



MICHAEL SHAW
VICE PRESIDENT, GOVERNMENT RELATIONS

September 19, 2016

Ms. Mary Nichols
Chair
California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: California Manufacturers & Technology Association (CMTA) Comments on the California Cap on Greenhouse Gas Emission and Market-based Compliance Mechanisms Regulation

Dear Chair Nichols,

The California Manufacturers & Technology Association (CMTA) respectfully submits the following comments in response to proposed amendments to the Air Resources Board (ARB) *California Cap on Greenhouse Gas Emission and Market-based Compliance Mechanisms Regulation (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 -- an economic sector that generates more than \$230 billion every year and employs more than 1.2 million Californians.

Overall, CMTA believes that a well-designed cap and trade is the most cost-effective method for achieving GHG emissions reductions while limiting the impact to California's economy. 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.

While CMTA believes that the overall concept of a mark-based mechanism is an appropriate and necessary alternative to other options proposed under the 2030 Scoping Plan Concept Pape, there remains several key issues in the draft regulations that must be addressed prior to approval.

Post-2020 Authority Questions Remain

The proposed amendments ignore a limitation in current statute by failing to address the fact that the original California Global Warming Solutions Act of 2006 (AB 32) only authorized ARB to operate a market-based mechanism through 2020 and not beyond. The implication of the explicit authorization in AB 32 is that ARB does not otherwise have such authority. Based on ARB's work on the Scoping Plan to date, this leaves very costly options for the Board pursue absent subsequent legislative action that would result in significant problems for California's economy. Therefore, CMTA believes that ARB should pause development of post-2020 cap and trade amendments until future legislation can secure the authority to ARB.

Industry Assistance Detail Lacking

AB 32 required the ARB seek to limit leakage of emissions out of California in its implementation of GHG reduction regulations, including the market-based mechanism. As a part of the program, ARB initially allocated 100 percent (truly 90 percent when you figure in the 10 percent “haircut” ARB took for auction allowances) to ensure that the regulations did not incentivize the loss of emissions to other jurisdictions. ARB later extended the initial allowance allocation into the second compliance period to maintain leakage protection.

CMTA appreciates that ARB backed off an earlier plan to amend the allowance allocation in the Third Compliance Period (2018-2020) as this would have placed California manufacturers in a very awkward and challenging spot. However, it is troubling that ARB staff would propose such a massive to the Cap and Trade regulation without detail on the proposed change for the post-2020 plan with the exception to say in Table 8-3 that:

“[Staff may propose assistance factors as part of this rulemaking process. Any change proposed will be circulated for a 15-day public comment period.]”

CMTA believes that given the significant economic impact represented by the allowance allocation process demands a greater amount of time to provide the type of substantive analysis given millions of dollars and thousands of jobs at stake. Indicating that ARB staff may propose changes in a 15-day comment period could violate the spirit of the different comment period timeframes and call into question the legitimacy of the proposed change. The purpose of the 15-day comment period is to address minor changes and updates based on feedback received in 45-day comment period. The potential change to allowance allocation neither is minor, nor is in response to feedback that has yet to come into ARB on the proposed change.

Maintain Industry Assistance at 100 percent

In response to the lack of detail on the proposed changes to the industry assistance, CMTA would recommend that ARB maintain industry assistance at 100 percent through the Third Compliance Period. This change would delete the planned drops for medium and low leakage risk categories to 75 and 50-percent.

California manufacturers support the development of a well-designed cap and trade program in order to provide a cost-effective mechanism for reducing GHG emissions.

If you have further questions, please contact me at mshaw@cmta.net or (916) 498-3328.

Sincerely,



Michael Shaw