

Report and recommendations to Legislature on EITE allowance allocation for 2035-2050



Background

The Washington Department of Ecology is preparing a report about no-cost allocation to emissions-intensive, trade-exposed Industries (EITEs) under the Cap-and-Invest Program.

EITEs are important local industries and manufacturing facilities that produce a variety of products including paper, food, building materials, glass, and airplanes. These facilities have significant energy requirements and high greenhouse gas emissions (emissions-intensive), and face unique barriers to decarbonizing. They are also exposed to more international and domestic competition for their products (trade-exposed) than other emitters.

The Legislature directed Ecology to provide EITEs with most of the allowances they need at no cost until at least 2034. This was intended to provide EITEs with more time to plan for and invest in emissions reductions and reduce the risk of leakage. Leakage occurs when a company shifts production to a jurisdiction with less stringent climate regulations to reduce costs, resulting in lost economic activity for Washington and a lost opportunity to decarbonize.¹

Without statutory changes, EITEs will receive the same allocation of no-cost allowances through 2050. Continuing on this course would compromise the integrity of the Cap-and-Invest Program. The number of no-cost allowances projected to be allocated to EITEs would exceed the annual allowance budgets^{2,3} by the late 2030s or early 2040s. This would leave no allowances for other businesses and eliminate revenue for the state.

Ecology submitted a [report to the Legislature](#) in January 2026 that analyzed policy options for allocating no-cost allowances to EITEs for 2035-2050. This report was developed with extensive input from industry, Tribes, environmental groups, community organizations, and others.

The Legislature [enacted legislation](#) in 2026 that requires Ecology to prepare a new report that provide recommendations on how many no-cost allowances EITEs should receive during 2035-2050 and other policies to support EITE emission reductions.

Further information can be found on the [Emissions-intensive, trade-exposed industries webpage](#).

Approach to report and opportunities to provide input

Ecology will consider input from representatives of EITE facilities, Tribes, environmental advocates, overburdened communities, subject matter experts, and the public while developing this new report.

¹ Further explanation of leakage can be found in Sections 3 and 5 Ecology's [January 2026 report](#).

² Eligible entities including EITEs and electric and natural gas utilities.

³ The total allocation of no-cost allowances must come from the annual allowance budgets set by Ecology.

Ecology will host a public meeting on June 11, as well as a Tribal forum, and engage directly with EITEs and other interested parties during the public comment period from June 1 to July 24, 2026. Comments can be submitted [through our electronic platform](#) until July 24, 2026 at 11:59 p.m.

In developing the new report and recommendations, Ecology will build on the comprehensive analysis and information set out in the [January 2026 report](#). That report provides important background and contextual information, including explanations of key concepts and existing EITE policies in the Cap-and-Invest Program, and feedback collected from interested parties. **Ecology encourages interested parties to review the January 2026 report and use it to inform their feedback on the areas of focus for this new report.**

Focus areas for Ecology's report to the legislature

Ecology's recommendations for the Legislature must address four key focus areas:

1. A proposed method for making annual reductions to EITE allowances that ensures against emissions leakage and will ensure that the total number of no-cost allowances does not conflict with annual allowance budgets or prohibit the achievement of statewide emission limits
2. Proposed criteria and methods for making as-needed adjustments to EITE allowance allocation to address changes in leakage risk and achieve statewide emissions limits
3. The proposed design of a method that requires EITEs to invest a portion of the value of their no-cost allowances in decarbonization projects
4. Additional state policies or strategies to support the reduction of emissions and decarbonization of EITEs.

Ecology is also required to consider certain policy and technical issues as it develops these recommendations. This includes the potential deployment of emission reduction technologies by EITEs and potential impacts on overburdened communities. Further information on the four focus areas and the policy and technical issues is provided below.

Focus Area 1 – Method for making annual reductions to EITE allowances (developing a 'cap adjustment factor')

No-cost allowance allocation remains the most viable and effective policy for mitigating leakage risk within Washington. However, the Legislature needs to provide direction on the methods that Ecology can use to ensure that total no-cost allowance allocation to EITEs aligns with annual allowance budgets.⁴ This is essential for ensuring that the Cap-and-Invest Program supports statewide emissions limits, allows for sustainable pathways for other decarbonizing sectors of the economy, and enables the continued generation of funds to support the state's climate investment priorities.

This objective can be achieved by authorizing Ecology to implement a cap adjustment factor or equivalent method for the years 2035-2050. In practice, this would involve making progressive annual reductions to EITE allowance allocation based on a percentage or amount specified in law

⁴ See Sections 5, 7 and 10 of Ecology's [January 2026 report](#).

or rule. This means that EITE facilities would receive fewer no-cost allowances each year and would need to either reduce emissions per unit of production or purchase additional allowances.

Most jurisdictions with carbon pricing programs, including [California](#) and [Québec](#), use a cap adjustment factor or equivalent method to align EITE allowance allocation with program caps. This ensures the cost of carbon is being factored into long-term business decisions.

Implementing a cap adjustment factor could potentially increase leakage risk if EITEs are not able to decarbonize their operations as the number of no-cost allowances is reduced. To address this challenge, most jurisdictions employ other complementary policies to support the decarbonization of EITEs. Therefore, ensuring against emissions leakage will likely require the provision of no cost allowances alongside other complementary policies to support the decarbonization of EITEs.

Developing a proposed cap adjustment factor requires Ecology to assess how to reduce the number of no-cost allowances provided to EITEs in a way that will keep total allocation lower than annual allowance budgets, while also continuing to mitigate leakage risk. Some of the key considerations in this assessment include:

- How to balance the need to mitigate leakage risk while ensuring that EITEs are developing long-term plans to decarbonize and support the achievement of statewide emission limits.
- How to account for the different opportunities (and challenges) for deploying technologies and strategies to decarbonize EITEs in Washington, including differences within and between industrial sectors (e.g., pulp and paper compared to petroleum refineries).
- How to ensure that there will be sufficient supply of state-owned allowances available for auction by Ecology to support a well-functioning carbon market.⁵

To help inform its assessment, Ecology is seeking feedback on the following questions:

- What types of data or assumptions can be used to assess the ability of EITEs to decarbonize during the 2030s and 2040s?
- Should all industrial sectors be subject to the same annual reduction in no-cost allowances or should some sectors be treated differently? For example, facilities with a high or fixed proportion of emissions resulting from chemical processes rather than combustion.
- What other policies are needed alongside the provision of no-cost allowances to help ensure against leakage risk? (see Focus Areas 3 and 4 for potential complementary measures)

Focus Area 2 – Criteria and methods for making as-needed adjustments to EITE allowance allocation

Designing a cap adjustment factor is challenging because it is not possible to accurately predict new developments that will affect EITE emissions and leakage risk in the future. This includes the cost and availability of technologies for decarbonizing EITEs and new developments in carbon pricing or equivalent policies in other states and countries.

⁵ Features of well-functioning carbon market include liquidity, stability, price signals, and price discovery.

In addition, the supply of allowances available to be allocated to EITEs will be influenced by carbon market dynamics that will vary over time, such as the demand for allowances by other covered sectors and the establishment of new EITE facilities.

This challenge could be addressed by enabling Ecology to make adjustments, as needed, to EITE allowance allocation based on criteria and methods specified in law or rule. In practice, this would require Ecology to make adjustments to the number of allowances provided to an individual EITE facility or subsector under certain defined circumstances.⁶ It could also involve adjusting EITE allowance allocation if there are insufficient allowances available to be provided to EITEs and other sectors that are entitled to no-cost allowances by law.

A similar approach for enabling as-needed adjustments was [adopted by New Zealand](#) in 2021 when it introduced a cap adjustment factor ('phase-out rate') for EITEs within its national carbon market.

Some of the key considerations in developing criteria and methods for making as-needed adjustments include:

- How to identify and define the circumstances when as-needed adjustments to EITE allowance allocation would be necessary. For example, in the event of a significant change in leakage risk or unforeseen delays or advancements to the implementation of decarbonization projects by EITEs.
- How to balance the need to provide certainty for EITEs regarding their allowance allocation during 2035-2050, while also enabling as-needed adjustments in certain circumstances to address dynamic market or policy conditions.

To help inform its recommendations, Ecology is seeking feedback on the following questions:

- What types of circumstances or conditions should qualify for making as-needed adjustments to EITE allowance allocation?
- What objective criteria and data could be used to inform these adjustments?

Focus area 3 - Requiring EITEs to invest some of the value of their no-cost allowances in decarbonization projects (implementing a consignment policy)

Reducing the number of allowances provided to EITEs is essential for the integrity of the Cap-and-Invest Program and achieving the statutorily mandated statewide emissions limits. However, this could increase leakage risk if EITE facilities are not able to pass through compliance costs or decarbonize their operations to reduce their compliance obligations during the 2030s and 2040s.

This challenge can be partially addressed by implementing a consignment policy that requires EITEs to invest some of the value of their no-cost allowances in projects that decarbonize their operations.

In practice, such a policy would require that a percentage of no-cost allowances allocated to EITEs be sold at auction, instead of being used for compliance, and any revenue generated would exclusively be used by EITEs for approved decarbonization projects. While EITEs would receive

⁶ The CCA already enables Ecology to make as needed adjustments for individual EITE facilities in limited circumstances as defined in RCW 70A.65.110(3)(f).

fewer no-cost allowances that could be used for compliance, they would also reduce their compliance costs through proactive investment in decarbonization projects. This would help mitigate leakage risk and maintain local jobs by directly incentivizing EITEs to invest in upgrades that reduce greenhouse gas emissions at their Washington facilities. It would also temper the impacts of implementing a cap adjustment factor by making these funds available to EITEs, instead of being appropriated by the Legislature for other climate and air quality projects.

This consignment approach was recently [adopted by Québec](#) for EITEs within its carbon market. California has also [proposed a similar policy](#) that would provide additional allowances to EITEs if they invest the value of those allowances in approved decarbonization projects.

Some of the key considerations in developing a consignment policy for Washington include:

- How to determine the number of EITE allowances that should be consigned to auction.
- How to determine which decarbonization projects can be funded with the value of EITE consigned allowances. For example, how to account for different technologies and strategies to decarbonize EITEs in Washington, and implementation timeframes.
- How to ensure that funds are being used to achieve emission reductions.

To help inform its recommendations, Ecology is seeking feedback on the following questions:

- What factors should be considered when identifying the number of EITE allowances to be consigned to auction?
- What types of EITE decarbonization projects should be funded and how should they be identified? For example, eligible projects could be specified in rule or identified by EITE facilities through technical assessments that are submitted to Ecology.
- What types of facility-specific factors need to be considered in relation to decarbonization projects? For example, project timelines, facility turnarounds, and permitting requirements.
- What type of reporting requirements should be used to ensure that funds are being used for approved decarbonization projects and achieving emission reductions?
- What type of flexibility should EITEs have regarding the use of consigned funds? For example, how long should consigned funds be available, and should EITEs be required to prioritize projects with co-benefits, such as reducing air pollution?

Focus area 4 – Additional state policies or strategies to support the reduction of emissions and decarbonization of EITEs (i.e. complementary measures)

EITE industries in Washington have opportunities to pursue decarbonization through several common pathways. These include energy efficiency, electrification, low carbon fuels, and carbon capture and storage. However, there are several potential barriers to decarbonization that need to be overcome. These include high up-front capital costs, permitting challenges, and access to stable and affordable clean electricity.

Many of these barriers cannot be addressed directly through the Cap-and-Invest Program and complementary measures are needed to support EITE decarbonization. These complementary measures generally fall within three broad categories:

Supply-side policies	Demand-side policies	Transition enablers
<ul style="list-style-type: none"> Grant programs Contracts for difference Green banks and lending mechanisms Subsidies and tax credits 	<ul style="list-style-type: none"> Green public procurement (e.g. Buy Clean and Buy Fair) Low carbon product standards Energy efficiency and/or clean heat standards 	<ul style="list-style-type: none"> Infrastructure and grid enhancements Permitting and siting Environmental and safety regulations Technical assistance

As noted above, many jurisdictions with carbon pricing programs, including [California](#) and the [European Union](#), have adopted complementary measures to support EITE decarbonization and help mitigate leakage.

Some of these policies are included in Washington’s [Comprehensive Climate Action Plan](#), which was published in April 2026. Further information on the potential role of complementary policies can also be found in Section 8 of Ecology’s [January 2026 report](#). Some of the key considerations in assessing complementary measures for EITEs in Washington include:

- How to identify which state policies and strategies will be most impactful and make best use of state resources and capacity.
- How to ensure complementary measures work in tandem with the Cap-and-Invest Program to incentivize investment in decarbonization in Washington.

To help inform its recommendations, Ecology is seeking feedback on the following questions:

- Where is the biggest gap in Washington’s policy landscape for EITEs? In which category (supply-side, demand-side, transition enablers) is policy development most needed?
- What specific policies and strategies are likely to be most impactful for helping decarbonize EITEs in Washington? How should the state evaluate opportunities for needed complementary policies on an ongoing basis?
- Which complementary measures would create the greatest synergies with the Cap-and-Invest Program?

Policy and technical issues being considered throughout the report

Ecology is required to consider certain policy and technical issues in developing its recommendations regarding EITE allowance allocation for 2035-2050, including:

- The anticipated demand for allowances by EITEs and other covered entities through 2050. This refers to the total expected emissions from EITEs and covered entities that are regulated under the Cap-and-Invest Program.
- Potential deployment of emission reduction technologies and strategies by EITEs. This refers to facility-specific or industry-specific factors that influence the ability of EITEs to decarbonize, such as technical and economic feasibility.
- Potential impacts on Tribes and overburdened communities. This refers to the impact of future changes to EITE allowance allocation policy on Tribes, overburdened communities, and vulnerable populations, including local air pollution and the availability of state funds

for projects that benefit these communities. Further information on these potential impacts can be found in Section 9 of Ecology's [2026 report](#).

- Interactions with other state policies and programs for reducing greenhouse gas emissions. This means consideration of how other state policies and programs, such as the [Clean Fuel Standard](#) and the [Clean Energy Transformation Act](#), support the decarbonization of EITEs.

These issues will be considered in each of the four focus areas where applicable. **To help inform its consideration of these issues, Ecology is seeking feedback on the following questions:**

- How can impacts on Tribes, overburdened communities, and vulnerable populations best be considered in the design of EITE allowance allocation policies?
- What other considerations related to the policy and technical issues listed above should Ecology be aware of?
- Do you have any feedback related to these issues that has not been addressed above?

Further information

- [Ecology report to the Legislature on EITE allowance allocation 2035-2050](#)
- [Engrossed Senate Bill 6246](#)
- [Emissions-intensive, trade-exposed industries](#)

Questions

If you have any questions about EITE allowance allocation for 2035-2050 or other issues raised in this document, please contact Ecology at: CCAIEITEindustries@ECY.WA.GOV.

To stay updated on the progress of this report for the Legislature and other EITE related policy developments sign up for the [EITE Industries email list](#).