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California Air Resources Board
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IETA COMMENTS TO CALIFORNIA AIR RESOURCES BOARD
2030 TARGET SCOPING PLAN CONCEPT PAPER

On behalf of the International Emissions Trading Association (IETA), we appreciate the opportunity to provide comments on California Air Resources Board's (ARB) "2030 Target Scoping Plan Concept Paper", released on 17 June 2016. Cap-and-trade must continue to be a cornerstone policy instrument to help California successfully reach its ambitious climate targets. An active and vibrant carbon market drives market efficiencies and clean private investment, essential for cost-effectively achieving real emission reductions in California. At this pivotal juncture, IETA strongly believes that **post-2020 inclusion of the cap-and-trade program best positions California to achieve its climate targets with environmental certainty, while strengthening California's growing role as a global climate leader.**

IETA's comments are structured around three main sections:

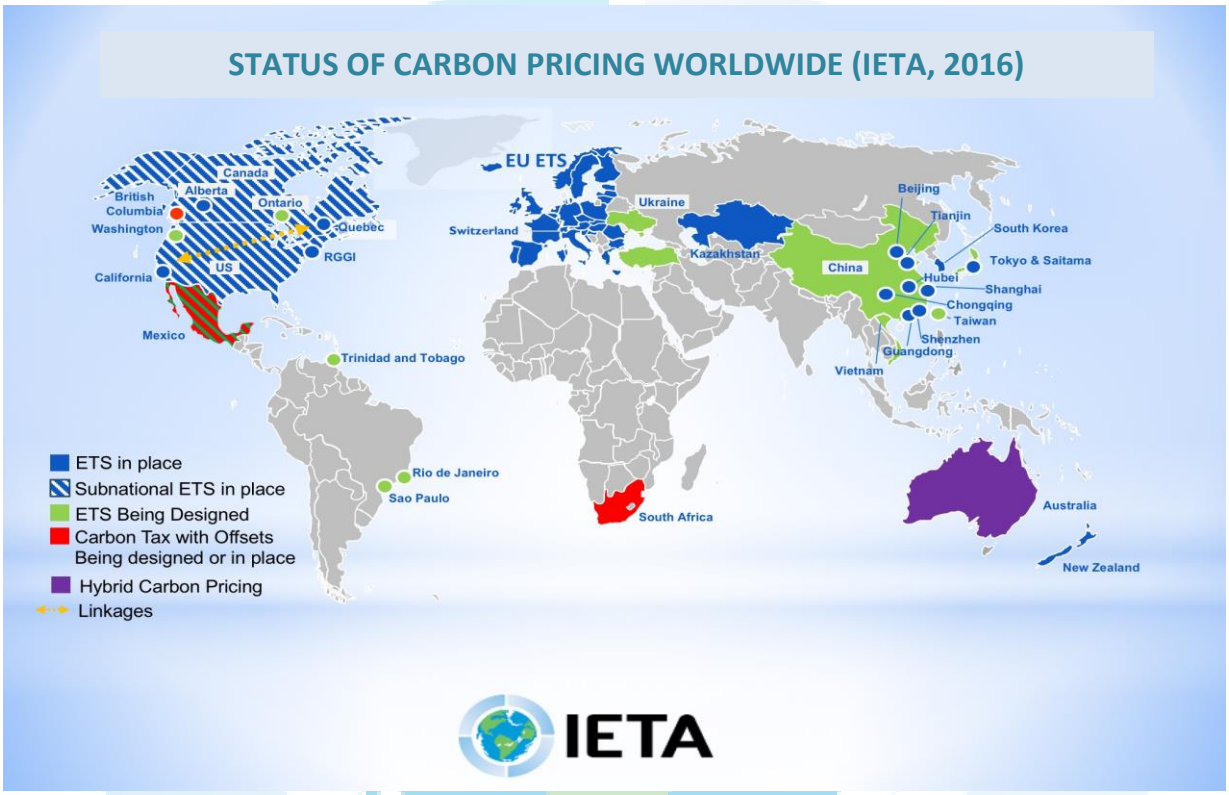
- **Section 1** outlines carbon pricing international trends and markets, evidencing why now is not the time for California to abandon cap-and-trade.
- **Section 2** highlights why California's post-2020 climate policy architecture must include a fully-functional market mechanism.
- **Section 3** provides priority considerations on the use of complementary measures post-2020.

KEY MESSAGES IN SUPPORT OF POST-2020 CAP-AND-TRADE IN CALIFORNIA

1. Cap-and-trade **ensures emissions reduction certainty**.
2. Cap-and-trade achieves **measurable emission reductions at least-cost**.
3. Cap-and-trade enables **cross-border program linkages, cooperation, and partnerships**.
4. Cap-and-trade can most **effectively respond to macro-economic fluctuations**.
5. Cap-and-trade drives **economically-rational, low-carbon innovation solutions**.
6. Cap-and-trade can best **support low-carbon transitioning for business and consumers**.
7. Cap-and-trade can **address industry competitiveness and leakage concerns**.
8. Cap-and-trade provides a **global response to a global challenge**.

SECTION 1: CARBON PRICING INTERNATIONAL TRENDS & MARKETS

As illustrated in IETA's carbon pricing map, over 40 national and 20 subnational jurisdictions – representing 25% of global GHG emissions – currently use some method of carbon pricing. Since 2009, greenhouse gas **cap-and-trade programs have predominantly driven the exponential growth of carbon pricing worldwide**.



The **International Carbon Action Partnership (ICAP)'s Status Report 2016** delves further into global carbon pricing figures and coverage. The report, released in February 2016, shows that **40% of global GDP is now covered by a GHG emissions trading system.** This figure is projected to increase to nearly 50% of GDP by 2017, once China implements its national cap-and-trade program by next year.

Spurred by **Article 6 of the Paris Agreement,** this bottom-up carbon pricing momentum, particularly regarding international trading and market linkages, will continue to build. Detailed considerations about the implementation of Article 6 are shared in IETA's May 2016 report, "**A Vision for Market Provisions of the Paris Agreement**" and IETA-EDF's April 2016 Joint Report, "**Carbon Pricing: The Paris Agreement's Secret Ingredient**".[1]

[1] *All referenced reports can be accessed via the IETA homepage: www.ieta.org.*

These figures and trends tell the story, and the message is clear: **market mechanisms, and specifically cap-and-trade, have become the primary policy tool to tackle climate challenges, and this approach is here to stay.** We urge California to focus on strengthening and expanding its cap-and-trade program rather than consider abandonment post-2020. This is particularly important, given the increasing number of North American jurisdictions considering adopting market mechanisms and linkage opportunities with California's market. ARB is ideally-positioned to leverage its considerable experience and explore opportunities to continuing being a leader in shaping the world's future carbon pricing landscape.

SECTION 2: WHY CALIFORNIA MUST CONTINUE WITH CAP-AND-TRADE POST-2020

1. MAINTAINING CLIMATE LEADERSHIP & ENSURING CLEAN INVESTMENT & CERTAINTY

A number of California's largest and most prominent businesses have made substantial investments that heavily depend on the continued existence of the state's cap-and-trade program. As noted in IETA's May 2016 **Amicus Brief** filed in support of ARB, an estimated $10 billion worth of unused allowances are owned by various entities and remain outstanding assets in the marketplace.[2] In addition, many tens of thousands of Californians are employed by the holders of these allowances. The cap-and-trade program has also provided **significant additional program funding to help California communities become more climate resilient and sustainable.** Eliminating the market post-2020 means an elimination of these funding sources into worthy community-initiatives and their associated co-benefits.

2. ACHIEVING ENVIRONMENTAL OUTCOMES AT LEAST COST

The distinctive feature of a cap-and-trade program is its ability to **deliver certainty on program outcomes** (i.e., measurable reduction of GHG emissions) **at least-cost to consumers and businesses.** Environmental certainty cannot be assured though a carbon tax, as proposed in Concept 4 of ARB's Paper, while over-reliance on complementary policies cannot assure these outcomes are cost-effectively achieved.

California's ambitious post-2020 climate targets require significant, cross-sectoral accelerations in deep GHG reductions. Consequently, **it is more important than ever that harnessing the power of the market, and eliciting GHG reductions at least-cost, serve as a cornerstone measure of California's climate policy.**

3. BALANCING ENVIRONMENTAL & ECONOMIC OUTCOMES/OBJECTIVES

Flexible policy mechanisms enable strategic planning, investment and preferred routes to compliance. Under a trading program, business can make the most efficient strategic planning, clean investment and productivity choices. With clear and stable rules, business can select preferred routes to compliance based on costs for market (tradable permits or offsets) or internal abatement opportunities.

[2] *IETA-Led Coalition. Letter Brief of Amicus Curiae. Filed 23 May, 2016.*

Ability to respond to macro-economic shifts and trends. Historical price data shows that flexible pricing systems respond to economic downturns with lower prices on carbon – this ability to respond to economic shocks is unique to emissions trading. Unlike the politicized nature of a tax, particularly in California and the U.S., enabling the open market to set the price of carbon allows for better flexibility and avoids price shocks or undue burdens. As seen in the EU and the nine-state US cap-and-trade collaborative, Regional Greenhouse Gas Initiative (RGGI), prices will fall during a recession as power demand and industrial output (and therefore GHG emissions) fall.

4. STRENGTHENING CLIMATE PARTNERSHIPS & COLLABORATION

Trading allows for market linkages, enabling business to capture a wider range of clean project and investment opportunities. A key advantage of cap-and-trade is its ability to connect cross-border systems, creating markets at scale with access to broader pools of cost-efficient emission reduction options. Along with addressing competitiveness and carbon leakage concerns, linking leads to price convergence across systems and efficiency gains across jurisdictional partners.

Linking reduces program and compliance costs by broadening the scope of available mitigation opportunities, while improving price discovery and sparking competition to innovate and mitigate. Linking also increases market liquidity and can reduce transaction costs by involving more market participants, which also lowers the potential for market manipulation.

Rather than abandoning the market at this critical juncture, ARB's post-2020 focus should be on a carefully-designed, well-executed linkage with Ontario. It should also explore opportunities to collaborate with other sub-national programs and leverage the state's invaluable experiences and lessons to build on California's remarkable reputation as a global climate policy leader.

SECTION 3: PRIORITY CONSIDERATIONS ON COMPLMENTARY MEASURES

IETA recognizes that all of the (4) scenarios in ARB's Concept Paper, including Scenario 1 with the post-2020 cap-and-trade program, include increased reliance on non-market measures. These non-market measures can play important roles in helping to reduce GHG emissions, support key sectors and technologies, and influence consumer behaviour. However, as we have stressed in previous submissions**, complementary measures can also create inefficiencies and higher overall program costs if not designed to ensure that they are truly complementary with California's cap-and-trade program.**[3]

[3] See for example, *IETA Comments to California Air Resources Board (ARB): 2030 Scoping Plan Update & Economic Analysis Workshop*, submitted 29 January 2016.

1. ENSURING TRANSPARENT & TRULY COMPLEMENTARY WITH THE MARKET

Post-2020 complementary mechanisms must be designed to ensure that they are both transparent and truly complementary with California's linked cap-and-trade program. Inhibiting market program functionality and efficiencies will ultimately stifle California's ability to drive reductions at least-cost. Most of the complementary measures, meanwhile, dictate from where reductions will come without changing the total amount of GHG emissions allowed under the cap. By mandating how GHG emission reductions will be achieved, Californians are forced to finance less economically-efficient solutions without having a clear picture of the costs and benefits of a program that has no real impact on total GHG emissions. Other policy coordination measures could be implemented to ensure that certain inefficient impacts on California's cap-and-trade program are minimized.

Mandating further obligations by including covered entities in the scope of various "complementary" – likely prescriptive – measures undeniably overlaps with the market program. This situation also mitigates the power of the market while unnecessarily shaving demand for lower cost reductions and flexibility options. Depending on sector coverage and design, the layering-on of additional compliance obligations will potentially heighten costs and adversely impact opportunities to link with other jurisdictions.

2. TRANSPARENT & FREQUENT POLICY IMPACT ASSESSMENTS

In light of California's ambitious future climate targets, it is imperative that ARB and other agencies engage in transparent and inclusive *ex-ante* and *ex-post* policy evaluations on cap-and-trade versus complementary mechanisms, and the interplay between them. **Comparability across measures should not only include cost per tonne ($/tCO2e) impacts, but this should be a key criterion or indicator to guide California's economic impact assessments and evaluations of policy options**.

***Ex-ante* evaluations of complementary mechanisms should assess the following types of questions**: Is the policy a market instrument? Are the costs of the policy transparent? Are the impacts of the policy transparent, particularly in terms of greenhouse gas emission reductions?

***Ex-post* evaluations of complementary mechanisms should be assessed according to the following key questions**: Are the most-efficient abatement options being developed? Are these additional policies being used to meet a specific environmental outcome that conflicts with cap-and-trade? What are the consequences of these other policies on regional energy markets?

*For more information on how IETA proposes that complementary mechanisms be designed with a focus on maximizing cost-efficiency, see our **Complementary Mechanisms Discussion Paper**.*

Conclusion

Once again, IETA appreciates this opportunity to share feedback on ARB's "2030 Target Scoping Plan Concept Paper". We look forward to engaging with Staff as Scoping Plan work and stakeholder engagement continues. If you have questions about these comments, please contact Katie Sullivan, IETA's Director of the Americas, at **sullivan@ieta.org**.

Sincerely,

Dirk Forrister
IETA President and CEO

ABOUT IETA. *For over 15 years, IETA has been the leading global voice of the business community on the design, implementation and evaluation of flexible mechanisms to harness the power of markets and private sector innovation to tackle climate change. Worldwide, our team and multi-sector membership work closely with governments (sub-national, national, and UN levels), multi-laterals, leading academics, and environmental groups to inform the design, expansion and overall functionality of these critical mechanisms. Our 140+ member companies include some of North America's - and the world's – largest power, industrial, and financial corporations, including leaders in oil & gas, electricity, manufacturing, mining, chemicals, and paper. Members also include leading firms in: data assurance and certification; brokering, trading and finance; engineering and clean technology; offset project development, aggregation, registries; and legal and advisory services.* ***www.ieta.org***