



October 22, 2013

Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Clerk of the Board:

Western Growers Association represents growers who provide 50% of our nation's fresh fruit and vegetables, 1/3 of the nation's fresh organic produce, and 99% of the nation's tree nuts. As such, we strive each day to grow and deliver a safe and secure supply of nutritious food for California, our nation, and the world. Our membership includes not only growers but also grower-processor companies. These companies cultivate the produce and then process it before it is shipped to restaurants, grocery stores, and other retail outlets located throughout our state and nation.

We are pleased to have this opportunity to discuss some concerns that we have regarding the implementation of the Air Resources Board's (ARB) Cap & Trade program. Food manufacturers (processors) are currently subject to the emissions cap if they reach the 25,000 metric ton emissions threshold during any three-year compliance period. This industry has been classified by ARB as having low emissions intensity and medium risk when it comes to trade exposure. While we appreciate the proposal ARB has made to maintain the current Industry Assistance Factor (IAF) of 100% for the 2nd compliance period and the subsequent raise from 50-75% in the third compliance period for the medium risk category, we strongly believe that a closer look needs to be taken at our industry on the issue of leakage risk classification. Thus, we are encouraged by the further study that ARB is currently undertaking on the food processing industry.

The out of state competition that our industry faces is very high. California processors are not easily able to pass the costs of participating in the auction along. Supermarket and big box companies as well as restaurant chains can and will dictate the price they will pay the farmer based not on California costs of production, but on the fact that they can source from farmers in other states and countries with lower costs. Please note that these costs do not occur in a vacuum. As mentioned above, many processors are also growers and shippers. They are already faced with cost increases in multiple areas including water supply and quality, pesticide management, and the administrative expense of ensuring regulatory compliance. For example, a Tier III farmer in the Central Coast could pay an annual fee as high as \$8,749 to the State Water Resources Control Board (SWRCB). In the Central Valley, similar water quality regulations being implemented soon are projected to double the costs that growers pay coalitions to monitor water quality.

The IAF has been designed to incentivize companies to continue production in California and is specifically gauged on an industry's ability to pass-on carbon costs. However, the cumulative increases



in regulatory costs that our industry experiences year after year is exacerbating our overall trade exposure and providing a strong disincentive to expand operations in California. For example, water fees paid by farmers to the SWRCB were just increased by 34.5%. When the Irrigated Lands Regulatory Program was initiated, farmers paid \$0.12 per acre in SWRCB fees. Now they pay \$0.75 per acre or more depending upon their location within the state and the size of their operation. This does not include dollars spent to implement new farm management practices. In some cases, food processors may simply decide that it is better to discontinue their California operations and shift them to another state as their trade exposure within California becomes too high. Many crops are viably grown in states outside of California. Research by the California Institute for the Study of Specialty Crops at Cal Poly San Luis Obispo found that California citrus growers pay \$347.12 per acre in regulatory costs while competing growers in Texas pay only \$31.71 per acre. This competitive imbalance has only worsened since this research was completed in 2006.

Agriculture is also heavily dependent on a stable water supply. With very little rainfall this past year, grower-processors are going to have to utilize more groundwater supplies for their operations. This will require additional groundwater pumping and the associated electricity cost of operating those pumps. Electricity bills will be further increased because of the passing along of Cap & Trade costs from the utilities. Grower-processors are also facing new water quality restrictions which include costly monitoring and reporting requirements. These are just a few important components that add to the overall trade exposure element.

Western Growers Association looks forward to continuing to work with ARB on the Cap & Trade regulation and especially on the leakage classification issue which is critically important to our food processors. Please do not hesitate to contact me if you have any questions or concerns.

Sincerely,

A handwritten signature in blue ink that reads "Matthew Allen".

Matthew Allen
CA Government Affairs Analyst