CMTA
CALIFORNIA MANUFACTURERS & TECHNOLOGY ASSOCIATION

MICHAEL SHAW
VICE PRESIDENT, GOVERNMENT RELATIONS

March 2, 2018

Rajinder Sahota – Assistant Division Chief, Industrial Strategies Division
Jason Gray – Branch Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: California Manufacturers & Technology Association (CMTA) Comments on the March 2nd 'Amendment to the Cap-and-Trade Regulation' Workshop

Dear Rajinder and Jason,

The California Manufacturers & Technology Association (CMTA) respectfully submits the following informal comments in response to the staff presentation at the March 2, 2018 'Amendment to Cap-and-Trade Regulation' Workshop (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.

<u>CMTA continues to support a well-designed cap-and-trade program as the most cost-effective method for achieving GHG emissions reductions while limiting the impact to California's economy</u>. 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 CARB 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 CARB 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 proposal to maintain AFs at 100 percent for all industries in CP3 (2018-2020).

As CP3 has already begun, it is critical that adoption of this change to Cap-and-Trade take place in 2018 as staff propose and that clear communication be sent to entities and other market participants in order to minimize potential confusion.

Price Ceiling

AB 398 directed CARB to establish a price ceiling as a mechanism to limit the impacts to consumers of out-of-control carbon allowance prices. However, the CARB staff recommendation to set the price cap at $150 per ton is a major concern to California manufacturers that are in a competitive environment facing many other U.S. states and nations that do not account for the cost of carbon through energy prices or other production process costs.

CARB's own statements in the Standard Regulatory Impact Analysis (SRIA) on prior cap-and-trade amendments states, "*The Amended Regulation will result in a direct cost to individuals through an increase in the price of goods based on their carbon content. Incorporating the cost of Cap-and-Trade Program allowances into the price of carbon-based fuels increases the price of fossil fuels and the price of products based on their use of fossil fuels.*"

These costs are also imposed on manufacturers that have to account for these costs and may not be able to pass them along to consumers else they face even greater competitive disadvantages. Mitigating economic impacts has been a significant factor under consideration since the passage of AB 32 (2006) and must continue to be so.

OVER-SUPPLY

The discussion over the alleged "over-supply" of allowances is a fallacy that does not require immediate action by CARB. The current situation of unsold allowances demonstrates that the program is working well and should not be treated as a problem or opportunity to further squeeze California manufacturers simply because some believe it will not hurt.

These allowances actually represent an opportunity to prepare for the future as it is expected that compliance will be come a greater challenge for manufacturers in 2025 as allowance allocation shrinks due to the cap reduction factors and the overall cap drops. CARB would be wise to not take action on this issue until we see how the program is performing around 2025.

BANKING RULES

The need to preserve the ability to bank allowances is one of the major factors contributing to the continued success of the cap-and-trade program. The Banking provisions provide an opportunity to set the cap-and-trade market up for long-term stability and investment that drives GHG reductions. While there have been questions raised around banking we believe current rules in the cap-and-trade regulation do a good job of ensuring both transparency and market oversight.

CMTA looks forward to continuing work with CARB on implementation of the next phase of the cap-and-trade program. If you have further questions, please contact me at mshaw@cmta.net or (916) 498-3328.

Sincerely,

Michael Shaw
California Manufacturers & Technology Association (CMTA)
Vice President, Government Relations

The ability for obligated companies to forecast costs is important for planning and budgeting purposes. ARB's recent [March 2, 2018] presentation would have benefitted from an analysis of pegging all dollar amounts to the same year.

The ARB staff recommendation for the price ceiling for the cost of carbon resulting in $150.00 is of significant concern to CCPC. ARB's position is at odds with existing academic studies and ultimately could result in increasing gasoline to at least $1.50 per gallon.

We believe the ARB's "Standardized Regulatory Impact Assessment (SRIA) Proposed Amendments to the Cap-and-Trade Regulation" table clearly illustrates the potential impact of a high price ceiling on consumers.

From the ARB SRIA '**Direct Costs on Individuals'**

"The Amended Regulation will result in a direct cost to individuals through an increase in the price of goods based on their carbon content. Incorporating the cost of Cap-and-Trade Program allowances into the price of carbon-based fuels increases the price of fossil fuels and the price of products based on their use of fossil fuels."

As stated above, we appreciate the cap-and-trade program because it is intended to provide both a balance of environmental integrity and economic vitality in this market-based program. But the price ceiling numbers discussed at the March 2nd workshop equate to a significant increase will impact consumers and businesses across the state. What consideration is given to what they can tolerate, especially low-income consumers and small businesses? Additionally, none of this occurs in a vacuum, so the impact of outside factors must also be part of the equation or they will be compounded by setting an excessively high price ceiling on carbon allowances.

Earlier this year ARB released a draft concept paper including the placement of speed bumps in the price ceiling process.

OVER-SUPPLY

CCPC believes the so-called "over-supply" discussion is an issue looking for a problem and is nothing more than an indication of the success of the program in encouraging early compliance. What we're currently seeing in the cap-and-trade market relative to the business as usual forecast is indicative of the fact that the program is working. In fact, rather than calling this an "over-supply" issue this is an over-compliance issue where the state has actually been even more successful reducing its emissions than was originally anticipated.

The fact that the state has gone above and beyond what was originally expected with regard to GHG emission reductions should be celebrated, not considered to be a problem in fact, the state's Legislative Analyst's Office found that the supply question is potentially being driven by, among other things, the fact that command-and-control programs are reducing emissions more than originally anticipated suggesting that the current implementation may be the most efficient achievable in both reducing emissions and protecting the economy.

If that's the case, then perhaps ARB should look at dialing back some of the stringency of the state's command-and-control programs.
More importantly, no one can forecast what turns or factors will come into play that will significantly alter the impact of the post-2020 program on the obligated entities or on the state's economy. The ARB would be wise to take no action on the "over-supply" until at least 2025 giving the program time to reveal such impacts.