Corresponding Adjustments Pursuant to Article 8 of the 2017 Linkage Agreement

The California Cap-and-Trade Program and Québec Cap-and-Trade System have been linked since January 2014. Linking enables registered entities to trade and use compliance instruments[1] interchangeably across the linked programs.

Linking allows for a shift in GHG emissions between jurisdictions as compared to a hypothetical scenario in which the jurisdictions' cap-and-trade programs are not linked. Linking thus enables GHG emissions to be reduced wherever it is most cost efficient by broadening the options for least cost reductions opportunities.

A jurisdiction whose entities have purchased and retired compliance instruments issued by another jurisdiction gains the possibility for emissions from its covered sectors to potentially exceed its cap. Entities from a jurisdiction with a net outflow of compliance instruments effectively forego the right to emit the corresponding GHG emissions. While linking helps to achieve aggregate mitigation targets at lowest cost, linked jurisdictions should identify and account for any shift in emissions so that each jurisdiction can account for any net transfer of compliance instruments and implications for meeting its own GHG emission targets.[2]

In recognition of this dynamic, Article 8 of the [Agreement on the Harmonization and Integration of Cap-and-Trade Programs for Reducing Greenhouse Gas Emissions] (Agreement) states that:

> *In order to ensure clarity and transparency in how greenhouse gas reductions from cap-and-trade programs are counted toward each Party's emission reduction target, the Parties agree to develop and implement an accounting mechanism that provides a transparent and data-driven calculation that attributes to each Party its portion of the total greenhouse gas emission reduction achieved jointly by the Parties' linked cap-and-trade programs.*
>
> *The agreed upon accounting mechanism should achieve a high level of transparency and careful and secure management of confidential and market-sensitive information in the Parties' cap-and-trade programs. The Parties will build on international principles and criteria, namely those pertaining to*

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[1] Compliance instruments include all types and subtypes of allowances (or emission units) and offset credits issued by the partner jurisdictions.

[2] Schneider, L., Cludius, J., and La Hoz Theuer, S. 2018. Accounting for the linking of emissions trading systems under Article 6.2 of the Paris Agreement. Berlin: International Carbon Action Partnership (ICAP). https://icapcarbonaction.com/en/publications/accounting-linking-etss-under-art-62-paris-agreement

environmental integrity and robust accounting, with an emphasis on transparency and on avoiding double counting.

The Parties recognize that to avoid double claiming of emission reductions, only the Party to which an emission reduction is attributed by the accounting mechanism can use that reduction when assessing its progress toward meeting its emission reduction target, and other Parties will appropriately recognize a corresponding opposite emission impact when assessing their progress toward meeting their respective emission reduction targets.

The Parties acknowledge that when developing and implementing the accounting mechanism, each Party's applicable statutory and regulatory requirements will be respected.

The Parties agree to periodic review of the accounting mechanism in response to the development of laws applicable to each Party or relevant national and international principles and criteria.

Corresponding Adjustments

The term "corresponding adjustments" means GHG accounting adjustments made to recognize "corresponding opposite emission impacts" as described in Article 8 of the Agreement. California and Québec implement corresponding adjustments in their respective GHG accounting frameworks. The adjustment amount for a given year is equal to the annualized net trade flow of compliance instruments as calculated pursuant to the Accounting Mechanism for Article 8 of the 2017 Linkage Agreement and published in the Report on the Net Flow of Compliance Instruments between Québec and California for the Period 2013-2020.

A jurisdiction with a negative net flow of compliance instruments (an acquiring jurisdiction) discloses a downward adjustment, and a jurisdiction with a positive net flow (a transferring jurisdiction) discloses an equal and opposite upward adjustment. The adjustments do not represent a change to a jurisdiction's GHG emissions inventory or to its actual in-jurisdiction GHG emissions. Corresponding adjustments are an accounting tool used to recognize the impact of linking cap-and-trade programs across jurisdictions.

California's GHG Emissions Accounting Framework

Corresponding adjustments determined pursuant to Article 8 of the Agreement comprise one element of the GHG accounting framework[3] that the California Air Resources Board (CARB) is developing to reflect the full impact of California's policies on atmospheric GHG emissions. CARB will maintain this accounting framework in addition to the annual

[3] The accounting framework is discussed on pages 60-61 of the Final 2022 Scoping Plan Update.

California GHG Emission Inventory, which encompasses emissions sources within the state's borders as well as emissions associated with imported electricity consumed in the state. The GHG emissions accounting framework will reflect GHG emissions mitigation action that crosses geographic borders as part of subnational and international collaboration, or as a natural result of implementation of regional policies. This GHG emissions accounting framework will be an important tool to understand the complete climate benefits of California's policies.

Québec's GHG Emissions Accounting Framework

In order to assess the progress toward the achievement of its emission reduction targets, the Ministère de l'Environnement, de la Lutte contre les changements climatiques, de la Faune et des Parcs will produce a Target Achievement Report. This report will combine Québec's GHG emissions inventory with the result of the mitigation action generated outside Québec's borders as part of its subnational and international collaboration and will reflect its importance in the global fight against climate change.

The contribution of Québec's Cap-and-Trade program to this assessment will therefore consist of an adjustment, in the Target Achievement Report, to the level of emissions reported in Québec's GHG emissions inventory with respect to the level of corresponding adjustments determined pursuant to Article 8 of the Agreement.