

Submitted to: The Transportation and Climate Initiative (TCI)

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IETA SUBMISSION TO TRANSPORTATION & CLIMATE INITIATIVE (TCI) TCI Framework for a Draft Regional Policy Proposal

The [International Emissions Trading Association \(IETA\)](#) appreciates this opportunity to share input on the Transportation & Climate Initiative (TCI) [Draft Memorandum of Understanding \(MOU\) \(the MOU\)](#). On behalf of our 130+ multi-sector business membership worldwide, we believe that flexible market instruments – including trading, broad access to natural climate solutions, and cross-border cooperation – must form the backbone to any jurisdiction’s successful climate policy effort. We welcome the TCI’s climate leadership, cooperation, and support for flexible market instruments.

IETA's comments are a result of deep experience and lessons learned across North American and international carbon markets. Our policy and market insights are a testament to the iterative – yet increasingly robust and aligned – nature of carbon pricing system design; an evolutionary process where jurisdictions are not only identifying best practices, but also seeking to embed and operationalize these elements into new or modified program improvements.

OVERVIEW & COMMENTS

IETA’s comments are structured around the sections in the MOU, with detailed comments on: program design elements; applicability; compliance and enforcement; flexibility, allowance allocation and stringency; regional program administration; and additional program design elements.

1. Goals and Schedule

IETA commends TCI’s ambitious objective of releasing a regionally coordinated Model Rule by 31 December 2020, with the intention of commencing the first compliance period as early as 1 January 2022.

2. Model Rule for Establishment of the TCI Program

2A. Affected Fuel.

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

2B-C. Regulated Entities & Other Entities.

In order to make the TCI program as efficient as possible, the compliance point should be set such that compliance entities can take full advantage of existing tax and tracking systems. IETA members support the proposal to set the compliance point at the terminal rack, with an alternative for any fuel that moves into the region directly. 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 also upstream of the smallest distributors and allows for a manageable number of entities. IETA recognizes that there are suppliers that import fuel directly into the TCI region and believes that those imports can be incorporated into the program without creating an undue burden on small suppliers.

2D-F. Regional Emissions Cap, Budgets & Scheduled Reductions.

IETA supports a system that sets strong science-based caps on emissions reductions, in line with meeting domestic and international climate targets. IETA generally supports the MOU's approach to setting the regional emissions cap, and we strongly support a regional base annual emissions cap that declines over time in a transparent and predictable manner to allow for medium and long-term planning by facilities and stakeholders. IETA supports the apportionment of the regional base annual CO₂ emissions budget to the participating jurisdictions annual budgets, along with the revision of budgets as jurisdictions enter into or withdraw from the program.

2G. Stability Mechanisms.

IETA strongly supports the potential inclusion of a Cost Containment Reserve (CCR) and Emissions Containment Reserve (ECR) in the TCI program. We look forward to more details as the program continues to develop and encourage TCI to look to other regions for examples of successful CCR and ECR mechanisms.

We are encouraged by the framework's consideration of price-based flexibility mechanisms, including linking as a mechanism to add flexibility and contain costs. Moving forward, **the TCI must look beyond its borders to ensure that the rules and systems** are complementary and readily adaptable to the world's quickly changing carbon landscapes. We urge officials to closely track developments that may affect both regional or global "stringency" acceptance of TCI's approach to carbon rules, pricing and trade. Now is an ideal time for the TCI to be aware of, and account for, any challenges that could emerge down the line. IETA is well-positioned to support this information exchange with TCI and state officials on carbon policy and trade developments and outlooks. We welcome the opportunity to help ensure that the TCI regularly has access to this latest policy information, analyses and outlooks.

Final regulation should see more prescriptive, enabling language to more easily recommend and adopt future market linkage opportunities. For example, international market programs under development (e.g., Article 6/ITMOs, voluntary, international aviation etc.) and existing domestic market programs (e.g., Quebec-California cap and trade programs).

2H. Emission Reporting Requirements.

The proposed requirement for covered facilities to submit a report and supporting information in an electronic emissions reporting system appears sound and defensible. We also support independent third-party verification of the report, recognizing the importance of transparency and verification in ensuring environmental integrity of the system. IETA strongly supports drawing upon lessons and standards from existing greenhouse gas programs in the design of the monitoring reporting and verification (MRV) requirements.

2I. Regulated Entity Compliance and Flexibility.

IETA strongly supports the framework's inclusion of allowance banking, multi-year compliance periods, and offsets. These instruments should be available to compliance entities to meet full regulatory obligations across these jurisdictions. **We hope to see these principles of flexibility and cost containment continue as core principles, guiding the finalization of TCI regional program rules and frameworks.**

2J. Auctioning and Alignment.

IETA encourages the TCI jurisdictions to use 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 (i.e., RGGI, and Quebec and California). Harmonizing and aligning core design rules, standards, joint market infrastructure (e.g., 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.

3. Investments and Equity

3A. Investment of Proceeds.

Proceeds from a pollution pricing program can play a dramatic role in supporting TCI jurisdictions' climate mitigation actions over time. Other jurisdictions – in North America and internationally – earmark and disburse revenue from their pollution pricing programs to support clean technology, innovation, and emissions reductions initiatives. IETA is pleased to learn that the TCI is considering a range of options for investing auction proceeds, and encourages further examination of existing successful programs, including the New York Green Bank, the Australia ERF, and the UK Low-Carbon Innovation Fund (LCIF). In particular, we support investments made towards helping TCI jurisdictions reach their climate policy objectives while supporting regional businesses and consumers to transition to carbon constraints and economic decarbonization.

3B. Equity Shared Priority.

IETA strongly supports the goals of equity, environmental justice, and non-discrimination – and encourages TCI to continue to pursue these goals, including working with disadvantaged communities to assess the impacts of the program.

4. Regional Organization

IETA supports the proposed structure of the regional organization, including its functions, authorities and limits on authorities.

5. Addition or Withdrawal of Participating Jurisdictions

IETA supports the TCI's approach to new participating jurisdictions and withdrawal from the TCI program. We are pleased to see that the participating jurisdictions will encourage other jurisdictions to the program with the goal of expanding the geographic reach of the regional program. IETA believes that the expansion



of this program will benefit all participating jurisdictions by expanding the market. IETA also supports the approach to withdrawal, and that the program can be adjusted based on jurisdictions leaving and entering the program.

6. Program Monitoring and Review

IETA strongly supports continued monitoring of the progress of the program. We urge TCI to undertake ongoing and frequent reviews. Frequent reviews, which are clearly defined and communicated to all stakeholders, will ensure that program parameters remain relevant and reasonable within the context of changing industries, trade and broader macro-economic conditions.

CONCLUSION

Transportation stands out in the TCI region – not only because the sector is now the number one source of carbon emissions, but also because those emissions are increasing. Once again, we applaud the TCI for moving forward – in a cooperative, transparent manner – to harness the power of markets to tackle this challenge in practical and cost-effective manner.

IETA appreciates this opportunity to record our comments on the TCI’s MOU. Our community looks forward to close engagement with the TCI through 2020. If you have questions or follow-up regarding this submission, please contact Justin Johnson at johnson@ieta.org.