



January 11, 2010

Ms. Lucille Van Ommering  
Climate Change Cap-and-Trade Section  
California Air Resources Board  
PO Box 2815  
Sacramento, CA 95812

**RE: ARB'S PRELIMINARY DRAFT REGULATION FOR A CALIFORNIA GREENHOUSE GAS EMISSION CAP-AND-TRADE PROGRAM**

Dear Ms. Van Ommering:

On behalf of the Agricultural Council of California (Ag Council), representing agricultural cooperatives and farmer-owned businesses, I appreciate the opportunity to comment on ARB's Preliminary Draft Regulation for a CA-based Greenhouse Gas Emission Cap-and-Trade Program. The Ag Council's member cooperatives account for almost one-third of California's \$36 billion agricultural industry.

A Cap-and-Trade Program in California is expected to have a detrimental economic impact on the food processing industry. While an exact cost is unknown, processors will either have to:

- implement new, expensive technologies that are potentially cost prohibitive;
- utilize existing technologies to realize minimal environmental improvements; and/or
- purchase costly emissions allowances that may or may not be auctioned in a CA-specific market.

For some processors, technology that would meet the thresholds set by AB 32 simply does not exist. Therefore, these processors would be forced to purchase the same allowances companies such as Chevron would have to purchase rates that are potentially unaffordable.

While most food processors will attempt to keep their plants open and running, the result would likely be to lower the amount of food production in the safest food-producing region of the world. When technology is not available, there are not many options available when an entity is trying to meet lower emissions standards and simultaneously competing in a global market. Buyers such as WalMart search for the goods that can be produced by the cheapest, most affordable source. Contrary to the belief of many at ARB, costs can rarely be passed on to consumers in a global marketplace. This is the most unfortunate factor in AB 32 implementation, since food producers in countries such as China, are likely to fill those gaps on store shelves.

Ag Council urges ARB to adopt the most flexible allowance program possible. Each regulated entity is substantially different from the others, so what may work for one company may or may not work for another. As such, these companies should be allowed the flexibility to meet the allowance criteria within very generic guidelines provided by ARB. The underlying goals of a cap-and-trade program should be environmental improvement, not revenue generation. As such, Ag Council recommends ARB adopt the following principles in structuring its allowance markets:

- 100 percent allowance auctions should be avoided due to the costly nature of such a program and unknown environmental impact;
- Any funding generated by a cap-and-trade program should be utilized to improve emissions technology and to increase energy efficiency;
- Offsets (agricultural and environmental) should be a very important part of the allowance equation for food processors and should not be limited to any arbitrary percentage. If offsets are high quality, they should be eligible;
- The market design of a cap-and-trade program should allow for global offsets projects to participate, in order to potentially lower total cost of the program (by increasing supply of the offsets) and increase environmental improvements on a global level by incentivizing other countries to participate in meaningful projects;
- Price ceilings should be established in order to avoid the potential for market manipulation;
- Automatic penalties for non-compliance should be avoided for the first few years of implementation and emissions trading. All parties involved in this process are going to have to learn as they go. Inadvertent errors should not be grounds for penalties, so long as attempted participation in the program can be demonstrated.
- Any statewide program should be easily compatible with a federal program, should one come to fruition. It is clear California is the policy leader in climate change, however, one national standard should be set, as opposed to a state-by-state patchwork of regulations and programs that would be unworkable for many processors and agricultural operations that conduct business in several states.

According to 2008 ARB emissions reports, food processors account for less than one-third of the emissions reported, but arguably stand the most to lose in terms of absorbing compliance costs that could leave many companies insolvent. There are still many unknowns in the implementation of this program, so we urge ARB to consider the EU approach to the food processing industry in its EU Emissions Trading System. Recognizing that a domestic food supply is a strategic asset, the EU has proposed providing food processors with free GHG emissions allowances during an initial implementation period of seven years. This type of introductory period allows processors additional time to balance economic issues while trying to acquire the latest technology. It would also allow regulating entities to learn more about the trading system's benefits and pitfalls, and more time to implement the best strategies before smaller companies endure undue exposure. Furthermore, it gives the market time to settle-out after potential initial price spikes in trading rates.

Ag Council is eager to work with ARB throughout the implementation process. We are looking forward to the final EAAC report, and assisting with the creation of a workable cap-and-trade program that achieves mutual goals. We are hopeful that serious consideration will be given to issues raised by food producers in California.

I hope you find this information useful. If you have any questions or concerns, please do not hesitate to contact me at (916) 443-4887.

Sincerely,

A handwritten signature in cursive script that reads "Emily Rooney". The signature is written in black ink and is positioned above the printed name.

Emily Rooney  
Vice President