

Summary of 2017-2018 Washington Carbon Tax Efforts

Griffin Ruehl¹, Gabriella Tosado¹

¹University of Washington

Legislative Efforts:

Carbon tax bills:

No carbon tax legislation was successfully passed during the 2018 Washington state legislative session. In total there were three carbon tax bills proposed, senate bills (SB) 6203, 6096, and 6335. These are summarized in full in *Table 3*. In short, 6203 was the product of Gov. Inslee's proposal and was primarily focused on transitioning to a clean energy economy and environmental management, 6096 was chiefly sponsored by Senator Ranker and was similar to 6203 but had more required provisions for low income populations, and 6335 was sponsored by Senator Hobbs and was primarily focused on transit development. All three bills were eventually combined into a final version of 6203.

Other non-tax-based carbon reduction bills:

There were a few other notable non-tax-based bills addressing climate change in the legislative session, all of which failed to pass.

- There were three GHG emission reduction bills that sought to strengthen the current state goals. In order of decreasing strength these were HB 1372, HB 1144, and SB 5421.
- HB 2338 – Low carbon fuel standard bill. This would have forced greater decarbonization of the transportation sector by requiring the use of more non-fossil-fuel-based fuels. This was a regulation approach as opposed to a tax approach but could have worked in unison with a tax bill.
- HB 2839 / SB 6424 (companion bills) – “Shadow tax” bills. These would have required utilities to factor in a \$40/ton CO₂ carbon tax into financial planning but would not have actually imposed the tax.

Initiative Efforts:

The only remaining live effort for implementing a carbon tax in Washington is the initiative I-1631, which was filed by a coalition that includes the Alliance for Jobs and Clean Energy, the Nature Conservancy, and several the state's Tribal nations in March 2018. It is currently collecting enough signatures to be on the 2018 Washington state ballot. The initiative is compared with the final version of SB 6203 in *Table 1*. I-732 was an additional initiative that made it onto the ballot in 2016, but failed to pass with a result of 59% to 41%.

I-1631 vs. I-732:

The fundamental difference between the two initiatives is that I-732 was revenue neutral while I-1631 is revenue generating. This meant that I-732 would have instituted tax cuts in the state approximately equivalent to the total revenue generated by the bill, which is the same model as the carbon tax currently in place in British Columbia. In contrast, I-1631 will generate revenue, and establishes funds for clean energy technology advancement, water and forest management, and healthy communities. Notably I-1631 is a fee and not a tax, which legally limits the use of its revenue to carbon and pollution issues. I-732 also started at a higher initial tax and had a higher tax cap than I-1631's fees, but had a slower tax growth rate.

Carbon Washington, 2018 Carbon Tax Matrix.

Senator Hobbs, *S6096 Creating a fossil fuel carbon pollution tax*. Washington State Legislature.

Senator Ranker, *S6096 Establishing a carbon pollution reduction tax*. Washington State Legislature.

Governor Inslee, *SB6203 Reducing Carbon by Moving to a Clean Energy Economy*. Washington State Legislature.

World Bank. 2016. *State and trends of carbon pricing (English)*. Washington, D.C.: World Bank Group.

United States, Washington State, “Initiative Measure No. 1631.” Initiative Measure No. 1631, 2018.

Comparison of SB 6203 and I-1631:

	SB 6203 (final version)	I-1631
<i>Tax</i>	\$12/tCO ₂ e until 2021, then \$1.80/ton increase annually up to \$30 cap	\$15/tCO ₂ e starting in 2020, then \$2 + inflation increase annually until 2035. Price frozen at 2035 level if GHG limits are met.
<i>Revenue Use</i>	<ul style="list-style-type: none"> • 50% carbon reductions investments (30% for multi-modal transportation) • 20% water & forest fund • 15% low income programs • 15% rural economic development 	<ul style="list-style-type: none"> • 70% clean energy fund (15% for low-income energy burden assistance, \$50 million for assistance to displaced fossil-fuel workers) • 25% water & forest fund • 5% healthy community fund
<i>Utility Tax Return</i>	100% return to utility clean energy investment plan, 20% allotted for low income energy assistance	100% return to utilities, 15% allotted for low income energy burden assistance
<i>Notable Exemptions</i>	Agricultural/timber and aviation fuels, biofuels, exported fossil fuels and electricity. Oil refineries retain 10% for carbon reduction	Public transportation, state vehicles, aviation & marine fuels, on-farm diesel, US government
<i>EITE Classification Requirements</i>	Looser classification based on 55 NAICS codes, or identified by agency rules.	Stricter classification based on 23 NAICS codes, or identified by Dept. of Commerce to exceed current EITE's energy intensity and trade share.
<i>Additional Low-Income Requirements</i>	15% of all expenditures required to go to low income assistance programs.	Of all expenditures 10% must benefit Indian Tribes and 35% must benefit environmental justice areas.

Table 1. Comparison of SB 6203, the final version of the legislative effort that failed to pass, and I-1631, the current voter initiative that is working towards the November 2018 ballot.

Glossary & Notes:

- tCO₂e = Tons of CO₂ equivalent, which includes methane and other carbon based GHGs
- EITE = Energy intensive trade exposed business
- GHG = Greenhouse gases
- NAICS = North American Industry Classification system
- Both efforts include an exemption for transitional power for Centralia's TransAlta coal plant between now and the 2025 shutdown. I-1631 includes an additional exemption for energy from any coal facilities closing before 2025, which notably includes Puget Sound Energy's ownership share of Colstrip, MT plant units 1 & 2, slated for shutdown in 2022.
- The utility tax return system would require utility companies to use this tax return as investments funds for further decarbonization of their energy infrastructure. Although similar to the carbon reduction investment or clean energy funds, the utility return provisions guarantee this money goes back to the utility companies, whereas they must compete with all other industries for the general carbon reduction investment funds.

Carbon Washington, 2018 Carbon Tax Matrix.

Senator Hobbs, *S6096 Creating a fossil fuel carbon pollution tax*. Washington State Legislature.

Senator Ranker, *S6096 Establishing a carbon pollution reduction tax*. Washington State Legislature.

Governor Inslee, *SB6203 Reducing Carbon by Moving to a Clean Energy Economy*. Washington State Legislature.

World Bank. 2016. *State and trends of carbon pricing (English)*. Washington, D.C.: World Bank Group.

United States, Washington State, "Initiative Measure No. 1631." Initiative Measure No. 1631, 2018.

Domestic & International Carbon Tax Programs:

Summary of international efforts:

As of 2017, 25 subnational and 42 national jurisdictions, about half of the global economy, have announced or implemented carbon pricing initiatives that cover an estimate of 26% of world-wide GHG emissions. Although more jurisdictions are adopting carbon pricing initiatives, three quarters of emissions covered by carbon pricing are less than \$10/ tCO_{2e}. In order to achieve the temperature goals of the Paris Agreement, the High-Level Commission on Carbon Prices recommends a range of US\$40-80/tCO_{2e} by 2020 and US\$50-100/tCO_{2e} by 2030. The Carbon Pricing Corridors Initiative, led by CDP and We Mean Business, projects a range of US\$30-100/tCO_{2e} by 2030 in order to decarbonize the power sector. Currently, only Finland, Liechtenstein, Sweden, and Switzerland have carbon taxes in line with the recommended range for 2020.

Notable domestic and international carbon tax initiatives:

- *Massachusetts:* There are two carbon tax bills in committee, both with a price cap of \$40/tCO_{2e} that focus on returning at least 80% of the tax revenue to households and employers through rebates. In 2018, Massachusetts plans to launch an emissions trading system (ETS) covering power plants to ensure they will reach the state's target of reducing GHGs to 80% below 1990 levels by 2050.
- *Oregon & Virginia:* The governor of Virginia issued an executive direction for the state Department of Environmental Quality to develop a plan to reduce emissions from power plants through market-based mechanisms such as multi-state trading programs. Oregon's Department of Environmental Quality provided a cap-and-trade system design with potential links to the Canadian and Californian ETSSs. In 2017, Oregon also launched several new bills and draft proposal introducing carbon pricing initiatives.
- *British Columbia:* In 2008, BC implemented a revenue neutral carbon tax, using the revenue to reduce personal, corporate, and small business income taxes and create various tax credits. From 2007-2014, the province has decreased emissions by 5.5% despite an 8.1% increase in population and has seen the GDP increase by 12.4%. The current price is \$30/tCO_{2e}, but recent legislation will increase this further and use revenue for clean energy and environmental investments. Canada is currently developing a national carbon pricing system that will apply to provinces and territories that do not meet federal criteria with a tax of \$10/tCO_{2e} in 2018, increasing to \$50 by 2022.
- *Sweden:* In 1991, Sweden implemented a carbon and sulfur dioxide tax on oil and natural gas which has since been expanded to more aggressively address climate change to the current level of \$140/tCO_{2e}. No tax is applied to electricity generation, which has a separate tax, and industries that meet benchmarks of decreased emissions and improved efficiencies can be exempted. From 1980-2008, Sweden has decreased emissions by 40% and has a goal of being the first oil-free economy by 2020.

Carbon Washington, 2018 Carbon Tax Matrix.

Senator Hobbs, *S6096 Creating a fossil fuel carbon pollution tax*. Washington State Legislature.

Senator Ranker, *S6096 Establishing a carbon pollution reduction tax*. Washington State Legislature.

Governor Inslee, *SB6203 Reducing Carbon by Moving to a Clean Energy Economy*. Washington State Legislature.

World Bank. 2016. *State and trends of carbon pricing (English)*. Washington, D.C.: World Bank Group.

United States, Washington State, "Initiative Measure No. 1631." Initiative Measure No. 1631, 2018.

Comparison of Existent Carbon Tax Programs:

Jurisdiction	(US\$/tCO ₂ e)	Type
Sweden	140	Tax
Switzerland, Liechtenstein	87	Tax
Finland	69	Tax
Norway	56	Tax
France	36	Tax
Denmark	27	Tax
British Columbia, United Kingdom, Ireland	24	Tax
Slovenia	20	Tax
Korea	18	ETS
Alberta, Canada	16	Tax
Quebec, California, Ontario	15	Tax
Saitama, Japan	14	ETS
Tokyo, Japan	14	Tax
New Zealand	13	ETS
Iceland	12	Tax
Portugal	8	Tax
Beijing, China	8	ETS
European Union	6	ETS
Latvia	5	Tax
Colombia	5	Tax
Chile	5	Tax
Shanghai, China	5	ETS
Mexico	3	Tax
Japan (country-wide)	3	Tax
Estonia	2	Tax
Poland, Ukraine	<1	Tax

Table 2. Carbon pricing summary by jurisdiction and type, categorized as either a tax or an emissions trading system (ETS).

Carbon Washington, 2018 Carbon Tax Matrix.

Senator Hobbs, *S6096 Creating a fossil fuel carbon pollution tax*. Washington State Legislature.

Senator Ranker, *S6096 Establishing a carbon pollution reduction tax*. Washington State Legislature.

Governor Inslee, *SB6203 Reducing Carbon by Moving to a Clean Energy Economy*. Washington State Legislature.

World Bank. 2016. *State and trends of carbon pricing (English)*. Washington, D.C.: World Bank Group.

United States, Washington State, "Initiative Measure No. 1631." Initiative Measure No. 1631, 2018.

Comparison of Prior Legislative Bills:

	SB 6203	SB 6096	SB 6335
<i>Tax</i>	\$20/tCO ₂ e + 3.5% + inflation/year, no cap	\$15/tCO ₂ e + \$2.50/year, cap at \$30/ton	\$15/tCO ₂ e, \$20 in 2024
<i>Revenue Use</i>	<ul style="list-style-type: none"> • 50% carbon reductions investments • 35% water & forest fund • 15% low income programs 	<ul style="list-style-type: none"> • Flat amount of \$350M, \$650M by 2026, to low income support focused “Climate Impact Fund” Remaining revenue: <ul style="list-style-type: none"> • 55% carbon reduction investments • 30% water & forest fund • 15% climate impact assistance (slush fund) 	<ul style="list-style-type: none"> • 40% multimodal (transportation) investments • 20% carbon reduction investments • 20% water fund • 10% forest fund • 5% rural economic development • 5% fish culverts
<i>Utility Tax Return</i>	100% return to clean energy investment plan, 20% allotted for low income energy assistance	70% return to clean energy investment plan, 20% allotted for low income energy assistance	None
<i>Notable Exemptions</i>	Agricultural and aviation fuels, biofuels	Agricultural, maritime, and aviation fuels	Agricultural fuels, public & school transportation, road construction & maintenance fuels, US Gov’t & diplomats
<i>EITE Classification Requirements</i>	Strict classifications for EITE, independent state agency approval	Medium strictness, reliant on 20 NAIC codes	Loosest classification strictness, reliant on 55 NAIC codes
<i>GHG Reduction Goals</i>	Required planning for 80% reduction of 1990 levels by 2050	Strengthens state goals to 40% below 1990 levels by 2035	None, defaults to current state goals

Table 3. Comparison of the three initial carbon tax bills put forth in the 2018 Washington state legislative session. All three failed to pass, but were first compiled into a final version of SB 6203, which is compared to I-1631 above in Table 1.

Carbon Washington, 2018 Carbon Tax Matrix.

Senator Hobbs, *S6096 Creating a fossil fuel carbon pollution tax*. Washington State Legislature.

Senator Ranker, *S6096 Establishing a carbon pollution reduction tax*. Washington State Legislature.

Governor Inslee, *SB6203 Reducing Carbon by Moving to a Clean Energy Economy*. Washington State Legislature.

World Bank. 2016. *State and trends of carbon pricing (English)*. Washington, D.C.: World Bank Group.

United States, Washington State, “Initiative Measure No. 1631.” Initiative Measure No. 1631, 2018.