

# IETA

**Input to ECY:**

*2024 Agency Request  
Legislation on Carbon  
Market Linkage*

**06 November 2023**

The [International Emissions Trading Association](#) (IETA) welcomes this opportunity to provide guidance as requested by Washington’s Department of Ecology (ECY) on its **2024 Agency Request Legislation on Carbon Market Linkage with California and Quebec**. IETA has long supported linkage and fungibility across compliance carbon markets. Linkage plays a central role in cap-and-invest/trade (hereafter referred to as C&I) programs by showcasing climate leadership, minimizing compliance costs, improving market functioning, and enhancing mitigation potential. **As such, IETA strongly supports Washington to establish formal program linkage with California and Quebec.**

For over 20 years, IETA has been the leading global business voice on robust market solutions to tackle climate change while driving clean finance at scale. Our global non-profit organization represents over 300 companies, including many with operations and investments across Washington and the US. IETA's expertise is regularly called upon to inform carbon market solutions that deliver measurable climate outcomes, address economic competitiveness and carbon leakage concerns, balance efficiencies with social equity, and support a just transition.

IETA’s comments are structured around three sections:

- **High Level Comments:** High level comments providing broad feedback related to linkage while highlighting specific areas of focus for ECY’s consideration.
- **Specific Amendments Raised by ECY:** Comments on specific proposed linkage related amendments raised by ECY.
- **Additional Considerations Outside of ECY’s Potential Amendments:** Additional comments on amendments not raised in ECY’s Agency Request Legislation.

### **Section 1: High Level Comments**

**Cost Containment Emphasis:** As echoed numerous times by IETA, the benefits of cooperative approaches and regional linkages are clear. IETA believes that linked programs can expand abatement opportunities into the market, prompt technological innovation, improve liquidity, and ultimately result in greater emissions reductions, more cost effectively. Our view is that such market integration should aim to minimize distortive effects on the linked carbon market by harmonizing key design elements that are meant to increase flexibility, drive economic efficiency, price stability and market liquidity.

IETA recommends that ECY further embrace and communicate cost-containment related linkage benefits. Many of the potential program amendments – including increased purchase limits, holding limits, and enabling offsets from linked jurisdictions – can and should be argued as cost-containment measures. IETA is encouraged to see ECY already leaning into these arguments, most prominently positioning linkage as a necessary measure to contain prices and ensure the longevity of the program, as argued in ECY’s preliminary linkage criteria analysis.

**Necessary Flexibility to Adjust Program on an As-Needed Basis:** Leading into the formal linkage process, it is important for Washington to be able to adjust the C&I program to best align with California and Quebec programs. To this end, the potential legislative amendments sufficiently address most of the critical issues needed to be resolved to best position the state for linkage. In the context of ongoing cap and trade program reviews in both California and Quebec, IETA recognizes that Washington’s legislature may not be able to perfectly account for future program changes in the other jurisdictions. As such, IETA views that it is important for ECY to

seek authority to resolve issues and/or modify certain provisions of the program deemed necessary to implement linkage via rule. Without this regulatory flexibility, linkage would be difficult to obtain and could face substantial future challenges.

IETA has worked with carbon pricing regulators all over the world, and we recognize that adaptive program management is necessary for the success of carbon pricing programs. ECY needs to be comfortable amending the program on an “as needed basis” and should not be averse to program changes when warranted. However, program changes must be transparent, clearly defined and broadly communicated well in advance of implementation to avoid perverse market impacts. Any necessary program changes to facilitate linkage must be clearly communicated with adequate opportunities for stakeholder review and feedback to ensure entities can best adjust and manage compliance or market positions under the amended program.

**Degree of Alignment Necessary to Facilitate Linkage:** It is important to emphasize that program alignment does not need to be perfect, nor do individual programs need to be identical, to facilitate successful future linkage. In no way will linkage (or should linkage) remove Washington’s autonomy to cater its C&I program to the specific needs, goals, and political realities of the state. IETA suggests that ECY educate interested parties on this facet of program nuance when discussing linkage, and we remain open and available to supporting these outreach efforts.

**Collaboration with Partner Jurisdictions:** Consistent communication with WCI partners leading into – and throughout – linkage implementation is paramount to the success and durability of linkage efforts. ECY needs to ensure consistent and regular communications with appropriate representatives of the California Air Resources Board (CARB) and the Quebec Ministry of Environment and the Fight against Climate Change (MELCCFP) throughout the linkage process.

## **Section 2: IETA’s Comments on Specific Amendments Raised by ECY**

IETA strongly supports several of the potential linkage related amendments. A summary of our positions is provided below:

- ✓ **Allowance Purchase Limits:** Increasing allowance purchase limits in line with California and Quebec will immediately act as a cost-containment measure for the program (even prior to linkage) and is arguably necessary in the current market context for Washington. Alignment in allowance purchase limits will be required to facilitate successful linkage.
- ✓ **Allowance Holding Limits for General Market Participants:** IETA supports Washington removing the restriction on General Market Participants (GMPs) to not hold more than 10% of the total allowances issued in a single year. As noted by ECY, other program measures adequately restrict GMPs from holding inappropriately large shares of allowances, in line with California and Quebec approaches.
- ✓ **Allowing Offsets from Linked Jurisdictions:** IETA strongly supports ECY’s proposal to update the Direct Environmental Benefits (DEBs) requirements to enable offsets from linked jurisdictions to be used for compliance within the state. Allowing eligible compliance offsets from other jurisdictions represents a significant, near-term cost-containment opportunity. IETA requests further clarity regarding how imported offset usage would impact the state’s allowance budget. Additionally, the state will need to clarify how exported Washington offsets used for compliance in California and Quebec would impact the state’s cap. Ecology should

clarify within the regulation that Washington-based California Carbon Offsets are presumed to provide DEBs given they are located in the state. Further, they should clarify that because these offsets provide DEBs to Washington, once linked, they can be used to satisfy the requirement that at least 50-75% of offsets used must provide DEBs to Washington. Similarly, ECY should implement a process to determine DEBs from California Carbon offset projects located outside of Washington that may provide DEBs to the state, in line with the process for Washington offsets that occur out of state.

- ✓ **Allowing Tribal Offsets to be Used for Full Offset Usage Limit:** IETA supports ECY's clarification that Tribal projects can be used to meet the full offset usage limit.
- ✓ **Authority to Address Offset-Related Issues Via Rulemaking:** As noted above, IETA views agency flexibility to amend the program on an as-needed basis as critical to supporting robust linkage with California and Quebec. We understand that there are complex nuances with the treatment of offsets in Washington versus the Quebec and California programs that highlight the importance of allowing ECY to address offset-related issues via rulemaking to implement linkage successfully.

### **Section 3: Additional Considerations Outside of ECY's Potential Amendments**

**APCR Trigger Percentage:** California's Allowance Price Containment Reserve (APCR) auctions are triggered if the auction settles at a price equal to 60% of the lowest Reserve tier price. Washington's APCR auctions are triggered if the auction settles at 100% (or more) of the lowest Reserve tier price. IETA encourages ECY to explore potentially reducing the APCR trigger threshold in alignment with California to support enhanced cost-containment and equal treatment for regulated facilities under a linked market.

**APCR Methodology:** As part of the formal linkage process, IETA encourages ECY to align their APCR distribution methodology with California's. A firm methodology like California's would provide market participants with a greater sense of program stability and could boost confidence in Washington's program to other program regulators. In the interim, before final linkage amendments are implemented, IETA urges ECY to clearly communicate the amount of APCR allowances that will be offered at each tier for upcoming APCR auctions. Ecology should commit to a specific APCR methodology (from which they do not deviate) and confirm their commitment in advance of the next scheduled quarterly auction on 6 December to best provide market participants with necessary information to avoid potentially problematic pricing dynamics and future program concerns.

**Offset Treatment Under Current Law:** There are two changes to Washington's offsets legislation (section RCW 70A.65.170 (5) Offsets) that IETA recommends ECY consider to best facilitate efficient linkage. Firstly, the requirement that eligible offsets must be from projects with reporting periods after or within two years prior to July 25, 2021, would restrict the fungibility of compliance instruments from California and Quebec, reducing the beneficial cost containment impacts of linkage; IETA recommends this requirement be removed. Second, Provision 5(c), requiring all offsets used to be consistent with offset protocols adopted, should be amended to ensure that usage from offset protocols/project types in linked jurisdictions that ECY has not adopted are not unintentionally precluded from the program.

**Compliance Penalties:** IETA recommends ECY strengthen the provisions around compliance penalties to provide less flexibility in the case of non-compliance, in line with California’s strict non-compliance approach. As highlighted in IETA’s 2022 Roadmap for Linkage<sup>1</sup>, “the difference in designs between California and Washington’s approach to enforcement may be significant enough to threaten a formal linkage... Specifically, Washington gives regulated entities more time and more “outs” while granting Ecology substantial discretion to lower the strength of enforcement in the early years of the program.” To alleviate these concerns, IETA recommends two actions: First, through the remainder of its first compliance period, ECY should commit to not using its discretion to lower fines or the quantity of excess allowances owed in the case of non-compliance. Second, in the event of failure to rectify non-compliance after six (6) months, ECY should commit to issuing both an order and a fine to the offending regulated entity by stating this plainly in regulation. This will bolster the strength of enforcement, thereby improving the overall effectiveness and environmental impact of Washington’s program.

**Conclusion:**

Once again, IETA appreciates this opportunity to provide feedback on the 2024 Agency Request Legislation on Carbon Market Linkage with California and Quebec. Our community continues to dedicate significant effort to best leverage IETA’s deep global and domestic carbon market expertise to provide ECY with constructive, solutions-oriented thinking. We aim to inform a pragmatic linkage pathway to support robust program development that drive both climate outcomes and broad socio-economic benefits.

If you have questions or require further information, please contact Joey Hoekstra at [hoekstra@ieta.org](mailto:hoekstra@ieta.org).

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<sup>1</sup> <https://www.ieta.org/wp-content/uploads/2023/10/ARoadmapforLinkageJuly2022.pdf>