



July 28, 2011

Via Electronic Mail and ARB Online Comments Website

Mary D. Nichols
Chairman
California Air Resources Board
1001 I Street
Sacramento, CA 95812
(mnichols@arb.ca.gov)

IETA Response to the Supplement FED Analysis

On behalf of the International Emissions Trading Association (IETA), I write in support of the Air Resources Board (ARB) “Supplement to the AB 32 Scoping Plan Functional Equivalent Document” (SFED). IETA believes the SFED provides a lengthy, considerate and detailed analysis of available alternatives, appropriate to the circumstances under which it was required to complete the SFED.

IETA has been the leading voice of the worldwide business community on the subject of emissions trading since 1999. Our 160 member companies include some of California’s, America’s and the world’s largest industrial and financial corporations—including global leaders in oil, electricity, cement, aluminum, chemical, paper, and banking; as well as leading firms in the data verification and certification, brokering and trading, offset project development, legal, and consulting industries.

IETA extends its appreciation to ARB for its leadership in working to develop a comprehensive cap-and-trade program for the State of California, and for focusing on how this program will link to regional emissions trading programs like the Western Climate Initiative. While IETA favors a national cap and trade program, the absence of US Federal action at this time provides an opportunity for California regulators to demonstrate leadership in advancing the most cost-effective means to control emissions—namely a well-designed cap-and-trade approach with a robust and efficient offsets program.

ARB’s Supplemental Functional Equivalent Document (SFED)

In response to the lawsuit *Association of Irrigated Residents, et al. v. California Air Resources Board* (CPF-09-509562) and the related May 20, 2011 San Francisco Superior Court Ruling, ARB has submitted the SFED for consideration (under “CEQA review”) beyond its original Functional Equivalent Document (“FED”). The SFED has provided a materially expanded and revised analysis of the five GHG abatement alternatives – which included cap-and-trade as one of the alternatives – that were discussed in the FED.



IETA's Assessment of the SFED

IETA believes a well-designed cap-and-trade program will provide the most cost-effective means, of meeting GHG reduction targets. Cap-and-trade has been the environmental solution of choice for reducing acid rain pollution, phasing lead out of gasoline, and eliminating ozone-depleting gases. In each case cap-and-trade accomplished its environmental objectives ahead of schedule and below projected costs.

That being said, IETA recognizes that the importance of demonstrating that in the case of California, an emissions market is the most favorable option versus the alternatives. Out of the five alternatives evaluated in the SFED, ARB has demonstrated that only cap-and-trade focuses solely on the environmental result, both by result and by design. Direct regulation and taxation programs may favor specific outcomes in specific sectors but they do not approach GHG reductions in the aggregate. ARB's analysis of the five alternatives (No Project, Cap-and-Trade, Direct Regulation of Sectors, Carbon Fee/Tax, and Hybrid) evaluated each alternative's policy effectiveness across no fewer than 20 objectives, and only Cap-and-Trade had a high likelihood of meeting at least 19 out of 20 of those objectives.

The most differentiated alternatives to Cap-and-Trade – Carbon Fee/Tax and Direct Regulation – were found to have the lowest likelihood of meeting two critical policy objectives: 1) minimizing leakage and 2) creating linkages with other States'/Regions' abatement programs. Both of these objectives are high on the priority list of any well-designed cap-and-trade program.

Beyond these 20 Objectives, ARB's SFED cited numerous precedents of the five alternatives in its 120+ page analysis. For example, ARB analyzed a long list of policy fee/tax precedents which had been independently compiled by the Nicholas Institute at Duke University.

Regarding a carbon fee/tax as an alternative, IETA notes that ARB made a number of observations and evaluative statements that are broadly consistent with IETA's own analyses over time:

- When initially implemented a fee/tax provides a "point in time" signal of the price an entity will face for their emissions – but, that fee/tax would need to be dynamic over time, something that would be very difficult to implement in practice
- Fees/taxes do not guarantee a specific emission outcome because there is neither a regulated cap nor any prescribed performance standards over the regulated entities – just a one-size-fits-all that disregards one entity's ability to mitigate its emissions versus another's
- The criteria for reviewing carbon fees/taxes in different systems– such as a "pain threshold," "Social Cost," "Technology Goal," or "Comparable/Environmental" prices – were found to be variable, arbitrary, divergent, or subject to manipulation
- At best, carbon fees/taxes have found their way into larger comprehensive systems as in British Columbia and in various European countries – but there is no economic "gold standard" for evaluating whether these taxes can be viewed as effective, in isolation of their larger context

As a final observation: in the face of political reality in California, which requires a two-thirds supermajority to pass any new fees or taxes, it seems especially difficult to coalesce behind a policy of fees/taxes to incentivize emissions mitigation, especially since it would involve layers of approvals over



July 28, 2011

time, as new fees/taxes would need to be continually introduced to keep up with the requirements of AB-32 emissions reduction timeline.

Regarding direct regulation, various initiatives can aim for and achieve specific factory-by-factory standards. However, such specific government controls come at a very high cost: economists argue that direct regulation costs five to ten times higher than cap-and-trade. Neither California businesses nor California consumers can afford such costs in these difficult economic times.

Please do not hesitate to contact me, or Ethan Ravage in IETA's San Francisco CA office, for further information or with questions. Thank for you for the opportunity to provide comments.

Sincerely,

A handwritten signature in black ink that reads "Henry Derwent". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Henry Derwent
President and CEO