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IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S WORKSHOP ON 2030 TARGET SCOPING PLAN UPDATE

The [International Emissions Trading Association](#) (IETA) welcomes the opportunity to provide comments on California Air Resource Board (ARB)'s [Public Workshop on the 2030 Target Scoping Plan](#), held on 7 November 2016. **California is entering a critical phase in its global climate action leadership.** IETA appreciates the effort that ARB is putting forth to understand the economic implications of different suites of climate change policy options for the California market. We are a staunch supporter of California's strong commitment to Cap-and-Trade and tangible environmental market links with other jurisdictions, the most cost-effective solution for businesses and consumers within the State to meet greenhouse gas (GHG) emission reduction targets.

IETA commends ARB's continued support of Cap-and-Trade as a vital, cost-effective cornerstone tool in California's climate policy architecture. We regard market solutions as the best means to: drive climate action and investment across key sectors of the economy; meet climate targets cost-effectively; and accelerate low-carbon transformative economic and societal changes.

KEY TAKEAWAYS AND RECOMMENDATIONS

A selection of IETA's key observations and recommendations to ARB are summarized below.

- 1. Non-Cap-and-Trade policy scenarios (Alternatives 1 and 2) will lead to substantively higher costs to both industry and California consumers without certainty of GHG emission reductions.** Cap-and-Trade is an extremely important market-based tool that will ensure measurable environmental outcomes and certainty that reduction targets are achieved in the most cost-effective manner, while also driving clean finance, investment and co-benefits across the state.
- 2. Reducing GHG emissions and improving local air quality should be addressed using separate and targeted policies.** While cross-over impacts exist, their respective objectives should be assessed and regulated independently, as to avoid inefficiencies and unnecessary costs.
- 3. California's leadership in utilizing a market-based mechanism to reduce GHG emissions is driving climate partnerships and adoption of climate policy beyond California's borders (e.g., Asia, Canada, etc.).** Regional and international linkages, which only occur if Cap-and-Trade exists within the State, allow for the flow of international capital to fund emissions reductions within California. Ontario and

Quebec are prime examples of markets where low-cost reduction projects for covered entities largely do not exist. By linking with the California system, capital from these markets can flow into California, funding local emissions reductions that would not occur in the absence of this linked market.

4. **Offsets are an integral aspect of California’s long-term strategy to contain costs and mitigate climate risks.** Carbon is a global pollutant and climate impacts to California are not jurisdictionally constrained to in-state reductions. California’s offset program drives **real additional reductions** both within and beyond state borders. Offsets also encourage climate action, clean investment and technology deployment across non-covered sectors – many of which are located in disadvantaged communities.

ALTERNATIVE POLICY SCENARIOS

The Reference (Cap-and-Trade) Scenario will minimize economic and job loss in California, while guaranteeing that the State will meet its climate target.

Although a carbon tax (Alternative 2 Scenario) can be used to put an explicit price on carbon, there is **no flexibility to easily adjust the price level to account for market response.** This leads to inefficiencies that are borne by the economy: carbon is either priced too high, putting an unnecessary cost burden on the consumer and industry; or, carbon is priced too low, not providing the right economic signal to drive emissions down to targeted levels. As has been evidenced in other jurisdictions, **a broad carbon tax can fail to achieve the required GHG emissions reductions committed to by the State.** For example, British Columbia’s carbon tax, introduced in 2008, is failing to reduce GHG emissions within the province. In fact, between 2011 and 2014, GHG emissions rose by 1.8 MtCO₂e in the province, and the jurisdiction is projected to see a **39% increase** in GHG emissions by 2030. Without additional climate action, British Columbia will fail to meet its legislated GHG emission reduction targets.¹

The adoption of prescriptive command and control GHG emissions reduction regulations (Alternative 1 Scenario) would result in even higher cost implications to California consumers and the broader economy. Under this scenario, California’s emissions-intensive, trade-exposed (EITE) industries facing international competition could easily be driven out of the state, leading to carbon leakage and counterproductive results. For other sectors, significant cost increases would be borne by the California consumer, with real potential for broad political backlash across a swath of California constituencies, including stakeholders in disadvantaged communities. Like the carbon tax scenario (Alternative 2), there is no certainty that California will meet its climate targets with direct regulations under Alternative 1.

Both the carbon tax and direct regulation scenarios will require incremental policies to reach GHG emission reduction targets, leading to increasingly higher costs and administrative burdens than necessary to achieve the same environmental outcome as the Cap-and-Trade Scenario.

¹ <http://www.pembina.org/reports/bc-emissions-backgrounder-2016.pdf>

SUPPORT FOR OFFSETS: CLIMATE & CO-BENEFITS

Offsets are an integral cost mitigation element of California's suite of climate change policies. Disadvantaged communities will be impacted to a larger extent by unnecessary cost burdens tied to addressing GHG emission reductions, as low-income households spend a higher percentage of their income on energy and transportation fuel.

IETA strongly opposes the reduction of the offset usage limit in California's Cap-and-Trade program post-2020. In fact, we strongly encourage ARB Staff and the Board to consider increasing offset usage limits under future compliance periods. Constraining the use of offsets will translate into higher compliance costs for California businesses and consumers – including those across disadvantaged communities – while impairing the State's ability to meet its targets for 2030 and 2050.

Missing climate targets is not an option. And failing to support communities that are most vulnerable to climate impacts is not an option. We recognize that many disadvantaged communities are exposed to the worst impacts of a changing climate. IETA believes that AB 197's requirement to "protect the state's most impacted and disadvantaged communities" necessitates reducing these communities' exposure to extreme weather events, heat, and drought – real and rising threats to all of us, but with disproportionately greater impact to those in society's most vulnerable communities. Indeed, the *California Environmental Health Tracking Program* has found that lower income households are subjected to greater climate change risks than wealthier households. In Los Angeles County, income disparity between the most and least vulnerable areas is 40%, while in Fresno County it is 55%.²

Offsets should be supported and enhanced post-2020, in order to drive vital climate and co-benefits across California communities. Some project examples include:

- **Yurok Tribe Sustainable Forest Offsets Project:** Improved Forest Management project at the mouth of the Klamath River in California. Revenue generated through offset sales enables the Tribe to improve wildlife habitat and forest health, conserve wildlife habitat, expand forestry employment, preserve culture and acquire land in their ancestral territory. Improved forest health provides additional benefits, such as preventing wildfires, which in turn reduces criteria pollutant emissions, leading to better air quality and health outcomes in the state.
- **Usal Redwood Forest Carbon Project:** One of the largest Improved Forest Management carbon projects in the country encompasses more than 49,000 acres of productive redwood/Douglas-fir forest located on the North Coast of California. Extensive restoration has been conducted while

² http://cehtp.org/faq/climate_change/community_vulnerability_to_climate_change_maps_and_results

sustainably managing the project to ensure carbon storage and fish and wildlife habitat maintenance for the long-term benefit of the region's citizens.

- **Pacific Rim Dairy Digester:** This 15,000 cow dairy in California's Central Valley installed a digester and 1 MW electric generating engine in late 2014. The installation of a digester has a number of localized environmental benefits. It eliminates ammonia emissions, which causes respiratory problems, and improves ground water and soil quality. Digesters significantly reduce pathogens associated with manure, preventing salmonella, E. coli and other dangerous pathogens that can contaminate local watersheds in disadvantaged communities.

CONCLUSION

IETA appreciates the opportunity to help inform California's proposed 2030 Scoping Plan Policy Scenarios and the future market. If you have questions or require more information, please contact Katie Sullivan, IETA's Managing Director of The Americas & Climate Finance at sullivan@ieta.org.

Sincerely,



Dirk Forrister
IETA President and CEO