CALIFORNIA
MANUFACTURERS
& TECHNOLOGY
ASSOCIATION

Michael Shaw
Vice President, Government Relations

January 20, 2017

Ms. Mary Nichols
Chair
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: California Manufacturers & Technology Association (CMTA) Comments on the California Cap on Greenhouse Gas Emission and Market-based Compliance Mechanisms Regulation (December 21, 2016) 15-Day Comment Period

Dear Chair Nichols,

The California Manufacturers & Technology Association (CMTA) respectfully submits the following comments in response to proposed amendments to the Air Resources Board (ARB) *California Cap on Greenhouse Gas Emission and Market-based Compliance Mechanisms Regulation* (Cap and Trade) based on the 15-Day amendment released December 21, 2016.

CMTA works to improve and enhance a strong business climate for California's 30,000 manufacturing, processing and technology based companies. Since 1918, CMTA has worked with state government to develop balanced laws, effective regulations and sound public policies to stimulate economic growth and create new jobs while safeguarding the state's environmental resources. CMTA represents 400 businesses from the entire manufacturing community -- an economic sector that generates more than $230 billion every year and employs more than 1.2 million Californians.

Overall, CMTA believes that a well-designed cap and trade is the most cost-effective method for achieving GHG emissions reductions while limiting the impact to California’s economy. Enabling companies to choose the most economical method for reducing emissions will limit the negative effects of imposing the compliance costs on California manufacturers when no other competitive market also imposes such costs on their manufacturers.

While CMTA believes that the overall concept of a market-based mechanism is an appropriate and necessary alternative, there remains several key issues in the draft regulations that must be addressed prior to approval.

Insufficient Industry Assistance Risks Leakage

AB 32 required the ARB seek to limit leakage of emissions out of California in its implementation of GHG reduction regulations, including the market-based mechanism. As a part of the program, ARB initially allocated 90 percent of necessary allowances to meet compliance obligations to ensure that the regulations did not result in emissions leakage, also known as the loss of emissions to other jurisdictions. ARB later extended the initial allowance allocation into the second compliance period to maintain leakage protection.

CMTA appreciates that ARB backed off an earlier plan to reduce allowance allocation in the Third Compliance Period (2018-2020) as this would have placed California manufacturers in a very awkward and challenging spot. However, it is troubling to see that ARB staff would propose massive reductions across numerous industry sectors for the spot-2020 period. With some sectors facing reductions in industry assistance to as little as three percent, the risk of leakage becomes unacceptable.

It is important to note that this is not necessary to meet California's AB 32 (2006) goals or those established under SB 32 (2016).

CMTA believes that given the significant economic impact represented by the allowance allocation process demands that ARB maintain the current allowance allocation through 2020 and beyond.

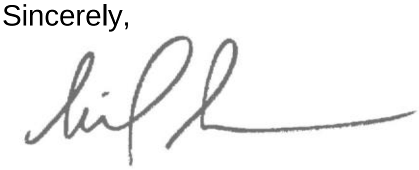
Maintain Industry Assistance at 100 percent

CMTA continues to recommend that ARB maintain industry assistance at 90 percent through the Third Compliance Period and post-2020 for all industry sectors. This change would delete the planned drops for medium and low leakage risk categories to 75 and 50-percent and beyond resulting in greater protection against emission leakage and job loss.

California manufacturers support the development of a well-designed cap and trade program to provide a cost-effective mechanism for reducing GHG emissions.

If you have further questions, please contact me at mshaw@cmta.net or (916) 498-3328.

Sincerely,



Michael Shaw