



Ninepoint Carbon Credit ETF Marketview Commentary

June 8, 2022

Special Commentary: Canada's first federal carbon offset market

On Wednesday, June 8, 2022 Canada launched its first federal carbon offset market, taking another step towards a nationalized carbon pricing strategy, similar to the existing Emission Trading Systems (ETS) such as in the EU, UK and other jurisdictions held by the **Ninepoint Carbon Credit ETF** (ticker CBON). The province of British Columbia, Quebec and Alberta already have their own compliance credit systems in place. However, there have been none at the federal level - until now.

Investment Team



John Wilson, MBA
Co-CEO, Managing Partner,
Senior Portfolio Manager

Background

The Greenhouse Gas Pollution Pricing Act, which came into effect in June 2018, provides the legal framework for the federal carbon pricing system in Canada. This system consists of two parts:

1. A regulatory charge on fossil fuels
2. An output-based emissions trading system for carbon-intensive industries (OBPS)

Similar to the emissions trading system in other countries, compliant companies covered under the OBPS are required to compensate for their GHG emissions that exceed an annual emissions limit. At the end of each compliance cycle, all companies under the federal OBPS that exceed their annual emissions limits have three options to comply:

1. Pay the excess emissions charge - \$50 per ton in 2022
2. Surrender enough compliance carbon credits (including the newly created federal carbon offset credits)
3. A combination of the above two options

The purpose of the federal carbon offset market is to help heavy emitters reduce compliance costs and maintain competitiveness.

Our View

As we discussed in our [April commentary](#), we view the carbon offset market as the 'wild west' with many opportunities, and some risks, ahead. The creation of the Canadian federal carbon offset market is another step taken to enhance the transparency of the 'wild west' voluntary carbon market. The new program will provide a financial boost to the industries that the offset projects operate in and provide compliant companies another tool to decide when and how to manage their carbon emissions.

How to set up the rules under the new federal offset program is tricky though – the government

needs to ensure enough flexibility is given to the compliant companies to ensure their competitiveness while maintaining the integrity of carbon pricing scheme. Right now, only landfill projects that recover landfill gas from their operations will be able to generate the new carbon offset credits, so we are unlikely to see material increase in carbon credits supply – at the moment. The government needs to make sure that, as the program evolves, the new program will not create a flood of compliance credits that allow major emitters to buy compliance credits at a price less than the current federal carbon price. They also need to ensure that the offset credits submitted under the new program will be audited to ensure that the cuts are additional and permanent.

Overall, in our view, a more regulated carbon offset market is needed, and the creation of the new program further signals the long-term growth potential of carbon market. As the rules become more established and mature, a more transparent carbon market will allow us to put the right price on carbon. Ultimately, a stronger carbon price will kick-start more growth in clean, renewable energy and will incentivize businesses to discover more sustainable business models.

Source

1. <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system/federal-greenhouse-gas-offset-system.html>
2. <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system.html>

The Ninepoint Carbon Credit ETF is generally exposed to the following risks See the prospectus of the Fund for a description of these risks Absence of an active market for ETF Series risk, cap and trade risk, collateral risk, commodity risk, concentration risk, cybersecurity risk, derivatives risk, foreign currency risk, foreign investment risk, Halted trading of ETF Series risk, inflation risk, interest rate risk, liquidity risk, market risk, regulatory risk, securities lending, repurchase and reverse repurchase transactions risk, series risk, substantial securityholder risk, tax risk, trading price of etf series risk.

Ninepoint Partners LP is the investment manager to the Ninepoint Funds (collectively, the "Funds"). Commissions, trailing commissions, management fees, performance fees (if any), other charges and expenses all may be associated with mutual fund investments. Please read the prospectus carefully before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The opinions, estimates and projections ("information") contained within this report are solely those of Ninepoint Partners LP and are subject to change without notice. Ninepoint Partners makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, Ninepoint Partners assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. Ninepoint Partners is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Ninepoint Partners. Any reference to a particular company is for illustrative purposes only and should not to be considered as investment advice or a recommendation to buy or sell nor should it be considered as an indication of how the portfolio of any investment fund managed by Ninepoint Partners is or will be invested. Ninepoint Partners LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. Ninepoint Partners LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, Ninepoint Partners LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.

Ninepoint Partners LP: Toll Free: 1.866.299.9906. DEALER SERVICES: CIBC Mellon GSSC Record Keeping Services: Toll Free: 1.877.358.0540