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**Submitted online at:**

[Rulemaking - Informal Comment Period for Chapter 173-446A WAC \(commentinput.com\)](http://commentinput.com)

## **IETA COMMENTS ON ECY RULEMAKING TO DEVELOP A NEW RULE, CHAPTER 173-446A WAC – CRITERIA FOR EITE INDUSTRIES**

The International Emissions Trading Association (**IETA**) appreciates this opportunity to share informal comments on Washington State’s “*Rulemaking to Develop a New Rule, Chapter 173-446A WAC – Criteria for Emissions-Intensive, Trade-Exposed (EITE) Industries*”<sup>1</sup>, published on 7 September 2021.

For over two decades, IETA has been the premier international business voice on carbon pricing and climate finance, including the design and implementation of greenhouse gas markets and offset systems. Our global multi-sector non-profit organization represents 180 companies, many with assets and investments across the US Westcoast and Western Climate Initiative. IETA’s experience and expertise is regularly called-upon to inform climate change policies that achieve real, quantifiable, and verifiable greenhouse gas reductions, while balancing economic efficiencies with environmental integrity and social equity.

**IETA supports a fair, evidence-based, transparent and defensible approach to address potential competitiveness and carbon leakage concerns under Washington’s cap-and-invest program.** The allocation of allowances to affected industries is a broadly accepted, widely-used tool to help ensure a “level playing field” protecting certain facilities/sectors against the risk of investment and carbon leakage. The State’s current and future carbon leakage provisions must accurately reflect developments in climate policy and carbon pricing across trade partner jurisdictions, and should therefore be transitional in nature and open to regular, transparent “leakage assessments” and potential modifications.

### **IETA Principles for Addressing Competitiveness & Carbon Leakage**

**An ideal protection method for addressing competitiveness and carbon leakage should:**

- Be as targeted, sufficient, predictable, fair and proportionate as possible;
- Be harmonized across jurisdictions;
- Compensate for both direct and indirect costs;
- Encourage overall emissions reductions by all traded sectors;
- Ensure the most efficient facilities do not face undue carbon costs compared to international competition;

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<sup>1</sup> Draft Criteria for EITE ([Link](#))



- Neither affect the trading system goal to cost-effectively reduce emissions, nor its role in stimulating clean investments and innovation;
- Not put into question the trading system’s functionality, nor its principles of efficiency, cost-effectiveness, and ensuring liquidity;
- Be fully rational, transparent and defensible;
- Based on evidence not theory; and
- Transitional and linked to achieving a “level-playing field” for industrial competitiveness, particularly as more jurisdictions adopt climate policies and programs.

Once developed, and being guided by the above principles, **IETA believes that different carbon leakage protection mechanisms should be assessed in terms of:**

1. **Technical Feasibility** (easily-implementable from a technical perspective, with a balance between the method’s accuracy and technical feasibility);
2. **Political Feasibility** (level of stakeholders’ acceptance and political practicability should be carefully evaluated);
3. **Effectiveness in Preserving Incentives** (to reduce greenhouse gases); and
4. **Effectiveness in Carbon Leakage Avoidance** (guarantee an adequate protection from the risk of carbon leakage).

## Unique Considerations & Challenges on Draft EITE Rules

Compared to existing cap-and-trade programs globally, the most unique proposed draft EITE criteria relates to special considerations for Overburdened Communities. It is currently unclear how the Department of Ecology (ECY) will be using information regarding the location of EITE facilities (or facilities petitioning for EITE status) with regard to overburdened communities.

The current proposal implies that ECY might **not** give free allowances to facilities petitioning for EITE status located in or near an Overburdened Community, even if these facilities can prove material trade-exposure and/or competitiveness impacts. If free allowances could indeed prevent competitiveness, withholding these compliance instruments might not only disproportionately harm affected facilities but potentially have adverse impacts to surrounding communities – especially those directly or indirectly benefiting from employment, livelihoods and community services.

## Additional Comments on Cap-and-Invest Design: Looking Ahead

Above all else, businesses, investors, and potentially linked jurisdictions need certainty and clarity from ECY in the mechanics of the Cap and Invest system and how the market will operate. This can be achieved by establishing clear, stable and predictable rules upon which participants can make long-term business and investment decisions. **IETA therefore takes this opportunity to highlight several important forward-looking considerations while ECY moves ahead with Washington’s cap-and-invest program rule-making activities and consultations.**



## STRONG SUPPORT FOR LINKING

**IETA supports all efforts made to link Washington’s future cap-and-invest program with programs in other jurisdictions.** The benefits of market linking and cross-border partnerships are clear: the bigger and broader the market, the wider the range of abatement opportunities and improved efficiencies, driving down program costs. There are also significant administrative benefits from sharing market infrastructure and political benefits from showing a unified response to climate change.

**IETA encourages continued discussions with potential linkage partners, especially California and Québec.** Aligning essential program design rules, standards, and joint market infrastructure with potential linking partners are foundational steps towards building a broad, linked market. There are a limited number of elements that must be aligned, from technical and economic perspectives, before establishing a formal link with fungible credits. However, much of the work lies in determining, from both political and policy perspectives, which aspects are essential for alignment (and which are not) through careful and consistent conversations between regulators, legislators and affected stakeholders.

## COVERAGE & COMPLEMENTARY MEASURES

**IETA supports as broad a sectoral coverage as economically and politically practical.** Wider coverage maximizes cost savings and enhances efficiencies across the market, while allowing regulators to more effectively use the cap to drive down economy-wide emissions.

**IETA encourages Washington to use cap-and-invest as the “workhorse” for carbon reductions in across its power, industry and transportation sectors.** It is critical to recognize that a primary driver of low allowance prices in other regions, particularly California, is the aggressive use of complementary or overlapping policies in parallel with cap-and-trade programs. A more cost-effective strategy to achieve statewide climate goals would be to de-emphasize the role of these supplementary, more prescriptive and costly policies in favor of emphasizing the role – and intended power - of the cap-and-invest program. In other words, cap-and-invest should be recognized and enabled as the “workhorse” policy measure, rather than the “backstop” policy measure, to cost-effectively achieve Washington’s ambitious statewide climate goals.

## THIRD-PARTY VERIFICATION

**IETA supports third-party verification of emissions reports and output/product data from covered entities.** Accurate emissions reports form the backbone of any successful cap-and-trade program and accurate output/product data are needed to ensure proper allocation of allowances. The WCI design documents required third-party verification of GHG emissions and all operating economy-wide greenhouse gas reduction programs in North America require third-party verification. These programs



specifically include California and Quebec's cap-and-trade programs. More generally, having emissions reports and outputs/products verified by third-parties is considered best practice for carbon reduction programs around the world.

## CONCLUSION

IETA applauds Washington's climate leadership and we look forward to future engagement with ECY throughout 2021-2022 cap-and-invest rule-making activities. If you have questions or follow-up related to our submission, contact John Blue ([blue@ieta.org](mailto:blue@ieta.org)).