

To: CARB Cap and Trade Program Development Team

*Submitted Electronically*

From: California League of Food Processors

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**CLFP Comments on Cap-and-Trade Proposal, May 17**

The California League of Food Processors (CLFP) recognizes the significant amount of effort that Air Resources Board (ARB) staff has devoted to developing the proposed cap-and-trade regulation and appreciates the opportunity to comment on the proposal. CLFP believes that the market design is critical because the potential economic impact of the greenhouse gas (GHG) cap-and-trade program on the food processing sector will likely be quite significant.

Simply put, the economic stakes are high, and the cap-and-trade program must function properly from the first day of trading or risk a loss of confidence by participants and other stakeholders.

**The Economic Impact of the Cap-And-Trade Program on Food Processors**

The food processing community is very concerned about the costs, regulations, and risks inherent in implementing an emissions trading program that will affect virtually every sector of California economy. Most of the direct costs would be borne by about 600 facilities, including 38 food processors.

Food processors and other manufacturers will have to adapt quickly to the low-carbon business landscape, and many will need substantial financial resources to develop and implement new technologies and practices. Some firms may not survive this transition, as they do not have the financial resources or are unable to make large reductions in GHG emissions due to technical or production considerations. The risk to the state’s economy is potentially enormous, especially if a similar regional or national program is not implemented in the near future.

To help ensure that the program is as cost effective as possible, CLFP makes the following recommendations:

**Auctioning of Allowances**

CLFP opposes any market design that relies upon the auctioning of allocations as it would be too costly to businesses. CLFP believes that in the first five years that most, or all, of the allowances be granted to the market participants to ease the transition into the cap and trade market.

While the ARB understands that the auctioning of emissions credits will add compliance costs to firms, the ARB should also acknowledge that many firms have already incurred substantial expenses to comply with other criteria pollutant regulations and environmental mandates. Even at relatively low auction prices, most participants will likely incur several hundred thousand dollars per year or much more in costs. Food processors are price-takers, it will be difficult for most firms to absorb these costs or pass them on to buyers in the highly competitive food processing industry.

**Leakage exposed industries**

Increased operating costs will affect the ability of California food processors to compete with rivals in other states or nations. Food processing is a highly competitive business that tends to be characterized by relatively low financial margins. CLFP believes that if the compliance costs become too high a number of food processors will become uncompetitive and lose customers and business to competitors not burdened with added compliance costs..

CLFP also opposes using auction revenue to fund any of programs that do not directly relate to reducing long-term greenhouse gas emissions. Auction revenue should be dedicated first to transition assistance to reduce or prevent losses due to leakage related to higher prices and lower profits or to offset costs resulting from modification or retrofit of existing operations or the purchase of new equipment to reduce onsite GHG emissions necessary in meeting compliance goals.

**Benchmarks**

Most California industrial sectors are global players; this includes the food processing industry which competes with rivals in other states and is subject to strong international competition. In establishing a emissions benchmark, it is vital that the ARB recognize that food processing is an energy intensive and trade sensitive sector that has an important role in the California economy.

Additionally, any benchmarking formula needs to consider the investments and efficiencies already put in place by California companies.  The benchmarking approach should serve to reward or at least recognize those investments and efficiencies. Most facilities will incur large costs if they modify their operations or purchase new equipment to reduce onsite GHG emissions.

**Offsets**

Offsets represent an important cost containment tool for many food processors and producers. CLFP continues to strongly advocate that ARB not take a restrictive approach to the use of emission offsets by cap-and-trade program participants such as limiting the number or percentage of offsets that can be used; the geographic location of offsets; or the types of offsets that would be eligible. ARB should instead focus on the quality of offsets; that they meet the requirements of being real, additional, quantifiable, verifiable, and permanent. As long as offsets meet that rigorous standard then their use by regulated entities should not be limited for compliance purposes.

**Compliance Periods**

CLFP supports a minimum three-year compliance period to provide firms with a sufficient planning horizon and to cope with annual fluctuations in production and sales. However, CLFP opposes ARB’s proposal to have an annual compliance true-up. The annual true-up will negate much of the advantages of having a three-year compliance period, as firms will be forced to make investments on an arbitrary annual basis rather than based on the most cost effective path.

**Future Federal Cap-and-Trade Programs**

ARB should ensure that its cap-and-trade program will link directly to a U.S. federal program and to regional programs such as the Western Climate Initiative. Although California has been a leader with respect to climate change, California businesses will suffer and environmental goals will not be met if regulators do not closely coordinate and link market programs. CLFP believes that a “go-it-alone” approach is not a viable option.

CLFP looks forward to continuing the dialogue with ARB regarding the structure of the cap-and-trade program and how it can be best shaped to minimize compliance costs and preserve the viability food processing industry in California.