January 11, 2010

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

RE: Comments Regarding the Preliminary Draft Regulation for a California Greenhouse Gas Emissions Cap-and-Trade Program

The California Farm Bureau Federation (CFBF) and the California Cattlemen's Association (CCA) appreciate the opportunity to submit the following comments regarding the Preliminary Draft Regulation (PDR) for a California Cap-and Trade Program.

CFBF is a non-governmental, non-profit, voluntary association that represents agricultural interests throughout the state of California and works to find solutions to the challenges faced on farms and in the rural community. Farm Bureau is California's largest farm organization, comprised of 53 county Farm Bureaus currently representing approximately 85,000 members in 56 counties. We strive to protect and improve the ability of farmers and ranchers engaged in production agriculture to provide a reliable supply of food and fiber through responsible stewardship of California's resources.

CCA is a statewide trade organization representing California's $1.85 billion beef industry and all industry sectors from pasture to harvest. Ranchers and beef producers are stewards of our nation's natural resources and own and manage nearly 32 million acres of California range and forestland providing numerous environmental benefits to include carbon sequestration.

The structure of the cap-and-trade program will have significant impact on the future of California's family farms and ranches because they utilize the products and services of many of the entities subject to the mandatory greenhouse gas emission reductions. The fuel and electricity providers that provide our energy inputs and the food processors that add value to the numerous agricultural commodities grown in California will have to pass along even more exorbitant price increases than previously anticipated unless there a number of significant changes in the PDR as noted below:

<u>Offsets</u>

We believe that the most cost-effective approach to achieving the emission reduction goal of AB 32 is via a well designed market program that includes a robust offsets program, one with no geographic or quantitative limits. We are very disappointed that the PDR proposes very limited use of offsets and counter to the adopted Scoping Plan is even contemplating limiting those offsets geographically. Such offset restrictions will likely prevent interest and investment in innovative emissions reductions projects in uncapped sectors, which is a significant missed opportunity for climate change mitigation.

This extreme limitation will result in the loss of cost-containment from the use of offsets especially in the early stages of a cap-and-trade program, when new technologies and best practices are still being developed and implemented by capped sectors. The result will be increased costs of the entire cap-and-trade system and a loss of flexibility during the transitional years post-enactment.

Further, the described approach for development and enforcement of offset protocols is so bureaucratically intensive that it is highly likely that very few authorized/approved offsets will be available for the first compliance period 2012 to 2015 and possibly even up to 2020. If the state's cap and trade program is to truly be cost-effective, CARB must find a way to authorize or approve worldwide offsets with minimal bureaucratic hurdles. Real, permanent, quantifiable, verifiable and additional offsets that are recognized by other emissions trading systems (like the EU ETS) should be automatically accepted for use in California.

Cost Containment Principles

We do not agree that the cost containment mechanisms identified in the PDR will be effective. A robust offsets program along with viable linkage to other programs is the best way to achieve the AB 32 emission reduction goals in the most cost-effective manner. While some of the soft collar options propose additional availability and use of offsets beyond the contemplated 4% limit they will not result in cost-containment in a timely manner since the planning, implementation, and execution of most offset projects takes a long time to complete and achieve. The soft collar options would need to be signaled and directed years before the offset credits would be required to realistically ease costs.

Linkage

One way to address the availability of plentiful offsets is via linkage to other programs. Unfortunately, the linkage criteria contemplated in the PDR is so stringent that linkage to other programs (even to the WCI) will be so difficult as to make linkage practically impossible. CARB must streamline the linkage criteria to allow California's program access to credits and offsets in other programs worldwide. One of the goals for AB 32 was as a model for the world – that can only happen if California is able to link with other programs

Accelerating Transportation Fuels into Cap and Trade by 2012

We strongly oppose the acceleration of including fuels – transportation fuels and natural gas – under the Cap and Trade Program from 2015 to 2012. CARB is already imposing the LCFS as an early action on the transport sector which will incur its own significant costs and concerns regarding the potential impact on energy supply. These must first be carefully analyzed before further steps on put on the fuel supply of this state.

Auction - Transitional Issues

We believe that CARB has limited authority to conduct anything but a minimal auction to cover administrative costs. Further, even if CARB had broader authority to conduct a more significant auction (via legislative authorization), they must transition from a minimal auction to a more significant auction over the life of the program. CARB must fully consider the potential impact on the economy considering that all capped facilities would have to generate $14 to 30 billion in a 100% auction at a carbon price of $20 to 40/ton.

Capped Sources

During the second phase of cap and trade implementation, ARB has proposed to lower the emission threshold to capture additional businesses that emit greenhouse gases through fossil fuel combustion or the use of natural gas. We are concerned that lowering the threshold below 25,000 MT CO_2e could then require a number of California farms and ranches to be capped sources. Throughout the AB 32 implementation process, ARB has looked to production agriculture to potentially provide offsets for capped sources to achieve the state's greenhouse gas reduction targets. Dramatically lowering the threshold will weaken the ability for production agriculture to provide real and accurate offsets to help capped sources more cost effectively comply with reduction targets. We oppose production agriculture being included as a capped sector in the second compliance period starting 2015.

We will continue to participate in this regulatory process and appreciate your attention to our concerns.

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