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IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S 2030 TARGET SCOPING PLAN UPDATE – DISCUSSION DRAFT

IETA welcomes the opportunity to provide comments on California Air Resource Board (ARB)'s ***2030 Target Scoping Plan Update Discussion Draft ("Discussion Draft").*** **California is entering a critical phase in its global climate action leadership and IETA commends ARB's continued support of Cap-and-Trade as a vital, cost-effective cornerstone tool in California's climate policy architecture.** 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.

STRUCTURE OF COMMENTS

IETA's comments on ARB's Discussion Draft Update are structured around the following categories:

1. Limitations of Carbon Tax (Alternative 2 Scenario);
2. Disadvantages of Direct Regulation on Facilities (Alternative 1 Scenario); and
3. Benefits of Cap-and-Trade.

LIMITATIONS OF CARBON TAX (ALTERNATIVE 2 SCENARIO)

1. **Carbon tax will fail to achieve the required GHG emissions reductions committed to by the State, if the price is not set correctly. Sufficiently high carbon price via tax may be difficult to secure.**

There is no environmental certainty of outcomes when using a carbon tax. If pricing is not set at a sufficiently high level, entities will simply pay the tax and continue to emit. This has been evidenced in many jurisdictions using this form of carbon pricing.

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]

[1] *http://www.pembina.org/reports/bc-emissions-backgrounder-2016.pdf*

2. **Carbon tax can lead to significant pricing inefficiencies, which are borne by the consumer.**

Although a carbon tax 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.

3. **Carbon tax would be a regression in California's global leadership on climate change.**

California's leadership on climate mitigation is unparalleled. The State's actions have driven global partnerships and adoption of climate policy – particularly carbon market action and cooperation – beyond California's borders to address GHG emission reductions (e.g., China). Changing course now and adopting a carbon tax would undermine California's leadership and could signal that California is wavering in its climate commitment – exactly the opposite of what is needed in the current national and international political climate. ARB should also consider the impacts that reforms to the program would have on current and potential partner jurisdictions.

4. **Carbon tax will require supplementary 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.**

Higher costs are borne by ratepayers and consumers: this would disproportionately impact lower income families, who typically are required to spend a higher percentage of their income on energy, transportation fuel and carbon intensive goods.

5. **Carbon tax revenue would not necessarily have to further GHG emission reductions or benefit disadvantaged communities.**

Tax revenue would go directly to the general fund and could be used for any number of purposes, including those having nothing to do with reducing GHGs and/or benefitting disadvantaged communities. While such programs could certainly continue, they would be jockeying for dollars with other programs with no climate-related impacts. California's thought leadership on environmental justice and cap and trade would be undermined as a result.

DISADVANTAGES OF DIRECT REGULATION ON FACILITATE (ALTERNATIVE 1 SCENARIO)

1. **Prescriptive command and control GHG emissions reduction regulations would result in significantly higher cost implications for California consumers and the broader economy.**

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. Among the three options, direct regulation would impose the greatest burden on California's economy. Exacerbating this is that direct regulation generates no revenue and, therefore, no avenue for clean economy investments.

2. **Direct regulations provide no certainty that California will meet its climate targets.** [2]

3. **Direct regulations would be a regression in California's global leadership on climate change.**

4. **Direct regulations will require incremental policies to reach GHG emission reduction targets.**

Incremental policies will lead to increasingly higher costs and administrative burdens than necessary to achieve the same environmental outcome as the Cap-and-Trade Scenario.

BENEFITS OF CAP-AND-TRADE

1. **Cap-and-Trade guarantees that California will meet its climate targets.**

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] https://energyathaas.wordpress.com/2016/11/21/looking-for-environmental-certainty-in-all-the-wrong-places/

2. **Cap-and-Trade fosters international linkages and momentum on climate policy.**

California's leadership on climate mitigation is unparalleled. Continuation of this leadership is imperative to the success of achieving the necessary global emission reductions needed to mitigate the adverse impacts of climate change. California cannot lose sight of the paramount importance and impact that its international leadership on markets is having on global climate policy. California is driving the adoption of collaborative partnerships through markets, linkages and trading during this critical phase in addressing climate change, resulting in far greater GHG reductions than California could achieve on its own.

Additionally, 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.

3. **Cap-and-trade will lead to facility level emission reductions, benefitting disadvantaged communities.**

California's 2030 and 2050 emission reduction targets are aggressive and will lead to significant GHG reductions across multiple sectors. The current Cap-and-Trade program's alignment of cap levels with these targets is a prudent policy position that will drive direct and local GHG emission reductions by covered entities due to the swiftly declining availability of allowances stemming from the stringency of the State's 2030 and 2050 reduction targets.

4. **Cap-and-trade provides the most cost-effective means to achieving California's climate targets.**

Cap-and-trade programs not only deliver outcome certainty and respond to macro-economic shifts, but they do so at least-cost to consumers and businesses. California's ambitious climate targets will require significant, economy-wide accelerations in deep GHG reductions. Cost-containment and achieving targets/reductions at the lowest possible cost should serve as core guiding principles as the 2030 Target Scoping Plan is drafted and finalized.

Offsets are an integral cost-containment 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.

CONCLUSION

IETA appreciates the opportunity to help inform California's 2030 Target Scoping Plan Update. If you have questions related to our input, contact Katie Sullivan, IETA Managing Director, at sullivan@ieta.org.

Sincerely,

Dirk Forrister
IETA President and CEO

ABOUT IETA: *IETA is an international non-profit business organization created in 1999 to serve businesses engaged in in market solutions to tackle climate change. We promote markets as most cost-effective and business-friendly means for delivering agreed-to environmental objectives. We pursue this vision with an eye to pragmatism, political reality and sound economics. IETA is the collective voice for the full range of businesses involved in carbon pricing worldwide. Further information is available at* **www.ieta.org**.