18 September 2021

Submitted to: Ministere de l'Environnement et de la Lutte contre les changements climatiques (MELCC)
kim.ricard@environnement.gouv.qc.ca
dmc.creditscompensatoires@environnement.gouv.qc.ca
pierre.bouchard@environnement.gouv.qc.ca

IETA COMMENTS ON DRAFT QUEBEC OFFSET PROTOCOL ON AFFORESTATION AND REFORESTATION ACTIVITIES ON PRIVATE LANDS

The **International Emissions Trading Association (IETA)** appreciates this opportunity to share input on the Government of Quebec's draft regulation "*Afforestation and reforestation projects eligible for the issuance of offset credits on privately-owned land*" (**Draft Protocol**), published by the Ministère de l'Environnement et de la Lutte contre les changements climatiques (**MELCC**). IETA is the leading international multi-sector business voice on climate markets and finance. Our non-profit organization represents over 180 companies, including many who are actively involved in the world-leading Quebec-California linked cap-and-trade system. **For many years, IETA has welcomed close cooperation with MELCC and the province's tremendous leadership on market solutions** that deliver measurable greenhouse gas (**GHG**) reductions, address economic competitiveness concerns and balance economic efficiencies with social equity and co-benefits. IETA strongly believes that broad and linked carbon markets with high-integrity offsets, like the Western Climate Initiative (**WCI**) model, must form the backbone policy to support legitimate government efforts to ambitious climate and net-zero goals.

IETA would like to first commend MELCC in their pursuit of, and support for, Nature-Based Solutions to include in Quebec's expanding suite of compliance protocols. Introducing this initial forest protocol is a crucial step in unlocking a vast potential for effective climate mitigation with co-benefits, carbon market growth, and low-cost compliance options. As Quebec and the world enter a Paris Era – with its acceleration of meaningful climate action, cooperation and ambition – now is an ideal time to ensure that an economical, scalable, and deployable forest compliance protocol can reach its full potential. This means adoption of an initial, albeit narrow, forest protocol capable of broad deployment. A successful protocol will effectively drive significant sums of private activity and capital into projects generating high-integrity credits, which are real, verifiable, discrete, and additional.

For a protocol to be successful, it must of course generate high-integrity credits – however, it also must ultimately be used and economically-feasible for broad deployment. Unfortunately, **IETA and many of our Members who have current or potential climate activities/investments across WCI strongly believe that Quebec's Draft Protocol, as it currently stands, is not economically-viable and is poised to fall well short of its intended policy goal and mitigation potential.**

<u>IETA's main concern with the Draft Protocol is that its proposed credit flow to a project developer does not occur along a realistic timescale to meet</u>: a) near/mid-term market offset demand; and b) investor requirements to legitimately finance these project types. To maximize biological carbon sequestration in the province, it is critical that the protocol, once adopted, balance environmental integrity with creating economic incentives to attract large-scale capital investment. If this vital balance is not achieved, business and investors will be side-lined and ultimately choose to invest in other jurisdictions beyond Quebec.

As the draft is currently written, a project developer will only realize 40% of their investment 30 years into the project. While this firmly ensures additionality while providing a high degree of environmental integrity, it is **overly conservative to the point that the protocol risks not being used due to lack of economic incentives over realistic project development and investor timescales**. Even if a protocol developer could get a project online in 2021-2022, they would not receive credits until 2051 – this clearly occurs far too late relative to peak timelines for Quebec-WCI credit demand (i.e., leading up to 2030, then through 2050). To further illustrate our argument, consider a firm with high short-term credit demand (e.g., oil and gas, industry, manufacturing etc.), but is now making investments to reduce its emissions exposure/schedule over the medium and long-terms. Such a firm would have limited to zero desire to use the protocol, as currently drafted, as the return schedule does not align with the firm's demand for credits despite *eventually-realized* cost-efficacy protocol potential. We hope to see MELCC takes this concern into serious consideration while making final amendments to the protocol prior to adoption.

With a view to proposed solutions, **IETA recommends changing the Draft Protocol crediting schedule so that a portion of a project's lifetime credits be made payable as soon as the project is deemed online, then pay the remaining portion of credits over consistent intervals until project completion**. This alternative approach would strike the right balance between creating short-term incentive for project development and long-term incentive to continue project deployment/maintenance, thereby ensuring protocol methods and overall integrity are not compromised. By having immediate and nearer-term carbon credit payments, the protocol would encourage project developers to invest and operationalize projects as soon as possible, while sequence of payments (following initial payment) encourages continued protocol compliance and maintenance over the longer-term.

IETA's recommended alternative crediting schedule approach, summarized above, could be an especially viable and wise approach should the Federal Government's carbon pricing schedule – along with its enhanced backstop "stringency" criteria – be realized through 2030. The reward of eligible lower-cost, high-integrity credits could drive early and significant investments in Quebec forest projects, while ensuring developers maintain projects to receive more – and increasingly higher – financial compensation or future compliance cost savings. Not only is this backdrop worth considering for Quebec-WCI (as cap-and-trade stringency and prices rise through 2030), but for potential market dynamic and linkage with Canadian Backstop Jurisdictions (via Recognized Units) where prices through 2030 are set to scale much more significantly than in Quebec's cap-and-trade system.

In addition to IETA's discrete comments on Draft Protocol improvements, we implore MELCC to immediately accelerate development and consultation efforts on a compliance Improved Forest Management (IFM) Protocol. A positive, clear signal from Quebec about its commitment to proceed with an IFM protocol would be applauded by a broad community of stakeholders and market participants. This includes a vast majority of forest carbon project developers who desire a full suite of GHG quantification methodologies, in order to maximize biological carbon sequestration in Quebec. It is essential to get these land-use solutions developed as soon as possible, with a view to not only realizing but maximizing their climate mitigation, resilience and co-benefit value over the coming years.

Finally, it is important to briefly look beyond Quebec's domestic cap-setting and Canada's escalating price schedule context, to the swiftly-expanding international voluntary carbon market (**VCM**). This market – underpinned by independent standards with enhanced monitoring, reporting and verification and transparency – *is growing at an extremely rapid pace*. According to the new Ecosystem Marketplace-Forest Trends "State of the VCM 2021" report[1], released on 15 September, the VCM is on-track to reach an all-time record total value of over US$1 billion in 2021. Largely driven by investor and corporate net zero commitments, this voluntary demand surge is sparking rapid and unprecedented advancements in voluntary protocol development and deployment, including across Canada and Nature Based Solutions. **Should Quebec's compliance forest protocol be overly narrow and/or fail to be economically-viable, independent protocols and voluntary activity may potentially fill the vacuum**. And although this scenario would still be welcome in terms of climate finance and mitigation, **it could result in policy risks and adverse implications for broader Quebec compliance market functionality and cost-containment.**

We hope that our insights and proposed solutions on the Draft Protocol are well-received by MELCC. Once again, IETA appreciates our long-standing cooperation on global climate action and market solutions with Quebec, and we encourage MELCC officials to reach-out directly with any questions or follow-up requests related to the Draft Protocol by contacting **IETA Managing Director, Katie Sullivan (sullivan@ieta.org) and IETA Analyst, Sam Grootelaar (grootelaar@ieta.org).**

[1] "State of the Voluntary Carbon Market 2021". Ecosystem Marketplace-Forest Trends. 15 September 2021. (Link)