by the Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs (MELCCFP) since 2024 that are focused on the treatment of biomethane within Québec's greenhouse gas reporting and cap-and-trade framework.

In December 2024, Québec enacted amendments to the Regulation respecting mandatory reporting of certain emissions of contaminants into the atmosphere (RDOCECA), effective January 1, 2025. The amendments support Québec's renewable natural gas requirements, including the requirement for natural gas distributors to reach 10% biomethane in their distribution networks by 2030 and establish requirements under which biomethane may be reported as a substitute for conventional natural gas. To be eligible, reporting entities must provide information prescribed by QC.35 to demonstrate that the biomethane volumes are:

- Biogenic in nature (origin and production method) and free of fossil carbon;
- Physically connected to Québec's distribution network (either injected directly into the network or into a pipeline network that is physically connected to Québec's); and
- Not double-counted (single use of biogenic attributes)

In late 2025, Québec adopted complementary amendments to both the *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances* (RSPEDE) and the RDOCECA, which came into force on January 1, 2026. These amendments clarify and align the treatment of biomethane under Québec's GHG reporting and cap-and-trade regimes.

Key changes include:

- Emissions attributable to eligible biomethane volumes must be reported and verified.
- Verification of biomethane claims is required to demonstrate eligibility. Biomethane volumes that cannot be substantiated through appropriate records and evidence risk being treated as conventional natural gas for reporting purposes.
- Carbon dioxide ($CO_2$) emissions attributable to eligible biomethane combustion are excluded from the definition of "verified emissions" under the cap-and-trade system and therefore do not require the surrender of a corresponding emission allowance.

The December 2024 amendments updated the QC.17 emission factors used for imported electricity to account for changes in the thermal generating fleets of Canadian provinces and U.S. states from which electricity is imported. The December 2025 reporting amendments included a further update to the QC.17 emission factors.

### Cap-and-Trade Amendments (2026)

On 1 September, California's updated Cap-and-Invest Program came into force, with Québec's corresponding amendments taking effect on September 10, marking a major milestone for the evolution of the linked California-Québec carbon market. These amendments follow public consultations held earlier this year. The updated regulations include measures to:

- Maintain the current 8% offset usage limit for the 2024-2026 compliance period, while reducing the limit to 6% beginning in 2027.
- Require a portion of offsets used for compliance to be issued by Québec, beginning at least 1% in 2027 and increasing to at least 2% in 2029 onwards.
- Align compliance-period timing more closely with California by replacing the uniform three-year compliance cycle with a prescribed schedule, including a two-year compliance period covering 2027 and 2028, followed by subsequent alternating two- and three-year periods.
- Apply updated global warming potential (GWP) values beginning in 2027.
- Revise the criteria and disclosure requirements used to identify related entities and corporate associations, including new provisions addressing investment funds and fund managers.
- Modify certain free-allocation provisions beginning in 2027 and propose adding new eligible industrial activities including production of aluminium alloys, manufacturing of synthetic olivine sands, production of titanium tetrachloride and oxychloride, manufacturing of cast iron pipes and fittings and ferroniobium production.
- Update the definition of 'verified emissions' to exclude $CO_2$ emissions that were captured, stored, eliminated, re-used or transferred, and GHG emissions associated with imported electricity from U.S. states where producers are already subject to a carbon-pricing system established by a non-partner jurisdiction.
- Revise eligibility requirements and reporting obligations associated with the use of consigned-auction proceeds and eligible emissions-reduction projects, including carbon capture and storage projects.

### Market Linkage

In June 2026, Québec, California, and Washington State signed a linkage agreement intended to integrate Washington's Cap-and-Invest Program with the existing Québec-California carbon market. The linkage remains subject to the completion of each jurisdiction's regulatory and legal approval processes, with implementation targeted for 2027. Washington State publishes quarterly linkage updates, and the most recent June 2026 update is available.

### Offset Supply and Project Development

Québec continues to expand its domestic offset-credit system as part of broader efforts to increase the availability of compliance instruments within the cap-and-trade market. As of July 2026, Québec has issued over 2.3 million offset credits.

In July 2026, the Ministry adopted administrative positions intended to facilitate implementation of Québec's afforestation and reforestation offset framework.

## MARKET COMMENTARY

While the WCI is a joint program between California and Québec, WCI allowance prices tend to be influenced more by developments and actions out of California than Québec, given California emitters' significantly larger contribution to program emissions. Nonetheless, Québec Cap-and-Trade policies and actions also influence WCI allowance prices.

Historically, WCI allowances have mostly traded close to the program's floor price. However, starting in 2019, interest from financial investors pushed WCI allowance prices upward and off the floor. Since then, WCI allowance prices have fluctuated based on a variety of program-specific and non-program-specific factors.

With California and Québec regulators announcing the start of a Program Review process to tighten program regulations in 2021, WCI allowance prices embarked on a bullish run driven by sustained non-compliance speculative interest in the program. This culminated in prices reaching an all-time high of above USD 40 in early 2024.

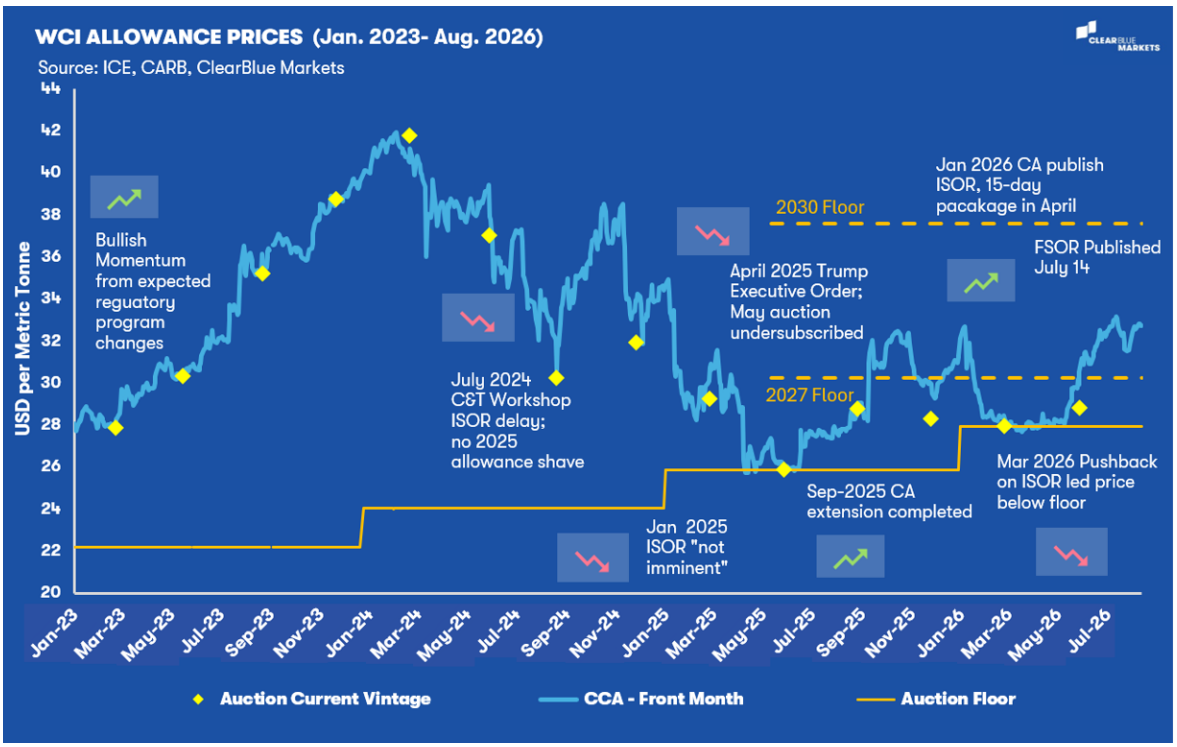
However, after peaking in early 2024, WCI allowance prices began a long decline as California and Québec regulators announced several delays to Program Review completion. This caused WCI allowance prices to close 2024 at USD 34, down 17% from their peak. Prices continued to decline into 2025 as regulators indicated further delays, with the situation further exacerbated by an Executive Order targeting state-level emissions trading programs issued by US President Trump in April 2025. These negative developments drove secondary market prices back toward the floor, culminating in the May 2025 WCI joint auction failing to be fully subscribed for the first time in five years.

Market sentiment began to recover as California state legislators agreed to extend the now-rebranded Cap-and-Invest program through to 2045 in September 2025, while the US federal government had yet to follow through on its Executive Order threat. This resulted in a price recovery above the floor.

2026 brought further volatility as market participants continued to react to updates on the Program Review process. WCI allowance prices dropped back to the floor as California and Québec appeared to walk back their program tightening ambitions, before recovering as both jurisdictions made significant progress on the Program Review process and moved toward adopting new regulations in fall 2026.

The program received an additional boost as California and Québec officials signed an agreement with Washington State to link their respective Cap-and-Invest programs, with the aim of operating a joint three-jurisdiction program in 2027.

### Source: ClearBlue Markets




## USEFUL LINKS

[Program details, Quebec Environment and Climate Change Ministry]

[ICAP ETS Quebec Factsheet] (updated March 2023)

[2030 Plan for a Green Economy]

[Plan to fight against climate change]

[Use of Revenue]

## REFERENCES

Regulation to amend the Regulation respecting a cap-and-trade system for greenhouse gas emission allowances.

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Seventh Opinion of the Advisory Committee on Climate Change. https://www.quebec.ca/nouvelles/actualites/details/septieme-avis-du-comite-consultatif-sur-les-changements-climatiques-bonifier-le-spede-pour-accroitre-son-effet-de-levier-en-faveur-de-la-decarbonation-en-profondeur-de-la-societe-quebecoise-57937

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