



AB 32 Implementation Group



Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

October 30, 2009

Dr. Lawrence Goulder
Chair, Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Comments submitted via email to: eaac@calepa.ca.gov

Dear Dr. Goulder and Committee Members:

The AB 32 Implementation Group, a coalition of more than 185 business, employer and taxpayer organizations, appreciates the opportunity to provide input to the important work of the Economic and Allocation Advisory Committee [EAAC].

We urge EAAC to recommend four solutions to CARB - that environmental justice concerns be addressed separate and apart from the design of the cap-and-trade program, that a broad use of offsets and the minimal use of auctioning would minimize the costs of greenhouse gas reduction, that the cap-and-trade program design link seamlessly with national and international programs, and that a sound economic analysis be completed as soon as possible under the guidance of the Legislative Analyst.

Addressing environmental justice issues while minimizing costs of a cap-and-trade system:

One of the issues EAAC is considering is how to design a cap-and-trade program to minimize costs while also addressing the environmental justice community's objective to reduce localized criteria pollutant emissions. Some comments suggest limiting offsets, creating community benefit funds with auction revenues and/or, assessing co-pollutant surcharges.

However, we support experts such as Harvard economist Robert Stavins, who have concluded that trying to achieve all of these environmental justice goals through the design of a cap-and-trade and offset program would lead to failure on all fronts.

The main purpose of AB 32 is to achieve maximum cost-effective reduction of greenhouse gas emissions. While co-pollutant benefits are an important element of the AB 32 goals, the bill is not the best mechanism for managing air pollutants already regulated under the state and federal Clean Air Acts.

A better way to approach both goals is to separate the two objectives and focus resources to achieve the desired results. In this case, environmental justice concerns can best be addressed through complementary policies that identify, quantify and apply remedies directly on criteria pollutants in neighborhoods of concern. This approach avoids sacrificing the many economic and environmental benefits of a robust cap-and-trade program while targeting environmental justice concerns more effectively.

As we have previously communicated with you, the elements for an environmental justice program would include:

1. Setting appropriate criteria for a localized co-pollutant program to address any increase in localized air pollution resulting from the GHG cap-and-trade/offset program. Calculate an appropriate co-pollutant emissions reduction target, limited to any increase of co-pollutant emissions resulting from a cap-and-trade/offset program, minus co-pollutant reductions achieved from other regulatory elements of the AB 32 Scoping Plan.
2. Commensurate funding for the program limited to the criteria outlined above, if revenues are raised in a cap-and-trade program.
3. Providing these funds to local air districts based on the population in the district. Most local air districts already have programs to reduce emissions impacting environmental justice communities such as Moyer Funds, and have the expertise to effectively use these funds to supplement those programs or create other programs for this purpose.
4. Ensuring that co-pollutant emissions reductions are achieved in conjunction with an activity that provides GHG reductions.

Minimal use of auctions and a broad use of offsets to meet the AB 32 GHG emissions reduction goals:

A successful cap-and-trade program would include a minimal use of auctions and would allow a broad use of offsets. Such a program would provide cost-effective and quantifiable GHG emission reductions.

Auctions would act as a new tax on California employers. Depending on the per unit cost of allowances, auctions could increase operating costs for California businesses from \$760 million to \$39 billion a year. Increasing costs would hurt jobs, promote leakage and raise costs for consumers.

Because of the risk of damage to California's economy, EAAC should carefully consider to what extent the imposition of auctions and the use of auction revenues would further the goal of reducing GHG emissions. If auction revenues were only applied to GHG reduction projects, this goal would arguably be achieved. However, this result is not likely. Given California's structural budget deficits, projected to extend many years into the future, and the history of special fund transfers and "raids" to pay for general fund expenses, auction revenues can't be protected. Even now, you are hearing requests from numerous special interests with their ideas how to direct the monies. This advocacy will continue after EAAC has completed its work.

Offsets are critical to the successful implementation of cap-and-trade in California. On-site reductions may be extremely expensive, may not be feasible in early years of the program, or may require technology not ready for prime-time. In addition to lowering costs and mitigating the leakage issues mentioned above, a vibrant offset market would bring entities not subject to the cap into the market. They could develop and sell offsets to larger companies, lower energy costs, and bring in new revenues.

Cap-and-trade program design should link seamlessly with national and international programs.

Climate policies will only help the environment if they are widely adopted and enforced throughout the world. The California cap-and-trade program will be imposed on the largest

companies in the state, most of which are only a part of larger families of commonly-owned or operated facilities. We should put a high priority on minimizing complexity and costs, thus keeping our state and national industrial base strong. For this reason, ensuring that companies can seamlessly participate in the cap-and-trade programs across borders is very important. The world is watching to see if California will be able to resist local parochial pressures and develop a program that works in California and is a model for the rest of the world.

Critical need for a sound economic analysis to support the rules and regulations set forth in AB 32's Scoping Plan:

As you know, CARB peer reviewers and the independent Legislative Analyst concluded that the scoping plan economic analysis was fatally flawed and does not provide reliable guidance to decision-makers. EAAC has been asked to recommend a better approach for the analysis. The importance of this task is highlighted by the publication of outside studies that show significant costs.

For example, those studies indicate that in some parts of California electricity rates could increase by 60% (SCCPA), transportation fuels would be nearly \$4 billion a year (Sierra Research), and that the costs on small businesses to implement AB 32 would be roughly \$40,000 for each small business in the state and the loss of nearly one million jobs (Sacramento State University). The public is confused by the difference between CARB analysis and these studies. They are increasingly concerned that CARB is not providing reliable estimates.

Getting AB 32 implementation back on track requires a new analysis that can be a firm foundation upon which future regulations are built. We suggest that the Legislative Analyst be consulted and oversee the new economic analysis. The LAO has the experience, credibility and trust of all stakeholders. Bringing us together with a unified view of AB 32 costs and benefits will ensure AB 32 implementation is not delayed.

Conclusion:

We recognize EAAC has worked very assiduously to accomplish its work to date in an effort to finalize a document to present to CARB in December. We hope you will take our comments under advisement as you continue your efforts. We would be happy to further discuss any of the above-mentioned concepts with you as we all work toward creating a program that will serve California well and become a model for a national and international program.

Sincerely,



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