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LEGISLATIVE MEMO

Cap-and-trade, LCFS, and gas tax bills would mean higher energy prices and do little for the environment

Washington drivers could see an increase in the cost of gas of between 30 and 50 cents per gallon in 2023 if climate and gas tax bills are adopted this month

By Todd Myers, Director, Center for the Environment

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Introduction

Washington drivers could see an increase in the cost of gas of between 30 and 50 cents per gallon in 2023 if a package of climate and gas tax bills is adopted this month. That would be on top of the 67 cents a gallon in gas taxes Washingtonians already pay.

The three bills are a low-carbon fuel standard, a gas/carbon tax in a transportation package, and a CO2 cap-and-trade bill. All are connected legislatively, and bill sponsors have made implementation of each contingent on passage of the others. All three bills would significantly increase the cost of gasoline, now and in the future.

We've written repeatedly about the costly and ineffective low-carbon fuel standard. Here are a few observations about the strengths and weaknesses of SB 5126, the CO2 cap-and-trade legislation.

CO2 cap-and-trade is a better approach than the LCFS or other regulatory approaches

Cap-and-trade places a cap on total CO2 emissions and allows companies to find whatever way is best to cut emissions. It is not a perfect market because the CO2 cap is set arbitrarily by politicians (and Washington's current cap is irrational), but it provides more flexibility than other options. A similar system was extremely effective at reducing the sulfur-dioxide emissions that cause acid rain and did so at a cost that was much lower than regulatory alternatives.

To that reasonable foundation, SB 5126 adds the type of wasteful spending cap-and-trade was created to avoid

Rather than cutting other taxes or rebating the revenue, the taxes raised by cap-and-trade go into a political slush fund for special interest payoffs and wasteful subsidies. For example, it creates the "Climate Investment Account," which creates a long list of labor and social justice requirements that do nothing for the environment. If legislators actually cared about these things, they would pass them as separate laws rather than hiding them in climate legislation.

The bills would impose a big tax increase when the state already has a huge increase in revenue

The state budget is going to increase by a double-digit percentage without any new revenue. Washington will also receive billions from the federal COVID bailout. Cap-and-trade becomes just one more tax increase – 18 cents per gallon of gas among other costs on home heating and manufacturing – on top of the others being considered this year.

The bill is part of a deal to triple-tax drivers

In order to gain support for the legislation, it is contingent on passage of a transportation package. In the Senate, that package includes a 9.8 cent per gallon gas tax increase and assumes a new mileage fee for drivers. The House package proposes both a gas tax and a carbon tax, imposing about 21 cents per gallon. There is also the possibility of a mandated low-carbon fuel standard. The cap-and-trade and Senate transportation package would increase gas taxes by 28 cents per gallon in 2023. An LCFS would add a few cents, growing rapidly as it is phased in over time. That is three new

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costs on gasoline in one legislative session, adding more than 30 cents per gallon in 2023.

The expenditures in SB 5126 would do literally nothing to reduce CO2 emissions

The benefit of a cap-and-trade system is that the cap is set to achieve the emissions goal. If legislators want to achieve a 95 percent reduction in emissions, they would make that the cap. Companies would then figure out how to meet that goal. Spending taxpayer money on government projects that (purportedly) reduce CO2 emissions does not reduce emissions any more than the cap already does. Those government projects are simply payoffs to favored political groups with lobbyists. It is pure waste and does nothing to fight climate change.

The rules in SB 5126 would make CO2 reduction needlessly expensive

The language of the bill would increase the cost of cutting emissions by adding requirements and eliminating less-expensive alternatives. For example, the bill says the state may spend taxpayer money on, "Emissions reduction projects and programs that yield real, verifiable reductions in greenhouse gas emissions in excess of baseline estimates." The bill puts a limit, however, on the number of private projects used by companies required to cut emissions, called "offsets," that meet those same standards. Why? Because legislators are willing to sacrifice efficient CO2 emissions reduction in favor of increasing taxes and funding politically chosen projects.

The revenues from cap-and-trade are volatile

Because the cap is strict, it is inflexible and that frequently results in volatile costs. In the Northeast's cap-and-trade system, known as RGGI, prices have been as high at $7.60 per ton this year and as low as $2.53 in 2017. In Washington state, this problem is particularly pronounced. Washington's total energy-related CO2 emissions were 71.6 million metric tons in 2014 but jumped to 79.1 MMT just two years later – a 10 percent increase. When those big changes occur against a strict cap, it causes the prices to shoot up rapidly, as has been seen elsewhere.

The legislation attempts to reduce volatility by turning control over to California

One way to reduce the volatility in Washington's emissions is to be part of a larger market that can mitigate big, local swings. The cap-and-trade bill specifically encourages the state to join California's system. But California is not changing its rules to accommodate us. We would have to conform to them. Washington state gets to choose between volatility with control over the rules, or more stability but little to no control over the rules.

Conclusion

One common response to such concerns is that "we can't wait" to fight climate change. But the reason Washington has not adopted climate policy before now is that the environmental left killed more reasonable previous climate proposals because the proposals didn't raise taxes or didn't raise them enough and didn't provide payoffs for their political allies. The current package of proposals fixes that "problem" by using a big tax increase to spend public money lavishly on political projects.

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