

To: Climate Action Team
From: Bill Ross
Re: Considering a Collective CAT Response on WCI
Date: October 14, 2008

Approximately 25% of the CAT offered a response to the questions regarding a possible collective statement on the Western Climate Initiative's (WCI) Cap and Trade design released on September 23. The responses ranged from a concern that not enough was known about WCI to have an opinion, to some version of 'it depends' based on further design details being fleshed out, to a belief that the CAT strongly endorsed market mechanisms and the State's participation in 2007 and so should offer a set of principles that the Legislature could use to 'evaluate' WCI, to offering that other market mechanisms should either be considered or at least not ruled out at this time, to believing that no opinion on WCI should be prepared by the CAT. No respondent believed that the CAT should take a formal position of endorsing or opposing WCI.

Given this range of responses, I have developed for your review and discussion what might be the elements of a possible collective statement regarding WCI. In so doing, I have utilized statements from the CAT's interim report, the discussions that I have heard at various CAT meetings, especially the July 2008 meeting at which many CAT members expressed what they wanted to see from a Cap and Trade program, and the view that I believe is accurate that the CAT should not try to 'opine' one view on the adequacy or acceptability of WCI or not. That latter is up to each CAT member to develop and advocate as he or she sees fit.

The following possible elements of a collective CAT response to WCI build upon the 'spirit' of those CAT members responding who do believe that some collective statement is both responsible and achievable. It does not incorporate all of the comments received to date from CAT members and may (does?) go against or be opposed in whole or in part by some CAT members. However, if there is to be a collective response by the CAT, this approach may have the best likelihood of achieving significant CAT support; it will at least act as a catalyst for stimulating CAT discussion on WCI at the October 14 and 15th meeting in an 'organized' fashion. What follows is a first rough 'cut' at this statement. If a viable path to creating a collective statement emerges at the CAT meeting, it will be written up more formally and circulated for email discussion and completion whenever that occurs.

Possible Elements of a Collective Statement by the CAT upon the release of the WCI Cap and Trade design:

The CAT in its interim report strongly advised that market based mechanisms be utilized as a key method to achieve significant reductions in GHG emissions.

The CAT in its interim report recommended that Washington continue to participate and provide leadership in the Western Climate Initiative (WCI) and emerging national efforts to develop market mechanisms.

Now that the design of the WCI has been released, the CAT offers the following:

- 1.) The CAT reaffirms its previous strong support for market-based mechanisms as an efficient method of 'stimulating and supporting the investments, business practices and behavioral changes needed reduce GHG emissions.' (CAT interim report, page 53)
- 2.) The CAT lauds the efforts and leadership of the State in the development of the WCI design. This effort is truly path-breaking and demonstrates the capacity of states working together to use market mechanisms to establish a cap on carbon emissions and limit the costs of doing so by trading.

- 3.) As the Legislature evaluates if continued participation in the further development of WCI is in the State's best interest, the CAT recommends that it consider whether or not the WCI can be effective in accomplishing the following: establishing an economy-wide approach to covering GHG emissions; encompassing a broad enough geographic and economic market to be viable in light of Washington State's economy; being fungible with other existing trading systems and able influence the development of and eventually connect with any future national or international systems that might emerge over time; creating transparent trading transactions and operating in a manner that prevents market manipulation or excessive speculation; utilizing offsets and other design features in a meaningful manner to help keep costs of compliance low; generating and distributing any revenue that may be generated in a responsible manner that reinforces the ways that GHGs can be reduced without impeding the ability for entities with compliance obligations from making needed investments to reduce their own GHGs; protecting Washington's relative competitiveness and avoids leakage of emissions or jobs; ensuring sufficient returns to the private sector to serve as a catalyst for investment in low carbon technologies; and resulting in significant GHG reductions within the covered sectors of the economy by the year 2020.
- 4.) The CAT as a whole has no collective opinion on whether or not WCI as currently designed accomplishes the above in part because there are many subsequent decisions still to be made by the WCI as a whole and by Washington State regarding those aspects that for which the State has discretion.
- 5.) The CAT believes that other market mechanisms, such as a tax on carbon, also may be capable of stimulating meaningful GHG reductions by 2020 and the State should be open to them should it decide that continued participation in the development of WCI is not warranted. In deciding if such other mechanisms are feasible, the CAT recommends that consideration be given in particular to the size and scope that such a tax would have to be to ensure meaningful GHG reductions; what other states or political jurisdictions, if any, would need to participate in such a tax for it not to retard Washington's economic competitiveness; and how such a tax would be distributed throughout Washington's economy and upon its citizens.
- 6.) The CAT expresses its concern that if market mechanisms such as the above are not soon available in Washington State as part of its comprehensive approach to achieving GHG reductions, then would additional policies and programs be developed quickly enough in order to ensure that Washington is able to meet its GHG reduction targets in 2020 and beyond? All market mechanisms by their very nature will be placing costs and obligations to reduce GHG emissions on the 'covered' sectors of the economy. Choosing not to do so because of this fact means that other mechanisms, such as regulatory requirements or public subsidies, will need to replace the role and impact of market mechanisms. Are they, in whole or in part, any more attractive, efficient or feasible than market mechanisms?