



*We Help Bring California's Goodness to the World*

TO: Rajinder Sahota, Assistant Chief Industrial Strategies Division  
Jason Gray, Branch Chief – Cap-and-Trade Program  
California Air Resources Board

FR: John Larrea, Director Government Affairs  
California League of Food Producers

Date: March 16, 2018

RE: Cap-and-Trade Program / Amendments to Cap-and-Trade Regulation  
Workshop – March 2, 2018

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The California League of Food Producers (CLFP) appreciates the opportunity to provide comments on Board's proposed amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation. CLFP represents 47 industrial food processors in California. Food and beverage processing in California accounts directly for \$25.2 billion in value added and 198,000 direct full- and part-time jobs. Food processing reverberates through local and regional economies. On average for every \$1 of value added in food and beverage generated results in \$3.25 dollars in additional economic activity. Each job in food and beverage processing generates 3.84 jobs in total.

#### **INDUSTRY ASSISTANCE FACTORS**

CARB chose a market designed to minimize leakage utilizing a system of allowance allocation that includes industry assistance. CLFP supports CARB's recognition of this critical component of the state's cap-and-trade program expressed in Board Resolution 17-21 wherein the Board directed ARB staff to "propose subsequent regulatory amendments to provide a quantity of allocation, for the purposes of minimizing emissions leakage, to industrial entities for 2018 through 2020 by using the same assistance factors in place for 2013 through 2017."

Each one of the twenty-one CLFP members subject to the cap-and-trade regulation are threatened by competition, both domestically and internationally, due to increased costs of production from the state's carbon reduction policies. CLFP is relieved that CARB recognizes the importance of guarding against economic and environmental leakage and supports, wholeheartedly, CARB's efforts to ensure adequate, consistent, and valid industry assistance through market-based factors in cap-and-trade program through the **extension of the 100% industry assistance factor for all leakage classifications in the 3<sup>rd</sup> compliance period of 2018-2020.**

The Board's support for this amendment to the cap-and-trade regulation will protect many California families, businesses, and communities from dramatically higher energy costs while keeping jobs and industry in California and on track to meet the greenhouse gas emission (GHG) reductions goals.

However, other factors, such as the stringency factor or cap adjustment factors, which significantly limit the actual allowances received by facilities under the current allocation formulas, should also be revisited prior to the start of the fourth compliance period to ensure they are equitable and accurate for each industrial sector and do not unnecessarily harm facilities.

### **UNSOLD ALLOWANCES**

CLFP supports returning unsold allowances to the auction as it will enhance program stability and guard the cap-and-trade program against unforeseen disruptions in the economy.

### **Price Ceiling**

AB 398 requires that CARB establish a price ceiling and that certain prescribed considerations be used in establishing the price ceiling. CLFP believes that CARB should consider a more holistic approach to the establishment of a price ceiling. For instance, by giving thoughtful consideration to the likelihood of substantial increases in the cost of energy in California over the next decade and avoid relying on a forecasted social cost of carbon as a major determinant.

CARB should recognize that, at minimum, the price ceiling should be designed to minimize adverse impacts on the California economy and jobs as well as act as a bulwark against economic and environmental leakage and avoid threatening the long-term viability of the cap and trade program. A price ceiling set at \$150, without sufficient analysis, such as a failure to account for other regulatory driven cost factors will, among other detrimental effects on the market, contribute to uncertainty and increase the risk for leakage. The high end of the price levels proposed by CARB could lead to the suspension of the program well before the price ceiling or price containment points are reached. Additionally, overzealous pricing could discourage, rather than encourage, linkage within the WCI and other jurisdictions.

### **SPEED BUMPS (Price Containment Points)**

It is important that the price containment points be positioned so as to provide appropriate market signals, aid in mitigating extreme price volatility and, act as a warning flag for the legislature and stakeholders that the market needs attention. Practically speaking, the price containment points should function as market speed bumps, slowing upward price movements for a period of time so that stakeholders, CARB, and the legislature can evaluate abatement opportunities without risking substantial damage to the state's economy or to the industries subject to the state's compliance obligation under the cap-and-trade program.

## **OFFSETS**

Regarding the use of offset credits for compliance, AB 398 requires that a portion of the offsets surrendered for compliance are sourced from projects that provide direct environmental benefits in the state of California.

CLFP supports CARB Staff's proposal that a facility may meet up to 2 percent of a compliance obligation by surrendering offsets that do not provide direct environmental benefits in the state without any obligation to procure or be required to surrender an equivalent number of offsets that do provide direct environmental benefits in the state for the period 2021 to 2025.

Similarly, CLFP believes that offset projects whose address is physically located within the state of California should automatically earn designation as a project that delivers environmental benefits in the state.

CLFP adopts by reference the recommendations of the Carbon Market Compliance Association (CMCA) regarding offset projects located outside CA. CMCA recommends that CARB develop process that will allow an out-of-state offset project to apply for designation as a project that provides direct environmental benefits in state when a project address is physically located outside of the state of California. The assertion, evaluation, and decision regarding whether a project provides direct environmental benefits in California should be incorporated into the offsets issuance process in order to facilitate the development of projects that provide direct environmental benefits in the state, even when such projects may be physically located elsewhere.

## **CONCLUSION**

The decisions made by CARB on these future regulatory amendments will directly affect the CLFP members who have invested substantial amounts of capital in compliance costs and new technologies in an effort to comply with the state's ambitious environmental goals.

CLFP looks forward to continuing its involvement and working together with CARB throughout the stakeholder process.