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Submission to Environment and Climate Change Canada
Subject: Comments on Driving Effective Carbon Markets in Canada
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Executive Summary

We support Environment and Climate Change Canada's efforts to strengthen industrial carbon markets, so they deliver credible decarbonization incentives while protecting competitiveness. The discussion paper identifies market fragmentation and limited transparency as material barriers to efficient price signals and long-term investment decisions. This submission focuses on two priorities:

- Increased market liquidity via an interprovincial credit trading mechanism—starting with a time-limited Alberta–British Columbia pilot between provincial output-based pricing system (OBPS) credit markets.
- Enhanced transparency through standardized public reporting of carbon market transactions—supporting stronger price discovery and enabling the emergence of derivative instruments (carbon futures and options) to improve hedging, investment signals, and liquidity.

Cohesive and efficient: Increasing liquidity through interprovincial credit trading

Recommendation: Establish a federal interoperability framework and launch a time-limited Alberta–British Columbia OBPS credit trading pilot.

Rationale: Canada's industrial carbon markets are currently fragmented, and market participants have highlighted that small markets and limited participation can reduce liquidity and weaken the price signal. Firms operating in multiple jurisdictions also face higher administrative burden when compliance units cannot be used across their business portfolio. Interprovincial credit trading—designed with appropriate safeguards—would be a practical step toward a more cohesive Canadian market while preserving provincial flexibility.

Proposed Alberta–British Columbia pilot (time-limited, metrics-based):

- Duration: Two compliance years, with a pre-defined evaluation plan and "off-ramp" if integrity or competitiveness risks materialize.
- Scope: Mutual recognition of a defined class of compliance units (e.g., surplus performance credits) issued under each province's OBPS, tracked through interoperable registries with unique serial numbers to prevent double counting. At the implementation stage and before the transaction-level credit linking, privacy, data security and governance testing ensures reliability of registries' interoperability.

- Environmental integrity and stringency safeguards:
  - Pre-pilot assessment of comparability (coverage, stringency, banking/expiry rules, offset eligibility and use limits) and confirmation that both systems continue to meet federal benchmark stringency requirements.
  - If material design differences remain, apply an exchange ratio/discount factor (or quantitative transfer limits) to reduce arbitrage risk while still improving liquidity.
  - Introduce initial volume limits (e.g., cap the share of a facility's compliance that can be met with imported credits) to manage bank-driven price impacts while the pilot is evaluated.

- Governance and oversight:
  - ECCC to convene and provide a template for bilateral linkage agreements (unit definitions, registry interoperability standards, reporting protocols, dispute resolution).
  - A joint provincial oversight committee, with periodic public reporting.
  - Pre-pilot industry and stakeholder consultation to review design parameters and evaluate baseline harmonization (e.g., emissions intensity benchmarks) across both provinces and gather input on implementation challenges and operational impacts from multi-jurisdictional facilities.

Evaluation metrics (reported quarterly):

- Liquidity and market function: trading volumes, number and diversity of participants, time-to-trade, and evidence of reduced transaction costs.
- Price signal quality: credit prices relative to the headline carbon price, price convergence between Alberta and B.C., and volatility.
- Compliance and competitiveness impacts: distribution of compliance costs, evidence of unintended competitiveness impacts, and administrative burden for multi-jurisdictional firms.
- Market integrity: banking levels, cross-border credit flows, indicators of market manipulation/arbitrage, and consistency with benchmark stringency.

We encourage ECCC to use lessons from the pilot to inform a broader interprovincial trading roadmap (multi-lateral linkage) and to identify minimum interoperability requirements that provinces can adopt over time.

Transparency: Standardized public reporting to improve price discovery and enable derivative markets

Recommendation: Strengthen benchmark public reporting requirements with standardized, timely publication of key market metrics (prices, volumes, supply/demand and compliance), and establish a national portal for large-emitter trading system (LETS) daily market information.

Rationale: The discussion paper notes that limited transparency on credit supply, demand, trading volumes and prices undermines predictability and the ability to make informed compliance and investment decisions. More consistent and timely reporting—paired with confidentiality safeguards in smaller markets—would strengthen price discovery, market confidence, and oversight.

Recommended actions:

- Standardized quarterly reporting (with short publication lag):
  - Publish at minimum, quarterly volume-weighted average, minimum and maximum transaction prices (by credit type and vintage, distinguishing inter-firm vs intra-firm trades).
  - Publish quarterly trading volumes (transfers, surrenders, and banked credits), outstanding compliance obligations, and estimated supply/demand balances.
  - Target publication within one month of quarter-end, with confidentiality safeguards (e.g., aggregation, minimum trade-count thresholds, delayed publication if necessary following a phased provincial implementation allowing one year to build capacity).

- National data portal / registry interface:
  - Create a single federal interface that links provincial registries (or provides a harmonized data feed), improving comparability without overriding provincial governance.
  - Provide machine-readable open data (standard fields and definitions) to support analytics, market oversight, and participation.

- Enable a transparent price benchmark suitable for carbon derivatives:
  - Standardized spot-market data can support robust carbon price indices and forward curves—preconditions for futures and options markets to develop.
  - Derivatives improve hedging: regulated firms and investors can manage compliance cost risk and cash-flow volatility, supporting multi-year decarbonization investments.
  - Derivatives improve investment signals: forward prices provide a market-based view of expectations about future credit scarcity and policy stringency.
  - Derivatives can enhance overall liquidity and price discovery by attracting additional participants and facilitating risk transfer.

Conclusion

A time-limited Alberta–B.C. interprovincial trading pilot, paired with standardized market reporting that supports both spot and derivative market development, would be practical, high-impact steps toward more cohesive and investable carbon markets across Canada.

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