



C A L I F O R N I A
M A N U F A C T U R E R S
& T E C H N O L O G Y
A S S O C I A T I O N

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VICE PRESIDENT, GOVERNMENT RELATIONS

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California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: California Manufacturers & Technology Association (CMTA) Comments on the Cap-and-Trade Program Regulation – Next Steps for the Post-2020 Cap-and-Trade Regulation (ctoct122017wkshp-ws)

Dear ARB Cap-and-Trade Program Staff,

The California Manufacturers & Technology Association (CMTA) respectfully submits the following informal comments in response to the staff presentation at the October 12, 2017 workshop on the *California Cap on Greenhouse Gas Emission and Market-based Compliance Mechanisms Regulation* (Cap-and-Trade).

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 that generates more than \$230 billion every year and employs more than 1.2 million Californians.

CMTA believes that a well-designed cap-and-trade program 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. Therefore, CMTA supported the extension of the Cap-and-Trade program and looks forward to working with ARB staff on implementation of changes for the 2018-2020 compliance period (CP3) and beyond.

Industry Assistance Factors

Of primary importance to CMTA members are proposed changes to the industry assistance factors (AFs) that are designed and intended to protect against emissions leakage to other jurisdictions. Reducing AFs for industry translates into higher compliance costs that can mean lower levels of manufacturing investment in California, higher prices for consumers and greater GHG emissions globally.

Additionally, as noted by ARB staff in the presentation, a "100% assistance factor does not mean that entities are allocated all allowances they need to comply with the Program," and "By 2030, most industrial sectors will receive <50% of the allowances needed to cover compliance obligations." California manufacturers will be required to continue to reduce GHG emissions over time under the current regulation as well as staff proposed changes.

Continuing AFs at 100 percent is also consistent with the Legislature's intent in extending the Cap-and-Trade program as stated in AB 398 (Ch. 135, 2017), "*(G) Set industry assistance factors for allowance allocation commencing in 2021 at the levels applicable in the compliance period of 2015 to 2017, inclusive.*" CMTA supports the staff recommendation to maintain AFs at 100 percent for all industries in CP3 (2018-2020).

As CP3 will begin prior to the adoption of the Cap-and-Trade Program amendments, it will be critical that a clear communication be sent to entities and other market participants in order to minimize potential confusion.

Price Ceiling

AB 398 directed ARB to establish a price ceiling as a mechanism to limit the impacts to consumers of out-of-control carbon allowance prices. CMTA supports ARB's effort to implement this provision as directed in statute to consider, amongst other factors, the potential for environmental and economic leakage. Price containment plays a direct role in protecting consumer and manufacturers from higher prices that result from carbon reduction costs.

Additionally, the price containment points required under AB 398 are critical in maintaining a stable market that does not run prices up to high levels without some opportunity to consider the causes, ramifications and potential solutions. Establishing these points at levels low enough and distributed enough to have an impact without bunching up is an important consideration for staff going forward.

Banking Rules

CMTA supports efforts to limit speculation in the allowance market. However, the current rules appear to adequately protect against speculation. Any proposed changes to banking rules must consider the impact to the market, particularly as it relates to compliance entities that have an obligation under the Cap-and-Trade program.

Offsets

Offset credits provide an important compliance tool for manufacturers under the Cap-and-Trade program. The new limitation imposed on this tool should be interpreted based on a plain reading of the statute that would indicate up to two percent can come from projects that do not provide direct environmental benefits in-state. Incentivizing the development of offset credits in other jurisdictions is a way California can support global GHG emissions reductions.

Independent Market Advisory Committee

CMTA agrees with the ARB staff proposal to maintain the independence of this committee by prohibiting participation of those involved in the program design process.

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

Sincerely,



Michael Shaw
Vice President, Government Relations