

CLIMATE CHANGE POLICY COALITION

To: Mary Jane Coombs
Fr: Climate Change Policy Coalition
Date: June 10, 2016
Re: Climate Change Policy Coalition Leakage Study Comments

The Climate Change Policy Coalition [CCPC] is a diverse group representing California's large and small employers, cap-and-trade regulated entities, taxpayer groups, agriculture interests and building and planning experts. We advocate for policies to reach AB 32 greenhouse gas [GHG] emission reduction goals in a cost-effective and technologically feasible manner to protect jobs and the economy.

Our comments today are in response to – and to meet the comment deadline -- the recently released Leakage Studies. CCPC appreciates the work completed by the study authors and California Air Resources Board ARB staff [ARB] in developing the studies; however we remain disappointed our request to extend the comment deadline was not granted. While CCPC remains compelled to stress ARB is currently limited in scope by the language held in AB 32 and has not received legislative authority to address post-2020 emission reductions we must also participate in the process as climate change policies continue to be developed.

Although we have been assured these initial comments are 'informal' and stakeholders can submit comments in the future, the purpose of comment submissions is to help inform staff and the ARB Board on the Leakage Studies outcomes and any necessary policy changes. Therefore, taking more time on the front end of the review process will create more certainty for all stakeholders.

It is fair to note that the researchers had over 2 years to complete these studies. Providing stakeholders less than a month to review them seems unfair and unduly hasty. We take very seriously the success of the cap-and-trade program and the economic impacts of business leakage. Too great a reliance on these initial study results, without extensive and thorough analysis and vetting, may hinder important necessary policy revisions to provide vital changes to maintain the integrity of the program.

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This 'front end' review will allow an equitable opportunity to analyze and understand the findings, analyze the available data and the methodologies employed, and to replicate the findings, if possible, where necessary. This type of opportunity demonstrates a mutually collaborative effort to ensure the cap-and-trade program is working as it was designed to do.

Given that ARB intends to use the findings of these leakage studies to inform future amendments to the cap-and-trade regulation, specifically the industry assistance factors for the third compliance period and leakage risk categories going forward, it is critical that stakeholders have the opportunity to thoroughly review and critique the work of the contracted entities.

We are also concerned that while we have these studies for comment we do not understand how they will be interpreted by ARB to modify critical elements of the cap-and-trade program. CCPC represents many stakeholders both large and small (*we also represent some sectors which were not studied*) that will be impacted if significant changes are made to ARB's industry assistance factors. Without understanding how the studies will be used and which elements ARB will rely on for its leakage and trade exposure policies significantly reduces our ability to understand the significance of study elements.

Additional concerns include the use of pre-recession data to estimate post-recession impacts. The Haas study prepared for ARB in 2012 summarized that "Leakage works through changes in relative production, investment and trade flows which are observable in principle." We are observing them now. A harsh example comes from the California Manufacturing and Technology Association's data analysis and released in late May 2016. "Since the recession ended in 2010, California has failed each year to attract more than two percent of the country's manufacturing investments. The sector's employment has also lagged the US, with [3.4 percent growth](#) in California compared to 7.3 percent nationally. If California had kept pace with the nation since the recession, we would have at least 50,000 more high paying manufacturing jobs and more than 1,500 new manufacturing investments."

In light of the above concerns, CCPC makes the following recommendations:

- If ARB perseveres with post-2020 planning (*without explicit Legislative direction*) it ought to inform stakeholders the timeline of Leakage Study updates;
- Calendar another Leakage Study workshop as soon as practicable following the close of this comment period so stakeholders may present peer reviewed conclusions from 3rd party economists (*supply stakeholders with the datasets from the studies*);

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- Use the additional Leakage Study workshop to review and publicly respond to stakeholder comments, concerns and suggestions; and,
- Appoint additional resources to review the Leakage Studies outcomes. The Economic and Technology Advancement Advisory Committee is in AB 32 statute [AB 32, Part 7. Miscellaneous Provisions §38591 (d)] and could be used as a vehicle to reconvene a group that is a hybrid of ETAAC, EMAC and MSG to inform ARB and stakeholders.

We look forward to working with you on this and future climate change policy issues. Should you have any questions or need anything further please do not hesitate to contact Shelly Sullivan at (916) 858-8686.