

## Washington State Carbon Policy

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As its affectionate nickname as the Evergreen State suggests, Washington State has a long history of environmental stewardship, and the Pacific Northwest culture is particularly conducive to the progression of a variety of environmental causes. Though Washington remains among the best in the nation for environmental friendliness, climate change continues to have drastic effects on the planet and on its citizens, and action must soon replace complacency. Governor Jay Inslee intends to turn Washington's historical environmental dedication into a functional policy to combat the roots of climate change: carbon emissions. Unfortunately, Washingtonians often face two different realities depending on which side of the mountains they inhabit, and opposition already exists to the governor's proposal because of the different ramifications for each region. While the policy itself is vital, creating it in such a way that it meets our climate goals while providing equally for a diverse population will continue challenge legislators.

Governor Inslee's proposal is a two-pronged approach to climate policy: the first involves a cap and trade system for carbon; the second is an expansive transportation plan.<sup>1</sup> The Carbon Pollution Accountability Act (CPAA), as the former is called, requires that polluters must pay for their emissions rather than causing the public to pay for its effects. From its implementation in July of 2016, the act would cover 130 of the top polluters in the state—accounting for over 25,000 metric tons of greenhouse gases per year.<sup>2</sup> Rather than the government providing firms with permits and forgoing revenues (essentially subsidizing the pollution of these firms), the

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<sup>1</sup> Roberts, David. "The greenest governor in the country tells Grist about his big climate plan." *Grist*. N.p., 13 Jan. 2015. Web. 21 May 2015.

<sup>2</sup> Office of Governor Jay Inslee. "Carbon Pollution Accountability Act of 2015. Governor.wa.gov. N.d. N. pag. Web. 24 May 2015.

permits would be sold at quarterly auctions, and would decrease by 2% each year.<sup>3</sup> This method allows firms to engage in a cost-benefit analysis and decide whether it is cheaper for them to continue to reduce their emissions or to continue to buy permits to allow them to pollute. While offset credits are available, they must be approved by the state and may only amount to 8% of the firm's total emissions<sup>4</sup>, which will hopefully avoid some of the corruption and manipulation found in the European emissions trading market. Inslee's goal is to eventually link the Washington emissions market with those of California and (if they create one) Oregon. The cooperation of the entire West Coast of the United States would create a coalition that would represent the sixth or seventh largest economy in the world,<sup>5</sup> resulting in a massive, collective political influence that would ideally incentivize other states and even nations to create systems of their own. Of course, opposition to cap and trade has arisen from those who favor a carbon tax, often citing complaints that the complexity of a cap and trade system can be easily manipulated, and that the fluctuating prices of permits makes it hard for businesses to plan. Cap and trade, however, guarantees a definite decrease in emissions that cannot be guaranteed by a tax, particularly if the tax is set too low. Governor Inslee maintains that, in order for a carbon tax to effectively reach Washington State's carbon reduction goals, it would need to be set at \$172 per ton if no other policies are in place.<sup>6</sup> There are currently no carbon taxes of that magnitude instituted on an economy-wide scale, and its implementation in Washington State would likely be politically unfeasible—if not impossible.

While carbon taxes, like the one proposed in Washington, are frequently revenue neutral, the CPAA differs from them in that it is revenue generating. Governor Inslee has detailed a

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<sup>3</sup>Inslee, Jay. "The Greenest Governor in the Country Tells Grist about His Big Climate Plan." Interview by David Roberts. *Grist*. N.p. 13 Jan. 2015. Web. 21 May 2015.

<sup>4</sup> Inslee, Jay

<sup>5</sup> Inslee, Jay

<sup>6</sup> Roberts, David

variety of beneficiaries of this revenue. Among them is the state's underfunded transportation system, which would be expanded and "greenified". Governor Inslee's plan for transportation, worth between \$10 and \$12 billion over the course of a decade<sup>7</sup>, is critical in the transition from a fossil fuel based transportation system to a cleaner, greener alternative. When allocating revenue, a distinction would be drawn between the money earned from the cap and trade system and those earned from more traditional sources, like taxes: the former would go to low carbon transportation alternatives, the latter mostly to new highway construction.<sup>8</sup>

Washington faces an additional hurdle in the form of the McCleary Decision, which stated that the Washington State government was severely underfunding public education. The decision was handed down in 2012 and gave lawmakers until 2018 to fully fund primary education, a sum estimated to be between \$3.5 and \$7 billion.<sup>9</sup> In September of last year, the Washington Supreme Court held the legislature in contempt for not making significant progress toward this goal after two years<sup>10</sup>, thereby making finding a solution to the problem even more pressing. Governor Inslee took this into consideration while drafting his legislation, and thus his version of the bill reserves about \$380 million per year to fund public schools.<sup>11</sup> Inslee's proposal also recognizes that increasing costs associated with the price on carbon could put an undue burden on low-income families and on certain industries. Governor Inslee's proposal also reserves \$163.5 million yearly to help families in lower income brackets, as well as industries that are particularly energy-intensive industries that would initially struggle with their rising

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<sup>7</sup> Roberts, David

<sup>8</sup> Inslee, Jay

<sup>9</sup> O'Sullivan, Joseph. "Contempt Ruling Ups Ante in Fight to Fund Public Schools." *The Seattle Times*. The Seattle Times, 12 Sept. 2014. Web. 01 June 2015.

<sup>10</sup> O'Sullivan, Joseph

<sup>11</sup> Light, John. "Washington Governor Proposes Big, Bold Climate Plan." *Grist*. N.p., 18 Dec. 2014. Web. 01 June 2015.

costs.<sup>12</sup> Such is the organization of the bill that the executive director of the Sightline Institute, Alan Durning, credits it as likely being the most progressive and most comprehensive carbon regulating system in the world.<sup>13</sup>

Despite this accolade, Governor Inslee's plan was met with serious opposition in the state legislature. While popular among environmentalists and labor unions, many Republicans opposed the act, comparing it to a mobility tax, or even a freedom tax.<sup>14</sup> They claim that it will be the public, not the polluters, who will bear the burden of the carbon price through higher prices on necessary products, such as gasoline. Even the governor's own party, the Democrats, neither passed the act nor added it to the budget they proposed in March of this year.<sup>15</sup>

The Democrats, of course, held different oppositions to the structure of the bill than did the Republicans. Democratic legislators largely agreed with the structure of the cap and trade system; their main concern rested in the allocation of the revenue. Thus, House Democrats recently proposed a different version of the CPAA, now House Bill 1314 (HB 1314). Representative Larry Springer of the House Appropriations Committee led the drafting of the substitute earlier last month, which he and others claim is more than just a climate change bill, as it will also generate jobs in rural communities.<sup>16</sup> The bill leaves the carbon cap and trade system in tact, but fixates on what to do with the revenue. Inslee's transportation provision is removed, in favor of more money flowing directly to public education—as the McCleary Decision requires. While the governor's plan dedicated slightly under \$400 million per year to primary

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<sup>12</sup> Light, John

<sup>13</sup> Light, John

<sup>14</sup> Bernton, Hal, and Jim Brunner. "Inslee Targets Polluters with Billion-dollar Cap-and-trade Plan." *The Seattle Times*. The Seattle Times, 17 Dec. 2014. Web. 21 May 2015.

<sup>15</sup> Brunner, Jim. "Democrats Revive Inslee's Carbon-tax Idea." *The Seattle Times*. N.p., 11 May 2015. Web. 01 June 2015.

<sup>16</sup> Fitzgibbon, Joe. "New Proposal Targets Carbon Reduction, Rural Economic Growth." *Washington State House Democrats*. N.p., 11 May 2015. Web. 20 May 2015. <<http://housedemocrats.wa.gov/joe-fitzgibbon/new-proposal-targets-carbon-reduction-rural-economic-growth/>>.

education, HB 1314 increases that amount to \$500 million per year.<sup>17</sup> Furthermore, proponents of the bill explain that one of the intentions of the bill is to create thousands of jobs in the renewable energy sector<sup>18</sup>, particularly in the eastern regions of the state. Other provisions exist to limit the negative implications for individuals, mostly from increased gas prices, which would disproportionately affect low-income families. Among other measures, the HB 1314 includes \$333 million in fuel supplier rebates to limit the predicted cost increases in gasoline, \$108 million for the Working Families Tax Rebate, and \$15 million for the Washington Housing Trust Fund.<sup>19</sup> Under HB 1314, it is the refineries, rather than the fuel distributors that must engage in the permit auctions, bringing the number of industries involved down from 130 to roughly 100.<sup>20</sup> This change was made with the intention of mitigating the increase on gas prices for consumers: another method of ensuring the least possible harm to constituents.

While this new version of the legislation has more support, it hinges on the ability of a carbon cap and trade system to generate sufficient revenue—and some are skeptical that it will. Concern lies in the fact that permits are scheduled to decrease on a yearly basis, seemingly decreasing revenue along with it. The Sightline Institute recently modeled this, and actually found that revenues will *increase*<sup>21</sup>, rather than decline as some fear. This is rooted in economic theory, as a drop in supply drives prices up. In the model of Washington State’s cap and trade system, prices increased much more rapidly than permits decreased, leading to revenues of over \$3 billion in 2035.<sup>22</sup> Sightline predicts that in 2017, after the first year of its implementation,

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<sup>17</sup> Fitzgibbon, Joe

<sup>18</sup> Fitzgibbon, Joe

<sup>19</sup> Fitzgibbon, Joe

<sup>20</sup> Eberhand, Kristen. "Four Charts Show Carbon Pollution Accountability Act Is Still Awesome." *Sightline Daily Four Charts Show Carbon Pollution Accountability Act Is Still Awesome Comments*. Sightline Institute, 24 Mar. 2015. Web. 22 May 2015

<sup>21</sup> Eberhand, Kristen. "Four Charts..."

<sup>22</sup> Eberhand, Kristen. "Four Charts..." See Appendix for graph.

polluters will pay over \$947 million, and pay up to \$4 billion by 2030.<sup>23</sup> The expected rise in revenue is attributed to both the decreasing of permits and the increasing of firms incorporated into the cap and trade system. It is unfortunate, however, the HB 1314 rescinds the transportation aspect of Governor Inslee’s proposal, as the Office of Financial Management recently modeled the economic effects of the CPAA, finding that GDP and jobs would grow faster if Washington transitioned to clean energy and invested in both schools and roads.<sup>24</sup> Nevertheless, HB 1314 earns revenue while having minimal impact on families: Sightline Institute calculated that in 2016 households would see at most a .65% increase in spending on fossil fuels.<sup>25</sup>

While traditionally considered a liberal state, Washington does have a substantial conservative base that largely opposes the bill, though opposition and misinformation exists on both sides of the debate. Some are skeptical of the ability of a market-based system like cap and trade to bring about the necessary reductions in carbon emissions, given that it was the market that allowed carbon to be emitted so excessively in the first place (though an economist would argue that it was, in fact, a market *failure*). Furthermore, many environmentalists decry the vast subsidies reserved for oil and other such companies, despite their intention to ease the burden for citizens. Despite this attempt to protect families, conservatives still condemn the act for functioning as a repressive gas tax. Senator Doug Ericksen claims that the act helps the Democrats’ goal of raising taxes more than it actually helps the environment, and calls it a “Peninsula payoff”<sup>26</sup> despite models indicating the benefits it will bring to rural communities in the east. While concern for public welfare, particularly social mobility, is admirable, it seems as though the main opposition to the current bill is more out of bipartisan divide than an actual

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<sup>23</sup> Eberhand, Kristen. "This Is Washington State's Moment: Make Polluters Pay." *Sightline Daily*. Sightline Institute, 18 Dec. 2014. Web. 23 May 2015.

<sup>24</sup> Eberhand, Kristen. "Four Charts..."

<sup>25</sup> Eberhand, Kristen. "Four Charts..."

<sup>26</sup> Brunner, Jim

surveying of the issues. This issue, like so many others, seems to have become something of a proxy war between the parties rather than an actual attempt at compromise. However, the future is not entirely bleak. Though Senator Ericksen, the chair of the Senate Energy, Environment, and Telecommunications Committee, remains opposed to the idea of pricing carbon, he says he is fully committed to hearing the bill after it passes in the House.<sup>27</sup> If legislators can accept the necessity and even inevitability of pricing carbon, they can help draft the bill in a way that best represents the interests of their constituents, and help Washington become a national leader in carbon regulation, setting the economy up for a much needed transition to a greener base.

Increased carbon emissions continue to exacerbate the effects of climate change, and they are being felt by the citizens of Washington State. Farmers must cope with reduced water supplies in Eastern Washington, while over the western portion of the state counties are preparing for the impacts of increased sea levels and flooding.<sup>28</sup> HB 1314 seeks to mitigate the effects of climate change by regulating carbon emissions in a cost effective way that avoids burdening individuals with higher taxes. Though it is already the subject of significant debate between—and even amongst—parties, its passage could mark a desirable progression in policies that would be friendly to environment, businesses, and families, and would fund necessary projects in Washington. Governor Inslee recognizes that it is a rare policy that can address so many seemingly different issues.<sup>29</sup> The question remains, however, as to whether the legislature will agree with him.

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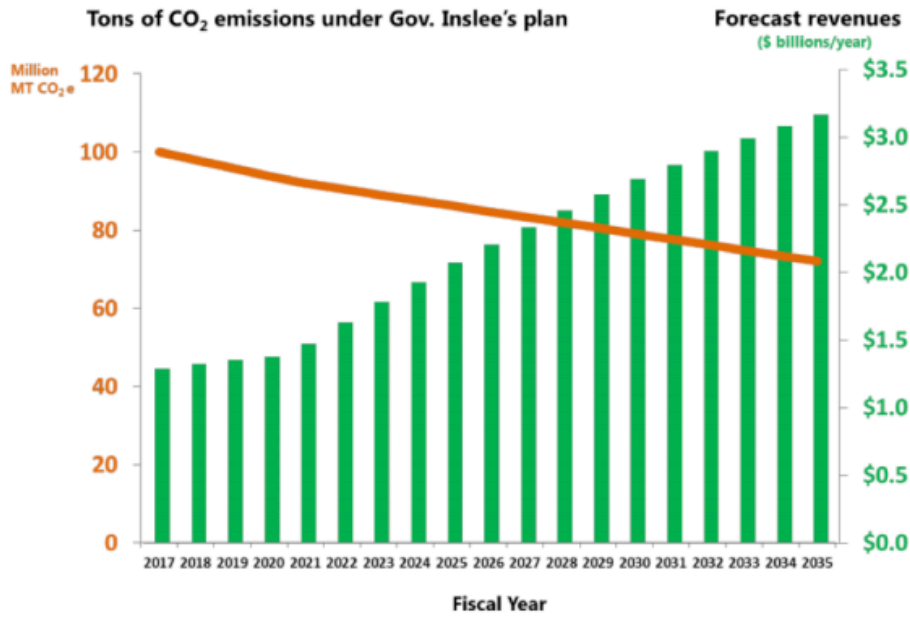
<sup>27</sup> Le, Phuong. "Democrats Roll out Revised Plan to Cap Carbon Emissions." *Houston Chronicle*. Houston Chronicle, 11 May 2015. Web. 24 May 2015.

<sup>28</sup> Wilson, Reid. "Washington Governor Proposes Billion-dollar Carbon Emissions Cap-and-trade Plan." *Washington Post*. The Washington Post, 18 Dec. 2014. Web. 01 June 2015.

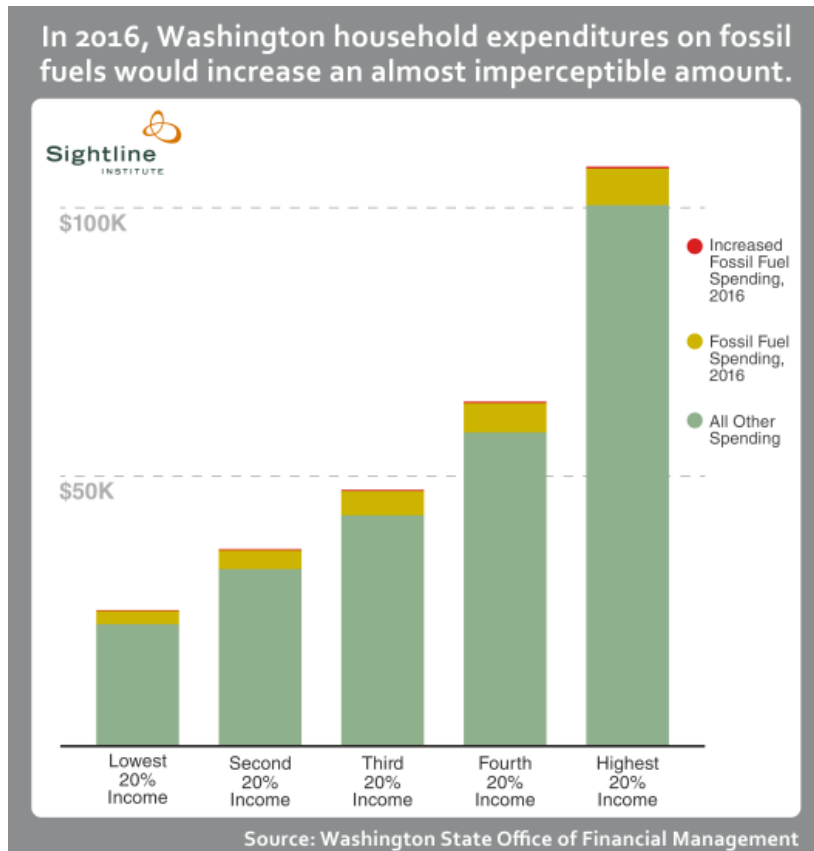
<sup>29</sup> Inslee, Jay

**Appendix**

Why aren't revenues in danger of running out?



Source: <http://daily.sightline.org/2015/1>



Source: <http://daily.sightline.org/2015/2>