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POLICY BRIEF

Citizens' Guide to Initiative 2117

to repeal the Climate Commitment Act

By Todd Myers,
Vice President for Research

September 2024

Key Findings

1. Initiative 2117 would repeal the "Climate Commitment Act," (CCA) Washington's new cap-and-trade law that puts a tax on CO2 emissions from energy sources.
2. Despite promises that it would add only "pennies" to the cost of gasoline, the CCA's tax on CO2 emissions added about 43 cents per gallon and about 53 cents per gallon to diesel in the first year.
3. The initiative would repeal the requirement that CO2-emitting entities like universities, fuel suppliers, food producers and utilities purchase allowances at auction for every metric ton of CO2 they emit.
4. The initiative would also repeal regulations requiring assessment of CO2 emissions created by new or expanded construction.
5. Also repealed would be state code related to increasing emissions requirements for "overburdened communities" which includes some of the state's wealthiest neighborhoods, like Bellevue, Redmond and Newcastle.
6. The initiative would not repeal the state's CO2 emissions targets, which set a goal of cutting state emissions by about 50 percent by 2030, compared to 1990 levels.

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Introduction

A group of concerned citizens called Let's Go Washington gathered enough signatures to present a people's initiative to the legislature, Initiative 2117, calling it the Stop The Hidden Gas Tax initiative. The measure would repeal the state's Climate Commitment Act and its carbon tax cap-and-trade system.

Initiative sponsors needed to collect 324,516 valid signatures (8% of the votes cast in the last election for governor) by December 31st to submit the measure for consideration in the 2024 legislative session.

Initiative 2117 supporters collected 469,000 signatures.[1] The signatures were submitted to the Secretary of State's office for verification and certification. On January 16th the Secretary of State certified the initiative and forwarded it to the legislature for consideration.[2] The legislature had the option to adopt the initiative, provide an alternative or simply pass the initiative to the voters.[3]

Legislators took no action, so this fall, voters will determine if the Climate Commitment Act (CCA), which imposed a tax on CO2 emissions, will be repealed. Initiative 2117 would repeal the CCA, eliminate the tax on CO2 emissions, remove some permitting regulations related to CO2 accounting, and prevent state agencies from imposing a new CO2 cap and tax policy.[4] The initiative is one of six submitted by Let's Go Washington and received the largest number of signatures of any of the proposals.[5]

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1 "Let's Go Washington Turns in Over 2.6 Million Signatures of Six Landmark Initiatives," by Let's Go Washington, December 28, 2023, at https://letsgowashington.com/lets-go-washington-turns-in-over-2-6-million-signatures-for-all-six-landmark-initiatives/.

2 "Secretary Hobbs notifies Legislature of Initiative No. 2117 certification," Washington Secretary of State, January 16, 2024, at https://www.sos.wa.gov/about-office/news/2024/secretary-hobbs-notifies-legislature-initiative-no-2117-certification.

3 "Initiative and Referenda Handbook – 2024," Washington Secretary of State, accessed February 8, 2024, at https://www.sos.wa.gov/sites/default/files/2022-06/initiative-and-referenda-handbook-2022.pdf.

4 "Initiative No. 2117," Let's Go Washington, https://letsgowashington.com/i-2117/

5 "Let's Go Washington turns in over 2.6 million signatures for all six landmark initiatives," by Mario Lotmore, Lynwood Times, December 28, 2023, at https://lynnwoodtimes.com/2023/12/28/lets-go-washington-231228/.

Impact of the tax on prices

During the summer of 2023, for the first time in history, Washington's gasoline prices were the highest in the nation.[6] The high prices were due, in part, to the CCA which imposed a tax on CO2 emissions through an auction of allowances.

Although there was controversy about how large the impact of the tax would be, one of the goals of CCA supporters was to increase prices of energy that emits CO2. In 2014, Governor Inslee's own administration noted that a tax of $52 per metric ton of CO2 would add 44 cents to the price of a gallon of gasoline.[7] That estimate matched the calculation used by California officials to estimate the price impact of their tax on CO2 and the real world-result in Washington state when the CO2 tax took effect.[8]

Those high gasoline prices created a strong response from consumers who had been promised by the governor that the impact at the pump would only be "pennies."[9] The price impact ended up exceeding 40 cents per gallon for gasoline and Washington's CO2 price was about 80 percent higher than California's. A fact check by The Seattle Times confirmed the increase, noting "a palpable jump in the cost of gas in Washington" after the CCA took effect on January 1, 2023.[10]

Supporters of the CCA have admitted that it increased prices, but now claim there is no "guarantee" that eliminating the tax would reduce prices. Rachel Smith, the Chair of the Seattle Chamber of Commerce made this claim during an editorial board meeting with editors from The Seattle Times.

We have real-world experience showing that Smith is wrong. In 2023, as the CO2 price hit $63.03 per metric ton (MT) of CO2, the gap between Washington and Oregon gas prices jumped to over 40 cents per gallon. Average prices in the two states had been virtually identical just before the CO2 tax took effect.

When the CO2 tax fell by half in 2024, the price difference of gasoline between the two states fell proportionally. In June 2024, the CO2 tax was $29.92 per MT

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6 "WA gas prices now highest in U.S.; some experts point to new climate legislation," Isabella Breda and Manuel Villa, The Seattle Times, June 21. 2023, https://www.seattletimes.com/seattle-news/wa-gas-prices-now-highest-in-u-s-experts-point-to-new-climate-legislation/

7 "Documents show Governor Inslee knew a tax on CO2 would significantly increase gas prices," by Todd Myers, Washington Policy Center, January 3, 2024, at https://www.washingtonpolicy.org/publications/detail/documents-show-governor-inslee-knew-a-tax-on-co2-would-significantly-increase-gas-prices.

8 "As the tax on CO2 increases gas prices, supporters scramble to blame others," by Todd Myers, Washington Policy Center, June 27, 2023, at https://www.washingtonpolicy.org/publications/detail/as-the-tax-on-co2-increases-gas-prices-supporters-scramble-to-blame-others.

9 "Analysis finds Washington drivers could continue to see rise in gas prices after new law in 2023," by Matt Markovich, Fox 13 News, July 12, 2022, at https://www.fox13seattle.com/news/analysis-finds-washington-drivers-could-continue-to-see-rise-in-gas-prices-after-new-law-in-2023.

10 The Seattle Times editorial board. (2024, August 30). Fact-checking the Initiative 2117 debate. The Seattle Times. https://www.seattletimes.com/opinion/editorials/fact-checking-the-initiative-2117-debate/

of CO2. The price difference between Washington and Oregon fell to about 23 cents per gallon, according to GasBuddy.[11] As the tax fell, so did prices. If the tax is eliminated, fuel suppliers will reduce prices, as they have in the past year, to maintain their competitive position.

The Climate Commitment Act

Adopted in 2021, the CCA created a CO2 cap-and-trade system that took effect on January 1, 2023. Similar to the cap-and-trade systems in California and Quebec, the CCA requires covered industries, like fuel distributors, utilities, universities, manufacturers and others, to purchase allowances for every metric ton of CO2 they emit. The number of allowances available for purchase is capped annually by the state and are sold at auction, with the proceeds going to the state or to industries who may sell excess allowances on the market.

The CCA reduces the number of allowances every year by about 7 percent through 2030, consistent with the state's goal of reducing CO2 emissions by 45 percent by 2030 compared to 1990 levels.[12] For context, that annual rate of reduction is greater than Washington's decline in CO2 emissions during the two years of the economic recession between 2007 and 2009.[13] To reduce state CO2 emissions at that rate, Washington would have to achieve the equivalent reduction of two COVID economic lock-downs every three years.[14]

The CCA is sometimes referred to as a "market-based" system because CO2 allowances can be traded, allowing companies and organizations to find the best way to cut emissions. Ultimately, the market is dictated by the CO2 reduction goals set by the legislature in 2020. Those goals were not determined by a scientific process or a study of economic feasibility but are round numbers that simply sounded reasonable and were politically salable. Those arbitrary goals, more than any other aspect of the CCA, are driving the high prices for energy users in the state.

One of the primary arguments in favor of the CCA is that the emissions cap creates certainty that statewide CO2 emissions will decline. However, due to the high prices, some legislators who support the CO2 tax are already talking about adding allowances and arbitrarily changing the caps. In an editorial board meeting with The Seattle Times, one of the authors of the CCA, Rep. Joe Fitzgibbon said he was considering increasing the number of CO2 allowances available at auction, which would eliminate the certainty of emissions reduction.[15]

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11 Gas Buddy. Gas Price Charts. https://www.gasbuddy.com/charts

12 "WAC 173-446-210 – Total Program Allowance Budgets," Washington State Administrative Code, at https://app.leg.wa.gov/WAC/default.aspx?cite=173-446-210.

13 "Washington State Greenhouse Gas Emissions Inventory 2009-2010," Washington State Department of Ecology, September 2013, at https://apps.ecology.wa.gov/publications/documents/1202034.pdf.

14 "Figure 5. Energy-related CO2 emissions by end use sector," U.S. Energy Information Administration, November 29, 2023, at https://www.eia.gov/environment/emissions/carbon/excel/Figure4-data.xlsx.

15 TV Washington. (2024, August 15). The Seattle Times Editorial Board: Initiative 2117. https://tvw.org/video/the-seattle-times-editorial-board-initiative-2117-2024081082/

Additionally, the CCA specifically restricts less-costly CO2-reduction strategies, like carbon offset projects, that would reduce emissions at a lower cost but would reduce tax revenue for the state. The CCA was specifically designed to generate tax revenue, even prioritizing that over policies that would have incentivized innovative climate technologies.

How the tax revenue is spent

The tax revenue generated from the auction of CO2 allowances goes to designated funds created in the CCA and deposited in the state general fund.

Some funding goes to the "Carbon Emissions Reduction Account," which funds transportation projects. The funds may not be used for highway projects but are limited to funding "transit programs and projects," "Alternative fuel and electrification," "Ferries," "Rail," as well as sidewalks and bike lanes.

The "No on I-2117" campaign has claimed that if the CCA is repealed, it would reduce funding for "major road and bridge projects," risking "severe delays or outright cancellation." This is false, and even supporters of the CCA admit I-2117 will have no impact on roads and bridges. In their fact check, editors at The Seattle Times wrote, "losing the act's funding won't directly affect road and bridge projects."[16]

Additionally, a group supporting the CO2 tax called the Clean and Prosperous Institute has a web page listing all projects funded by the CCA.[17] In their section on "Roads and Bridges" they note there are "No high risk projects in this category," showing the amount of money from the CCA for investments in roads and bridges is "$0."

Some legislators have threatened to take money from highway projects to backfill expensive pet projects like electric ferries. That is a political choice, however, not a consequence of I-2117. Legislators already have more than $2 billion in additional revenue from taxes already collected. There is no reason to retroactively cut programs unaffected by the CO2 tax.

A percentage of the revenue is also put into the "Climate Commitment Account," which provides funds for growth management planning, renewable energy projects, improving energy efficiency, and electrification. Funding is also allocated to the "Natural Climate Solutions Account" that funds projects related to water quality, fish habitat, ocean acidification, as well as spending on forests to reduce the risk of forest fire.

Finally, the CCA allocates funding to a range of other projects and targeted special interests.

Since January of 2023, the sale of CO2 allowances generated $1.82 billion in new taxes for the state and an additional $588.8 million for utilities and other covered entities that must spend the money on programs designated in the law. In total, the

16 The Seattle Times editorial board. (2024, August 30).

17 Clean and Prosperous Institute. (2024). Risk of Repeal: Mapping Washington's Climate Commitments. https://riskofrepeal.cleanprosperousinstitute.org/

sale of allowances has generated more than $2.4 billion through the third quarter of 2024.

Some industries are supposed to be exempt from paying the price of the allowances. The law specifically exempts aviation fuels, watercraft fuels combusted outside the state, biomass or biofuels, and "motor vehicle fuel or special fuel that is used exclusively for agricultural purposes by a farm fuel user."[18]

The legislature instructed Department of Ecology staff to create a system to implement those exemptions, "in a form and manner prescribed by the department." Ecology staff were also instructed to expand the exemption "to include fuels used for the purpose of transporting agricultural products on public highways." Department staff have failed to implement the exemption, and Washington farmers have been illegally charged at least $150 million in taxes on CO2 emissions based on our calculations.

What I-2117 would change

Initiative 2117 would repeal the CCA, eliminating the CO2 allowance system and the funds created by the law. It would not repeal the state's CO2 goals as outlined in RCW 70A.45.020, which sets a goal of reducing overall state CO2 emissions by 95 percent below 1990 levels by 2050.[19] So, the goals would remain, but one particular system to achieve those goals would be eliminated.

The initiative would also remove other regulations related to implementing CO2 limits and preventing economic activity that might contribute to increased emissions.

The initiative would repeal RCW 43.21C.520, which requires review of greenhouse gas emissions from a new or expanded facility to be included in an environmental assessment.

Similarly, it would repeal RCW 70A.45.020, which says the state and local governments may only consider greenhouse gas limits "in a manner that recognizes, where applicable, that the siting and placement of new or expanded best-in-class facilities with lower carbon emitting processes is in the economic and environmental interests of the state of Washington."

Also repealed would be state code related to increasing emissions requirements for "overburdened communities" when the Department of Ecology determines "criteria pollutants are not being reduced in an overburdened community." The Washington State Department of Health determines which communities are considered "overburdened," using the state health disparities map.[20] That map, however, classifies some of the wealthiest neighborhoods in the state as

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18 "RCW 70A.65.080 – Program Coverage," State of Washington, https://app.leg.wa.gov/RCW/default.aspx?cite=70A.65.080.

19 "RCW 70A.45.020 – Greenhouse gas emissions reductions – Reporting requirements," State of Washington, at https://app.leg.wa.gov/RCW/default.aspx?cite=70A.45.020.

20 "Information by Location | Washington Tracking Network (WTN)," Washington State Department of Health, at https://fortress.wa.gov/doh/wtnibl/WTNIBL/.

"overburdened communities," including Bellevue, Redmond, Newcastle and other high-income communities.

Finally, the initiative would prohibit state agencies from "implementing any type of carbon tax credit trading, also known as 'cap and trade' or 'cap and tax' scheme..." Because the initiative specifically mentions credit trading, it doesn't appear to prohibit a flat carbon tax that would not involve credit trading. The initiative language notes that, "The provisions of this act are to be liberally construed to effectuate the policies, purposes, and intent of this act." A broad interpretation might cover a carbon tax – even without credit trading – but it seems unlikely.

If the legislature or the voters in November approve Initiative 2117, it would eliminate the state's major policy directed at CO2 emissions, but it would not end all climate policies. It would leave the state's new low-carbon fuel standard and the Clean Energy Transformation Act in place. Additionally, many of the subsidies for electric vehicles, solar panels, and other policies designed to transition to a low-carbon economy would not be impacted.

Despite that, if the CCA is repealed, it would cause a significant reevaluation of state climate policy.

Conclusion

Since 2009, Washington's climate policies have been largely ineffective. Despite repeated claims from the governor and leadership at the Department of Ecology that state policies are working, CO2 emissions have consistently increased. Washington's per capita emissions have declined, but more slowly than the country as a whole.

The Climate Commitment Act was intended to "solve" that failure. The policy, however, has been far more expensive to consumers than supporters promised, and much more expensive than the similar systems in California and Quebec.

Good climate policy should do three things. It should provide an incentive to reduce CO2 emissions. It should encourage innovation that makes CO2 emissions reductions more efficient and effective. Finally, it should have the least harmful impact on the economy and prosperity. The CCA achieves the first but fails on the other two policy criteria. Legislators, and possibly voters, will ultimately decide whether one-out-of-three is good enough to keep the Climate Commitment Act in place.

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Todd Myers is the Vice President for Research at Washington Policy Center. With more than two decades in environmental policy, his experience includes work on a range of environmental issues, including climate policy, forest health, old-growth forests, and salmon recovery. A former member of the executive team at the Washington State Department of Natural Resources, he is a member of the Puget Sound Salmon Recovery Council.

He is the author of "Time to Think Small: How nimble environmental technologies can solve the planet's biggest problems," which outlines how small technologies are empowering people to protect threatened wildlife species, reduce CO2 emissions, and reduce ocean plastic. His previous book "Eco-Fads: How the Rise of Trendy Environmentalism Is Harming the Environment" documented how our environmental policies are driven by a desire to look good rather than to help the environment.

His writing has appeared in the Wall Street Journal, National Review, Seattle Times, and USA Today, and he has appeared on numerous news networks including CNBC, Fox News, the BBC, and CNN. He served as vice president of the Northwest Association of Biomedical Research and received their Distinguished Service Award in 2018 for his support of bioscience. He has also served as president of the Prescription Drug Assistance Foundation, a nonprofit providing medicines to low-income patients.

In 2021, Myers served as president of his local beekeeping club in his quest to build an army of stinging insects at his command. He has a bachelor's degree in politics from Whitman College and a master's degree in Russian/International Studies from the Jackson School of International Studies at the University of Washington. He and his wife Maria live in the Cascade Mountains in Washington state with 200,000 honeybees, and he claims to make an amazing pasta carbonara and an incredible dirty vodka martini with blue-cheese-stuffed olives.