

Submitted to: The Transportation and Climate Initiative (TCI)

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COMMENTS ON THE TRANSPORTATION & CLIMATE INITIATIVE PROGRAM

IETA Input on TCI-P Draft Model Rule and Equity Commitments

The [International Emissions Trading Association \(IETA\)](#) appreciates this opportunity to share input on the Transportation and Climate Initiative Program (TCI-P) Engagement Process and Draft Model Rule, published on 1 March 2021. As the leading international business voice on climate markets and finance, IETA represents over 150 companies including many facing climate risks and opportunities across the TCI region. Our expertise is regularly called-upon to inform market-based policies that deliver real and measurable greenhouse gas (GHG) reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

Our TCI-P comments are structured around two (2) main sections:

- **Section 1** contains input and recommendations on the main design elements of the TCI-P Draft Model Rule;
- **Section 2** shares observations and evidence demonstrating how cap and trade (or cap and invest) systems can support and deliver environmental justice, while also emphasizes how TCI-P can become a model for effectively addressing inequities and ensuring procedural justice through program design, implementation and ongoing evaluation.

IETA urges all TCI and TCI-P states to continue working together on a single program – one that covers all member jurisdictions and closely aligns with, if not fully or partially links to, the Regional Greenhouse Gas Initiative (RGGI) program. TCI-P/RGGI regional program harmonization and potential linkage would dramatically heighten market efficiencies, reduce program and compliance costs, avoid unnecessary administrative burdens, and allow the market-based programs to focus on reducing emissions at the lowest possible cost.

SECTION 1: COMMENTS ON PROPOSED TCI-P DESIGN ELEMENTS

First and foremost, **IETA commends the ambitious objective of establishing a regional TCI cap and invest program by January 2022**, with the intention of launching its first compliance period as early as 1 January 2023.

The following summarizes our key observations and recommendations on core proposed TCI-P design elements in the Draft Model Rule.



AFFECTED FUEL:

IETA agrees that the fuels proposed to be covered by TCI-P, on-road diesel and motor gasoline, are appropriate. In general, IETA believes the **program should cover as much of the fuel in the region as possible** while taking account of the renewable components.

APPLICABILITY (REGULATED ENTITIES & OTHER ENTITIES):

As mentioned during 2019 and 2020 TCI consultation opportunities, IETA **supports the proposal to set the compliance point with the position holder at the terminal rack**. We also agree there needs to be a **mechanism to address below-the-rack distribution**, as laid-out in the Draft Model Rule. While there is not a directly comparable pricing and tracking system already in place, the terminal rack is the point from which most of the fuel is distributed in the region; it is also upstream of the smallest distributors and allows for a manageable number of entities. Recognizing there are suppliers importing fuel directly into the TCI region, we believe these imports can be incorporated into the program without creating undue burdens on small suppliers.

REGIONAL EMISSIONS CAP, BUDGETS AND SCHEDULED REDUCTIONS:

IETA constantly advocates for market-based systems that set strong science-based caps on GHG emissions reductions in line with meeting domestic and international climate change targets. As such, the proposed approach to setting the regional TCI-P emissions cap is appropriate. We also **strongly support a regional base annual emissions cap that declines over time in a transparent and predictable manner**, in order to allow for medium and long-term planning by compliance facilities, market participants and other affected stakeholders.

We support the proposed apportionment of the regional base annual carbon budget to the participating jurisdictions' annual budgets, along with the revision of budgets as jurisdictions enter into, or withdraw from, the TCI-P. This is particularly important given that the TCI-P program is beginning with a small subset of the jurisdictions that participated in the TCI dialogue.

Finally, IETA encourages the TCI-P to make clear, predictable and easily-accessible pathways for additional states/jurisdictions to join the program. To ensure this clarity and predictability, IETA **encourages the TCI-P jurisdictions to include a detailed explanation of the cap and reduction methodology**. It is important for both participating jurisdictions and market participants (particularly those holding compliance obligations) to understand how: the TCI-P cap was arrived at; and how the reduction schedule fits into regional goals and planning/investment strategies.

STABILITY MECHANISMS:

IETA strongly supports inclusion of a Cost Containment Reserve (**CCR**) and Emissions Containment Reserve (**ECR**) in the TCI-P program. We are encouraged by the proposed framework's consideration of price-based flexibility mechanisms, including linking as a mechanism to add flexibility and contain costs.



Moving forward, **the TCI-P must look beyond its borders to ensure that program rules and systems are complementary and readily adaptable to the world’s quickly changing carbon pricing, market and trade landscapes.** We urge officials to closely track developments that may affect both regional or global compatibility or “stringency” acceptance of TCI-P’s approach including with respect to “level of reduction ambition” (cap-setting), market and infrastructure design, standards, offset rules/protocols and more. IETA strongly believes that now is an ideal time for the TCI to be aware of, and account for, any opportunities or challenges that could emerge down the line. Our community is extremely well-positioned to support this information exchange with TCI-P and state officials on carbon policy and market design developments across the region, continent and globally.

Like earlier IETA comments to TCI, we urge jurisdictions to include more prescriptive, enabling language to more easily recommend and adopt future program linkage opportunities. For example, international market programs under development (e.g., Paris Agreement Article 6, voluntary markets, international aviation etc.) and existing domestic market programs (e.g., Quebec-California cap and trade programs). Again, this should start with a clear, well-defined and easily-accessible path for all TCI jurisdictions to join the TCI-P as soon as possible and practical.

EMISSIONS REPORTING REQUIREMENTS:

While the proposed requirement for covered facilities to submit a report and supporting information in an electronic emissions reporting system appears sound and defensible, we are concerned about the proposed level and frequency of reporting. If reporting will be conducted monthly and include both entities with and without compliance obligations, it is important that those reports be as simple and efficient as possible. In addition to supporting the proposed design of Monitoring, Reporting and Verification (**MRV**) requirements, **we encourage the use of independent third-party report verifications**, recognizing its importance in ensuring system and environmental integrity

REGULATED ENTITY COMPLIANCE AND FLEXIBILITY:

IETA **welcomes the proposed framework’s inclusion of allowance banking, multi-year compliance periods, and offsets.** These critical flexibility instruments, featured across nearly all leading global environmental markets, should be available to compliance entities to meet full regulatory obligations across participating jurisdictions. We encourage individual TCI-P jurisdictions to keep these principles of flexibility and cost-containment continue as core principles, guiding the finalization of TCI-P Model Rule and frameworks at the member state/jurisdictional level.

AUCTIONING & ALIGNMENT:

IETA supports the use of auctions as the primary method of distributing allowances. Auctioning allowances and allowing a strong market-based approach will incentivize reductions and allow for appropriate price-setting. IETA encourages TCI to collaborate closely with near-term jurisdictional linkage partners and platforms (i.e., RGGI and RGGI Inc., Quebec-California and WCI Inc.). Harmonizing and aligning core auction design rules, timing, infrastructure (e.g., joint auction platforms, tracking systems etc.) across priority partners are foundational steps towards building



broad, linked markets. Cross-border collaboration also allow business, particularly those with regulatory exposure across multiple regions, to more efficiently and cost-effectively plan and invest.

ADDITION OR WITHDRAWAL OF PARTICIPATING JURISDICTIONS:

IETA supports the approach to new participating jurisdictions and withdrawal from the TCI-P. We are pleased to see that participating jurisdictions intend to encourage other jurisdictions to the program with the goal of expanding the geographic reach, market coverage, efficiencies and benefits. We also support the proposed approach to TCI-P withdrawal, and that the program will be adjusted based on jurisdictions entering and leaving.

PROGRAM MONITORING & REVIEW:

IETA strongly supports continued monitoring of the progress of the TCI-P. We urge officials to undertake ongoing and frequent program reviews, which are clearly defined and communicated to all affected stakeholders. It is critical that **TCI-P monitoring and review parameters must remain relevant and reasonable within the context of changing industries, trade, and broader macro-economic and socio-economic conditions.** We consider the RGGI regular monitoring and program review process one of the best in class, and a model for TCI-P to not only follow but with which to potentially align (e.g., timing, frequency, shared and consistent modeling/data etc.).

SECTION 2: SUPPORTING & DELIVERING ENVIRONMENTAL JUSTICE

IETA strongly supports the goals of equity, environmental justice, and non-discrimination. Addressing these inequities requires thoughtful processes that incorporate procedural justice, enable fairness in rulemaking, and ensure policies themselves deliver environmental justice as an outcome.

ENSURING EQUITY AND PROCEDURAL JUSTICE:

To ensure procedural justice, IETA urges the TCI-P jurisdictions to continue and deepen dialogue with disadvantaged and underserved communities to ensure their perspective and preferences are clearly heard throughout the design, governance and rulemaking process. As covered in the subsection below, IETA believes that existing cap and trade systems (or cap and invest systems) are currently delivering environmental justice. We believe that well-designed cap and invest programs can address the needs of environmental justice communities while further earning robust, defensible support across these vital stakeholder communities. Ultimately, strong and authentic environmental justice support will only contribute to political durability and overall impact and effectiveness of the program.

CAP AND TRADE (CAP AND INVEST) DELIVERS ENVIRONMENTAL JUSTICE:

Based on the best scientific evidence available in North America, which originates from California, cap and trade has delivered – and continues to deliver – significant environmental justice. California’s long-standing program has achieved this many ways, including through channeling billions of dollars from cap and trade auction revenues into local communities for clean project investments and

mitigating price increases across carbon-intensive products. Unfortunately, these facts and empirical evidence appear to starkly contrast with several recent US news articles and advocacy positions. Current and historical experience from California can and should inform the ultimate design and governance of TCI-P, with further enhancements and tailoring to deliver inclusive environmental justice across the TCI.

As market-based mechanisms continue to expand and mature – worldwide and across TCI – **IETA remains committed to listening, learning and genuinely engaging about how best to achieve both lasting and measurable environmental justice success and outcomes** along these critical journeys.

REDUCING LOCAL AIR POLLUTION:

As mentioned, recent advocacy campaigns have unfortunately perpetuated misinformed and false arguments that the California cap and trade program increased local air pollution for disadvantaged communities. This argument, which is factually incorrect, is likely based on an outdated correlational study¹ which has since been refuted by a 2021 causal study, co-authored by Danae Hernandez-Cortes and Kyle Meng.² **This more recent causal study finds that the California cap and trade program has significantly reduced local air pollution across local and disadvantaged communities.**

Cap and trade programs to tackle climate change are ultimately not designed to address local air pollution (e.g., air toxics, ozone pollution) but rather to efficiently achieve absolute targets that measurably reduce global GHG emissions over time. In the context of the TCI regional collaborative – and across over 30 other regions globally that are pursuing GHG cap and trade or invest mechanisms – this is why our community supports complementary measures including direct controls targeting local air pollution. That said, it should not only be recognized but **broadly commended that existing GHG cap and trade programs have reduced – and continue to successfully reduce – local air pollution** while simultaneously driving cost-effective abatement and delivering climate benefits.

INVESTMENT OF PROCEEDS AND EQUITY SHARED PRIORITY:

Proceeds from a pollution pricing program can play a dramatic role in supporting TCI-P jurisdictions' climate action and decarbonization transitions. Over 50 jurisdictions across North America and internationally now earmark and disburse revenue from their government-mandated carbon pricing programs to support clean technology research and deployment, emissions reduction and removals initiatives, efficiency improvements, innovation, affordability, and just transitions.

IETA is pleased to learn that the TCI is considering a range of options for investing cap and invest auction proceeds while continuing to encourage further examination of existing successful models and programs, including the California Greenhouse Gas Reduction Fund (**GGRF**), New York Green Bank, the Australia Emissions Reduction Fund (**ERF**), and the UK Low-Carbon Innovation Fund (**LCIF**).

¹ Cushing et al., 2018 – PloS One. ([Link](#)).

² Hernandez-Cortes and Meng, 2021 - National Bureau of Economic Research ([Link](#))



IETA encourages future TCI-P auction revenue to be channeled towards helping TCI-P jurisdictions reach their climate change policy objectives while supporting regional businesses and consumers to transition to carbon constraints and make decarbonization more affordable. We also support the Draft Model Rule’s proposed commitment to invest no less than 35% of cap and invest auction proceeds **to ensure that overburdened and underserved communities benefit equitably from clean transportation projects and programs** (noting that GGRF contains similar minimum requirement).

CONCLUSION

Once again, we praise the TCI-P jurisdictions for the strong collaboration while seeking to harness the power of markets to tackle climate change in a practical, cost-effective and equitable manner. IETA appreciates this opportunity to record our comments on the TCI-P Draft Model Rule, equity commitments and public participation process. Through 2022, our community looks forward to close and frequent engagement with TCI-P jurisdictional members (existing members and potential new members) among other affected stakeholders.

If you have questions or follow-up regarding this submission, please contact IETA US Advisor, Clayton Munnings, at munnings@ieta.org or IETA Managing Director, Katie Sullivan, at sullivan@ieta.org.