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13 October 2017

Department of Ecology
State of Washington
300 Desmond Drive SE
Lacey, WA 98503

Dear Department of Ecology,

The Verified Carbon Standard (VCS) welcomes the opportunity to offer comments to Washington State's Clean Air Rule, particularly in respect of carbon markets. We appreciate the leadership demonstrated by the Government of Washington to put a price on carbon and develop and implement a cap-and-trade program that is aligned with other greenhouse gas (GHG) emission reduction programs of similar rigour.

Founded in 2005 by The Climate Group, the International Emissions Trading Association, the World Business Council for Sustainable Development and the World Economic Forum, the VCS Program is the world's leading voluntary GHG emission reduction programs with more than 220 million Verified Carbon Units (VCUs) issued from more than 1,500 projects registered worldwide. 140 million of these VCUs have already been retired, which is the equivalent of taking nearly 30 million passenger vehicles off the roads for a year, the yearly emissions from 34.7 coal-fired power plants, or the carbon sequestration from planting 3.6 billion seedlings and letting them grow for 10 years.¹ VCS also serves as an approved Offset Project Registry (OPR) for the California cap-and-trade program, and the VCS Program as a whole has been approved by California as an Early Action Offset Program.

VCS is eager to assist in the design and implementation of a robust and efficient cap-and-trade program in Washington and is delighted to share our many years of experience in building a strong, coherent and well-respected global GHG crediting program. More information about VCS and the VCS Program for carbon accounting can be found on our website at www.v-c-s.org

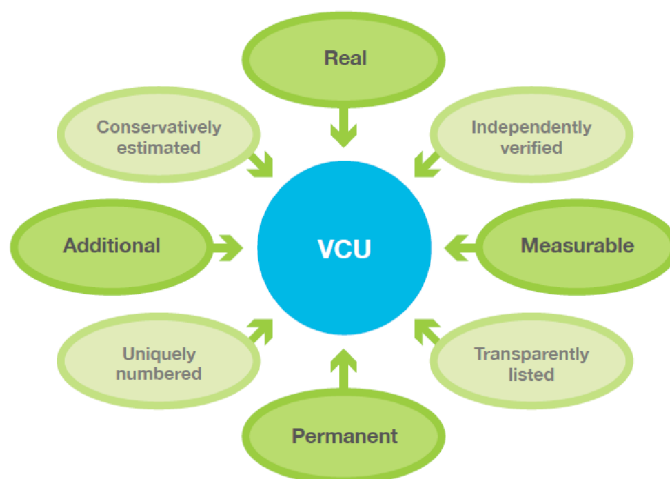
Our comments cover three main areas – acceptance and recognition of GHG crediting programs, linkages to other carbon markets and avoiding tropical deforestation, and a suggestion to include elements of a cap-and-trade program to efforts to pass a carbon tax.

¹ U.S. Environmental Protection Agency, [Greenhouse Gas Equivalencies Calculator](#).

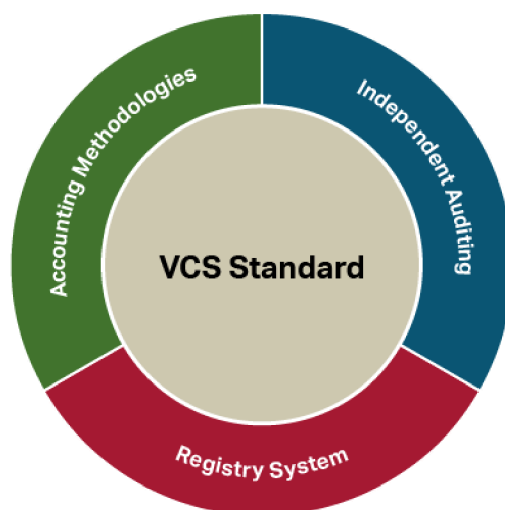
1) Acceptance and Recognition of GHG Crediting Programs

We commend the State of Washington for offering covered entities various ways of complying with the tightening limits on GHG emissions, especially the opportunity to purchase (and retire) GHG Emission Reduction Units (ERUs) generated by projects that are registered with a carbon registry. It is important to note, however, that a simple registry is not enough to ensure the environmental integrity of the units used and thus the entire system. In order for a registry to serve the needs of a cap-and-trade program such as Washington's, it would have to be part of a fully-fledged GHG crediting program that also includes requirements and programmatic elements that enable it to deliver ERUs that have environmental integrity.

By way of example, the VCS Program, the largest GHG crediting program operating in the voluntary carbon market worldwide, is built around the VCS Standard, which sets out basic principles that all units (called Verified Carbon Units, or VCUs) issued by the program must meet. These include, for instance, that the units be additional (beyond business as usual), permanent, and independently verified (audited by a third-party), among others. The diagram below illustrates these principles.



To operationalize the requirements set out in the VCS Standard we have three main programmatic elements that work in concert to deliver emission reductions with environmental integrity. The first of these programmatic elements relates to independent auditing and includes requirements for auditors and procedures for overseeing their work. The second of these programmatic elements relates to requirements and procedures that enable the development of accounting methodologies for different project types. Finally, at the end of the process sits our registry, which provides a transparent platform for the listing of project information, including project descriptions, auditor reports and VCUs issued and retired. The diagram below illustrates how the VCS Program is structured.



Thus, a registry in and of itself is not sufficient to ensure the environmental integrity of the units used because what is in the registry depends on the underlying requirements and procedures that end up generating units that are listed on a registry. If those requirements and procedures are not robust, then the units in the registry will lack environmental integrity. We therefore recommend that covered entities seeking to comply with the Clean Air Rule through the purchase of ERUs from projects be allowed to do so only to the extent that the units are issued by a full-fledged GHG crediting program (and not simply by a registry) and that the units satisfy, at the very least, commonly-agreed principles around environmental integrity. For instance, we believe that units must demonstrate additionality somehow (i.e., that absent carbon finance they would not have been implemented). We also believe that only *ex post* crediting should be allowed (i.e., that emission reduction units are issued only to reductions that have taken place, as opposed to projected future emission reductions).

The above recommendation applies to the third item on the list of options offered to covered entities – that they can sponsor new projects with the help of developers. Unless such projects meet the rigorous requirements of a fully-fledged GHG crediting program, they may not represent real emission reductions that are permanent, thereby threatening to undermine the environmental integrity of the rule.

In order to operationalize the above, we recommend that Washington (through the Department of Ecology) set out clear criteria that GHG crediting programs will need to meet to provide units for compliance with the Clean Air Rule. We would envision that there would need to be a process for accepting applications from GHG crediting programs wanting to participate, as well as oversight requirements (e.g., regular audits) to ensure that the participating programs are in compliance. To the extent that Washington has already undertaken this analysis and made any decisions as to which GHG crediting programs it will recognize, we would recommend inclusion of the VCS Program much like it appears the American Carbon Registry and the Climate Action Reserve have already been approved.

2) Linkages to Other Markets – Stopping Tropical Deforestation

We commend the desire of Washington to link to other markets. In addition to the markets mentioned, we would recommend considering linking to countries or states that are moving ahead with efforts to curb deforestation and which will be generating emission reduction units for trading under the concept of Reduced Emissions from Deforestation and Forest Degradation (REDD+).² Tropical forest loss and degradation is one of the leading causes of global climate change. At the same time, REDD+ activities have great potential to reduce emissions while generating a multitude of additional social and environmental benefits. By allowing the use of REDD+ credits in its compliance market, Washington could provide critical funding to support and scale up efforts to reduce deforestation and forest degradation in its partner jurisdictions.

Based on our ten-year experience as the world's leading standard setter for REDD+ projects and programs, VCS believes REDD+ can be robustly accounted for and used to generate compliance-grade offsets. We strongly recommend the inclusion of REDD+ credits within Washington's cap-and-trade program. In order to operationalize a REDD+ crediting framework, we recommend that Washington adopt the guidelines of the REDD³ Offsets Working Group (ROW) established to inform the development of California's REDD crediting mechanism. Under those guidelines, government-led REDD programs would be allowed to generate credits to be used by compliance markets such as Washington's as well as individual projects 'nested' within those jurisdictional programs being able to transact directly with compliance buyers.

VCS provides these comments from the perspective of the most trusted standard in the voluntary carbon market, with nearly 50 percent of forestry projects around the globe applying VCS Program rules and requirements.⁴ In addition to the project-based crediting platform embedded within the VCS Program, VCS established, with a multi-stakeholder group including many of the world's leading REDD+ programs, the Jurisdictional and Nested REDD+ (JNR) framework to provide a rigorous and globally applicable standard for REDD+ accounting at the jurisdictional scale, with clear guidelines on how projects can be integrated (i.e., "nested") within these larger-scale programs. Now that countries are submitting National Forest Reference Levels to the United Nations, thereby setting baselines for emissions from their forest sectors, it is becoming increasingly possible to credit emission reductions and also link individual projects to jurisdictional efforts.

In our opinion, the adoption of third-party standards could simplify Washington's engagement with and ensure the integrity of its offset program, while providing needed transparency to Washington and international stakeholders, and facilitating the scaling up of REDD+ market-based solutions around the world. Adoption of third-party standards for REDD+ crediting is consistent the approach already being taken by Washington in respect of ERUs created in Washington.

² The '+' in REDD+ refers to carbon stock enhancement and sustainable management of forests, in addition to Reduced Emissions from Deforestation and forest Degradation (REDD).

³ For purposes of simplicity and consistency with the approach California is proposing to take, we refer mostly to REDD+, but omit the '+' when referring to California's program given it is focusing on REDD and not REDD+. However, when referring to the forest sector in general and the VCS Jurisdictional and Nested REDD+ framework (JNR), we reference REDD+, which encompasses the broader suite of activities covered.

⁴ [State of Forest Carbon Finance, View from the Understory, 2016, Ecosystem Marketplace.](#)

3) Linking Cap-and-trade with a Carbon Tax

We understand that there are a number of efforts to put a price on carbon in Washington, and that in addition to the cap-and-trade program envisioned under the Clean Air Rule, there is strong consideration of a carbon tax. Both of these approaches have relative advantages and disadvantages, and we think it is worth putting forth a novel concept that some governments are now using to drive direct investment in projects that reduce GHG emissions through a special provision in carbon taxes. The concept would be worth considering in Washington if a carbon tax ends up being the way a price is put on carbon.

The idea is that rather than government taking in tax revenues and investing them where and when it deems appropriate, the government can instead allow companies subject to the carbon tax to reduce their tax liability (up to a certain percent of the total) if they invest in projects that reduce GHG emissions and demonstrate results. So, for instance, if a company's carbon footprint is 100,000 tCO₂e, it could reduce that tax liability by 50% if it surrendered emission reduction units equivalent to 50,000 tCO₂e.

Colombia now has such a policy in place for their carbon tax on fuels (set initially at approximately US\$5 per tCO₂e and growing over time), and the government allow those subject to the tax to instead submit emission reduction units that meet a set of criteria, including that they be certified by a third party, take place in country, among others. Interestingly, the Government of Colombia allows covered entities to submit emission reduction units up to 100% of their tax liability. South Africa is proposing something similar, although their tax will apply to the power generation sector and covered entities will only be able to submit emission reductions up to 6% of their total tax liability.

There are a number of compelling features to this concept.

- Reduced administrative burden. The proposal would reduce the administrative burden related to the tax as investment would flow directly to projects without having the tax revenues go through a cumbersome and time-consuming process.
- Increased effectiveness. The proposal would drive direct investment towards real projects that would reduce GHG emissions, thereby increasing the effectiveness of the tax.
- Measurable results. This approach embodies the concept underlying 'payment for results', meaning that payment is only made when results are achieved. Assuming robust GHG crediting programs are used to issue the units that can be surrendered instead of paying the tax, the concept would generate measurable results.
- Economic growth. Because this approach would drive investment towards real projects, it would result in new investment which would translate into economic growth. For instance, a project to improve forest management could result in the purchase of new equipment for harvesting timber, training of employees thereby giving them more skills. A project to restore tidal wetlands could end up employing people.
- Enhanced transparency. Because robust GHG crediting programs all have publicly available registries, the results of projects generating ERUs would be measured, audited and reported publicly, thereby providing a high level of transparency which would in turn generate more confidence in the program.

The last point reinforces what we mentioned above, which is that in order to have emission reduction units that have environmental integrity, one needs to rely on GHG crediting programs that have both robust requirements and programmatic elements that enable them to issue high-quality units. In Colombia, units from both the VCS Program and the Clean Development Mechanism (CDM) have been used for compliance with the carbon tax. South Africa is proposing to accept units from those two programs, as well as the Gold Standard. So, while those programs were originally set up to generate carbon offsets for use in the voluntary or cap-and-trade markets, the units they generate are now being used in this novel way to reduce the costs of compliance for covered entities, reduce the administrative burden on governments, and drive investment towards projects that effectively reduce GHGs.

Just like in the case of a cap-and-trade program where the governing authority can specify what project types are eligible for generating emission reduction units for trading within the system, the authority governing a carbon tax could also specify the activities that can generate units for compliance with the tax. In the case of Washington, one could envision this mechanism being a way to drive investment in forest conservation, management and even reforestation. In addition, we would recommend consideration of projects that have other benefits, such as projects that restore wetlands which both reduce GHGs and provide significant adaptation benefits.

We appreciate the opportunity to provide our comments and recommendations as Ontario considers how best to design its cap-and-trade program. Should you have any questions, please do not hesitate to contact me by telephone (+1 202 1 202 470 5660) or email (dantonioli@v-c-s.org).

Sincerely,



David Antonioli
Chief Executive Officer