

Washington Department of Ecology
300 Desmond Drive SE
Lacey, WA 98504 USA

6 May 2026

Re: Draft Agreement on the Harmonization of Market-Based Programs for Reducing Greenhouse Gas Emissions

Dear Director Sixkiller, Ms. Stephanie Potts, and Washington State Department of Ecology Staff,

1. New Forests appreciates the opportunity to provide comments on the draft *Agreement on the Harmonization of Market-Based Programs for Reducing Greenhouse Gas Emissions* between Québec, California, and Washington State (the “Draft Agreement”). New Forests is a global natural capital investment manager with extensive experience participating in compliance carbon markets, including long-standing engagement in California’s forest offset program since its inception. Drawing on this experience, we acknowledge Washington State’s objective of linking its Cap-and-Invest Program with California and Québec and the potential for such linkage to influence market liquidity, cost containment, and environmental integrity.
2. Successful linkage may benefit from not only the procedural mechanics of joint auctions and registries, but also credible and durable harmonization of core program design elements, including the treatment of offsets as compliance instruments. While the Draft Agreement appropriately preserves each jurisdiction’s regulatory sovereignty, effective harmonization may also be supported by a shared understanding of where divergence is acceptable and where sustained divergence may affect the practical interpretation of interchangeability and the predictability of compliance instrument use within a linked system.
3. New Forests’ comments, therefore, focus on offset-related harmonization considerations within the scope of the Draft Agreement, including the compatibility and interchangeability of compliance instruments and the potential implications of divergence in offset treatment for the Draft Agreement’s stated goals. These observations are provided for purposes of identifying implementation considerations within the scope of the Draft Agreement and are not intended to assess the legality or outcomes of any future jurisdictional rulemaking.

Harmonization Framework and Regulatory Sovereignty

4. The Draft Agreement appropriately frames harmonization as a condition to enable compatibility, equivalence, and interchangeability of market-based programs while preserving the sovereign regulatory authority of Québec, California, and Washington State. Section 1 articulates an objective of achieving regulatory compatibility sufficient to permit the mutual recognition and transferability of compliance instruments, including offsets, while Sections 14 and 23 expressly confirm that the Draft Agreement does not constrain or predetermine future domestic rulemaking. This approach reflects a balance between enabling linkage and preserving jurisdictional authority.
5. The Draft Agreement reflects an intent to maintain regulatory sovereignty while supporting the operation of a linked market. Sections 3, 4, and 12 commit the Parties to regular consultation, information sharing, and joint consideration of program differences, including identification of elements that may require harmonization over time. These provisions acknowledge that

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harmonization is not static and that differences in program design may emerge as each jurisdiction responds to evolving policy objectives, legal mandates, and scientific understanding.

6. Regulatory cadence in the context of harmonization across linked jurisdictions may influence expectations regarding potential market stability, risk assessment, and price formation. Aligning compliance periods, auction schedules, cost-containment mechanisms, and reserve design may support market stability and predictability in a linked system. By contrast, asynchronous regulatory changes, or divergent trajectories in core design elements, may introduce uncertainty that could be reflected in market outcomes, including pricing dynamics within joint auctions. The Draft Agreement recognizes this dynamic by emphasizing consultation prior to program changes and by encouraging sufficient time for public review and coordination.
7. New Forests considers the harmonization provisions of the Draft Agreement as both procedural safeguards and acknowledgements to collaboratively manage regulatory evolution. This may be particularly important for elements that, while formally jurisdiction-specific, are commonly understood to have potential cross-border price and supply consequences in a linked market. Offsets are an example of such elements.

Offset Treatment and Harmonization Considerations

8. Offsets are expressly included within the Draft Agreement's definition of compliance instruments and are recognized in Section 5 as subject to environmental integrity attributes including permanence, enforceability, and verifiability. The functional role of offsets in a linked system may also be shaped by program structure, administration, and adjustments over time.
9. Washington State's Cap-and-Invest Program has adopted, and continues to develop, features for offsets that differ from California's and Québec's programs in certain design elements, including aspects of implementation and administration. The cumulative impact of evolving offset design choices may be particularly important for regulatory predictability, administrative feasibility, and market participation. Forest offset projects involve long development timelines, substantial upfront costs, and multi-decade permanence obligations. Project feasibility and credit pricing may be influenced by the clarity and stability of the applicable regulatory framework. Differences in implementation timing and mechanics underscore the importance of sustained coordination.
10. Where offset programs diverge in baseline construction, leakage treatment, buffer pool dynamics, or administrative discretion, those differences may influence how offsets are perceived and valued across jurisdictions in a linked market. Across several design elements, Washington State's proposed updates to its U.S. Forest Offset Protocol may reflect structural differences relative to the framework implemented under California's 2015 U.S. Forest Projects Protocol.
11. Differences in approach to forestry offsets may have implications for harmonization, market expectations, and the functional interchangeability of offsets in a linked program. In a system in which joint auctions may result in shared pricing outcomes, offset treatment in each jurisdiction may influence shared outcomes. Jurisdiction-specific eligibility or designation requirements may influence expectations regarding offset demand and supply in ways that interact with allowance scarcity and price expectations for all participants.
12. Administrability and predictability influence offset supply, particularly for forest projects. Increased methodological complexity, more frequent recalibration of design, or greater reliance on discretionary updates may increase development risk and could affect participation. In a linked market, such outcomes may have broader effects, including potential effects on offset availability and the balance between offsets and allowances in compliance strategies. These potential risks may be amplified where different jurisdictions pursue divergent regulatory trajectories without a shared framework for assessing equivalence or managing cumulative impacts.

Conclusion

13. New Forests recognizes the Draft Agreement as a necessary and constructive foundation for linking Washington State's Cap-and-Invest Program with California and Québec. To support the objectives of the Draft Agreement, particularly with respect to offset credits as compliance instruments, New Forests respectfully submits that

directional consistency in offset treatment may support consistent interpretation of compliance instrument use and reduce the potential for unintended market effects. To support implementation, consideration could be given to establishing a structured process for assessing equivalence of offset program elements over time. New Forests appreciates the opportunity to provide these comments and remains available to engage further as Québec, California, and Washington State advance this important initiative.

Yours sincerely,



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