



EITE Industries Advisory Group

Meeting summary notes for Thursday, October 17, 2024 | 9:00 a.m. – 12:00 p.m.

Location: Zoom – public could attend as viewers

1. Welcome and meeting overview

- 20 of the 23 advisory members attended the meeting
- Ecology presented a recap of the purpose, timeline and phase 1 work program for the EITE Industries Advisory Group.
- A member inquired about how the work program agendas were created and if members of the advisory group were consulted to create them. Ecology noted that there had been some outreach that informed the work program, and that Phase 1 of the program was intended to be exploratory, and that members are welcome to provide feedback and suggest topics for discussion.

2. Background and context: carbon leakage and the CCA

- Ecology provided an overview of how carbon leakage is addressed in the CCA, including legislative intent, definitions, and requirement to assess best practices for avoiding leakage and economic harm to businesses under carbon pricing programs.
- Ecology noted that while the CCA does define the term leakage in terms of emission reductions occurring within the state that are offset by an increase in emissions elsewhere, it does not specify how leakage or leakage risk should be measured.
- Ecology indicated that the term 'economic harm' is not defined in the CCA or in any other Washington statute, so it is planning to interpret economic harm as referring to maintaining the competitiveness of EITEs in the face of domestic and/or international competition from businesses who are not subject to comparable carbon pricing policies.
 - Member asked if Ecology looked at financial or economic regulations when considering economic harm. Ecology indicated it searched all WA statutes and did a google searches, and said it was open to integrating alternative definitions as part of the assessment if they can be shared with Ecology.
- Ecology explained how leakage risk was factored into the design of the Cap-and-Invest Program and that there were only two circumstances when it needs to explicitly consider leakage risk. The first is if a manufacturing facility petitions Ecology to be designated as an EITE, and the second is if an existing EITE makes a request to Ecology for an upwards adjustment to the reduction schedule.
- Ecology provided a disclaimer, that all the external presenters participating in the meeting were speaking on behalf of themselves and/or their organizations, and were not speaking on behalf of Ecology, or representing Ecology.

3. International Carbon Action Partnership: Carbon pricing and competitiveness around the world.

- Presenter: Lewis Steven, Senior carbon market expert from the International Carbon Action Partnership (ICAP). ICAP is an international forum of 43 national & subnational governments to exchange knowledge and experiences on emissions trading systems, which includes Washington State.

- The ICAP presentation providing an overview of carbon pricing and competitiveness around the world, including:
 - ICAP's role in helping governments implement carbon pricing policies by sharing best practices, facilitating the development of carbon markets, and exploring the role of emissions trading in decarbonization.
 - How carbon pricing can lead to “carbon leakage” – production shifting to jurisdictions with lower carbon costs.
 - How carbon leakage has been defined and measures across different jurisdictions
 - The range of policies used for carbon leakage protection, such as free allocation, indirect compensation and border carbon adjustments.
 - ICAP's assessment of different free allocation policies used to address leakage and border carbon adjustments.
 - How leakage exposure can be factored into output-based allocation, as an example.
- Advisory group questions and comments included:
 - Clarification on how the grandfathering /grandfathering approach works and why it leads to windfall profits.
 - Lewis: if allocation is based on historical production that doesn't take into account more recent improvements in efficiency, then it can lead to overallocation.
 - Clarification of how free allocation and CBAM would impact costs to consumers.
 - Lewis: It will come down to implementation and how accurate you can get those mechanisms, both impose a cost on carbon it is difficult to make generalizations about how they affect consumer.
 - Are any of the approaches effective and how could they be improved upon to be more effective?
 - Lewis: EU pushes these policies the furthest and can be looked to as good practice policies in the meantime. The fundamentals are sound for preventing leakage, but they are not perfect policies.
 - When comparing different programs, one needs to be mindful of the compliance obligation, emission reduction rate, and timeframes from starting program. Washington has an aggressive decline, and this needs to be considered in the design of Washington's program and EITE allocation policies.
 - Member shared carbon border adjustment were discussed when climate policy was being discussed around the time Washington's policy was created, and there were a lot of legal questions around how states could implement a carbon border approach. The member asked if anything had changed since then in relation to how carbon border adjustments won't face legal issues at a state level.
 - Ecology: noted that it is primarily looking at leakage in the context of the existing cap and invest program, but recognizes that by 2035 there might be national policies in place to address carbon border adjustments.
 - Member asked why allocation is phased out in EU when CBAM is implemented:
 - Lewis: CBAM puts in place a carbon fee for imports, so it effectively means all importer and domestic producers are subject to the same carbon price.

4. Resources for the Future: Leakage mitigation measures under Cap and Trade Programs

- Presenter: Marc Hafstead, economist, fellow and director of carbon pricing initiative at Resources for the Future.
- The RFF presentation provided an overview of leakage mitigation policies in carbon pricing programs, including:
 - Different types of leakage (emissions, production, fuel price) and the complications that arise in subnational carbon markets.
 - Two broad aspects of carbon leakage risks: 1. Environmental – carbon leakage undermines efforts to reduce emissions in covered sectors. 2: Economic – where production shifts to other jurisdiction, including that carbon pricing policies are not the only cause of competitiveness issues.
 - Approaches and challenges in measuring leakage risk, particularly in regards to data on interstate trade.
 - Leakage mitigation policies, including linking carbon markets, free allocation, contracts for difference, targeted investments in clean technologies, and carbon border adjustments.
 - Effectiveness of leakage mitigation policies, including ex-ante and ex-post studies.
 - Federal-State policy interactions, including potential US federal carbon border policies, federal financial incentives, and adoption of carbon prices in other states.
- Advisory group questions and comments:
 - Member asked for clarity on how someone would preserve profits if they only receive 10-20% of their allowances and asked for more information on this data, including modeling to show the cost implications of operating facilities in Washington.
 - Marc: the findings were that firms are able to pass through some of their costs if they have increased costs due to purchasing allowances, but this study was based on a theoretical national carbon market, and the pass through rate could be much different when it is just Washington state's market.
 - Member noted that EITE allocation in WA wasn't designed to enable windfall profits from selling allowances but to support compliance and emission reductions, and so how is the experience of the EU relevant to WA
 - Marc: There are lessons that can be learned from the experience of other programs – we call this external validity in economics, that it can be challenging to apply lessons from other jurisdiction directly to Washington state because of many different program factors.
 - Member noted that facilities can buy, sell and bank allowances but did not think that WA's program is designed to allow windfall profits in a way that was presented
 - Marc: Noted that EU wasn't designed to enable windfall profits, and just because something was designed in certain way doesn't prevent it from happening. WA program is new, so we don't have evidence on how it has worked so far.
 - Member noted that the other US states considering carbon pricing policies are on the other side of the country and so trade flows likely to be limited and not directly affect competitiveness with WA market in the case of fuel suppliers.
 - Marc: it reinforces the point about the lack of data on interstate trade. But the more states that join carbon markets the better it would be.

5. Clear Blue Markets: Leveraging EITE allocations

- Presenters: Chloe McElhone and Jean-Gilles Robo, senior carbon strategy/policy analysts at Clear Blue Markets.
- The CBM presentation summarized the strategies and opportunities for EITEs in Cap-and-Invest, including:
 - Carbon risk management opportunities –opportunities in the secondary market to trade allowances for more flexibility on trading time, volume trading, and more certain pricing. This allows facilities to better budget for compliance.
 - Best practices to optimize carbon strategy include maintaining a buffer of surplus allowances, selling excess of allowances, investing in decarbonization strategies.
- There were no specific questions or comments from advisory group members on this presentation.

6. High Peak Strategy (HPS): Manufacturing competitiveness

- Presenter: Spencer Cohen, principal of High Peak Strategy LLC, a Seattle-based research and economics consulting firm.
- The High Peak Strategy presentation provided a summary of manufacturing competitiveness issues in Washington State, including
 - How Washington compares to other states based on 6 key variables and comparators: taxes and fiscal policy, human capital and labor and innovation (e.g., talent availability), energy and land costs (e.g., wholesale electricity prices), infrastructure, regulatory costs and certainty.
 - Washington strengths, weaknesses and what it could learn from other states.
 - Recommended reviewing the report for more detailed analysis: [Manufacturing competitiveness study](#)
- There were no specific questions or comments from advisory group members on this presentation.
- One member sought clarification on whether EITEs can sell allowances for a profit. Ecology shared there are no restrictions on selling or trading of no-cost allowances. If a facility reduces carbon intensity and has allowances in excess of what they need for compliance purposes, they may choose how to use them, including banking or selling.

7. Discussion: leakage risk considerations for EITEs in Washington

- Ecology noted that one the key objectives for us is to hear the perspectives on the advisory group regarding what information and issues we should be considering when assessing best practice approaches for avoiding carbon leakage and maintaining competitiveness of EITEs in WA. To help frame discussions Ecology provided five proposed discussion questions:
 1. How do leakage risk and competitiveness issues arise in WA and how should they be measured?
 2. What can WA learn from international best practices for avoiding carbon leakage and maintaining competitiveness of EITEs?
 3. How should leakage risk inform EITE allocation from 2035-2050?
 4. Should changes in national and international competition and/or carbon pricing policies be addressed in EITE allocation?
 5. What other issues or information regarding leakage or competitiveness should be considered in our report?

- Comments from members included:
 - The focus of the meeting was primarily on emission leakage and we need to refocus on what the conversations policy makers had about leakage. On the industry side we talk about energy intensive, not emission intensive, and that change happened somewhere in the drafting on the legislation. The conversation was focused on in part of emission leakage, but it was also about employment in communities where facilities exist, the economic multipliers of these industries (higher than other non-manufacturing sectors), and economic impact in communities that rely on these EITE facilities for tax revenue, with many facilities the top employers in those communities.
 - Kaiser did research on the impacts if their Trentwood facility was moved abroad. The example showed best case scenario would result in at least 70%-80% emission increase. The aluminum industry is happy to share data from their research.
 - There was a 2021 economic report that focused on job multipliers that provides useful data, member can share the report.
 - Evidence in Washington has shown that pulp and paper mill closures had significant impacts on community members that may not be tied to competitiveness but still consequences worth considering.
 - Looking at economic harm is more complex, it includes thinking about entire effects on value chain from employees, communities, supply chain, and the impacts should not be oversimplified. Analysis to isolate the effects of carbon policies might not be well suited for industries with minimal competition or few available comparisons across the globe.
 - Don't let leakage impact linkage and want to have more details about how things are handled in the California market.
 - The issues around competitiveness should be looked at more closely. Has Ecology looked at how economic harm is considered in other parts of Washington law? Is this a part of environmental analysis like SEPA?
 - Ecology noted would like to create a working definition of the term economic harm as it relates to our assessment. Definition is already being expanded through this conversation to include value chain impacts, industry-specific considerations, real-world implications of a potential for an industry, risk of them potentially closing down or, or relocating, and wider economic impacts.
 - Ecology noted that there are challenges in developing a fulsome understanding of leakage risk given the unique circumstances facing each sector, and while there are proxies that can be used, there are lots of factors that could be considered, and Ecology would like to hear feedback on what the most important aspects to focus on.
 - Looking at how much of an industry's product leaves the state might be an easy metric to say how much risk there is of that company leaving the state. If all of their product is already going elsewhere, it's just as easy to manufacture somewhere else and ship it out.
 - Ecology noted that exports are captured in the trade exposure formula but due to data limitations it is difficult to unpack that at the state level.
 - Some of these questions the group may need to take offline to have some discussions and do some follow up work.

- When the WA program was being developed, we looked at how CA, QC and EU treatment of EITEs, and things like border adjustments and benchmarking, and we found that those had significant challenges.
- If you are looking at making adjustments to EITE allocation based on leakage risk then that would be changing part of the argument that was made compelling at the time about why the NAICS codes were listed in the EITE section of the CCA. It is unclear what has changed to suggest there is a better way to measure leakage, and while we've heard there are differences in other programs, we also heard from them that there's great complexity in those designs and that they don't necessarily have it perfect, and what are the other pressures in those programs, such as the compliance curve.
- As of today, it's unclear that EITEs could support modifying what we think of when we think of leakage. And it's unclear that we have enough information to really judge how those other things that were presented around border pricing and benchmarking to say that these are something that we should consider in thinking about how to create a new recommendation for EITE compliance.
 - Ecology noted that it needs to look at what other jurisdictions are doing as part of its review of global best practices, which includes anything can be learned from the implementation or design of those programs, but it hasn't formed any positions on whether or not the existing EITE allocation approach should be changed.
 - Ecology noted that if the Department came up with a tiered approach to measuring leakage risk it can't change the current EITE allocation formula without the legislature authorizing it first.
 - Ecology noted that these are difficult questions to answer, and members are welcome to provide written comments.

Update on EITE Policy Advisory Group

- Ecology noted that membership of the EITE Policy Advisory Group had been confirmed and can be viewed on the [Policy Advisory Group webpage](#). Additional members may be added later, if approved by Ecology, to address any gaps in representation.
- There are 9 members representing different interested parties, including two from organized labor, two utilities, a fuel supplier, and others representing wider climate, air quality, and clean energy policy interests.

Ecology has agreed to have up to two delegates from the EITE IAG attend meetings of the Policy Advisory Group. The delegates don't need to be the same EITE representatives each time, and can change meeting to meeting

8. Next Steps

- Next meeting: November 14th, 2024, 9 a.m. – 12:00 p.m. ([Zoom meeting link](#)).
- Ecology advised that Rocky Mountain Institute is undertaking some independent analysis of decarbonization pathways for EITEs in WA, and will be seeking input from members of the advisory group. They will present some initial analysis at the next meeting and will engage separately with specific EITEs to provide input on their modeling and analysis. Ecology will circulate more information about the scope of RMI's work ahead of the next meeting.
- Member asked if they can get a copy of any presentations in advance of the meeting.
 - Ecology indicated they would see what Rocky Mountain Institute could provide, but will at least share details of the scope of their work.

9. Public comment opportunity

There were no public comments. Comments may be submitted via email to CCAETEIndustries@ecy.wa.gov or on the [electronic platform](#).

Resources and Assistance

- Contact Adrian Young at CCAETEIndustries@ecy.wa.gov
- [EITE Industries Advisory Group webpage](#)
- [EITE Policy Advisory Group webpage](#)
- [Cap-and-Invest EITE webpage](#)

Optional Pre-reading Materials

- ICAP, 2020: [Carbon Leakage and Deep Decarbonization Report](#).
- AWB/High Peak Strategy, 2021: [Manufacturing Competitiveness Study](#).
- London School of Economics, 2021: [What is carbon leakage? Clarifying misconceptions for a better mitigation effort](#).
- Center for Climate and Energy Solutions: [Carbon Border Adjustments](#)