CalChamber®

July 12, 2010

Mr. Kevin Kennedy
Assistant Executive Director
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95814

**Subject: CalChamber Comments on June 22, 2010 Cap-and-Trade Public Workshop Cost Containment & Offsets**

Dear Mr. Kennedy:

The California Chamber of Commerce (CalChamber) appreciates the opportunity to comment on the California Air Resources Board's (CARB) proposed implementation of a cap-and-trade program under AB 32 (Global Warming Solutions Act) as discussed during the June 22, 2010 public workshop for cost containment and offset policy.

The CalChamber is the largest, broad-based business advocate in the state, representing the interests of over 16,000 California businesses, both large and small. Many large CalChamber members will be directly covered by the cap-and-trade regulation, while other smaller members may be impacted by costs passed along by upstream fuel and energy providers. CalChamber has been a constructive voice throughout the process of implementing AB 32 and continues to do so in order to ensure that the Greenhouse Gas (GHG) emission reductions required are achieved while maintaining the competitiveness of California businesses and the health of the economy.

Cost Containment

Cost containment mechanisms in the cap-and-trade program are essential for ensuring long run cost-effectiveness of GHG reduction efforts, and crucial in an effort to meet the AB 32 mandate, which calls for cost-effective regulations. It is important that cost mechanisms be given consideration in order to prevent companies from becoming 'leakage' prone as well as to protect both businesses and consumers from unacceptably high prices.

CalChamber maintains its position that a robust offset program is a key cost containment mechanism. Expanding the allowable use of offsets is a sound policy choice as numerous economic studies have shown, including CARB's own analysis, that offsets are the best market-based alternative to reduce costs and to limit leakage, ensuring protection for California consumers and keeping California industry competitive. As a cost containment mechanism, offsets can only be effective if an adequate supply of offsets exists, which means it is critical that the price and amount of offsets be transparent, based on actual market activity and not based on subjective policy decisions. While broad offset policies represent the best cost-containment approach, if offset use is to be constrained, a strategic reserve function could provide cost-containment assurance.

Offsets

CalChamber believes that a successful cap and trade program should not be a California-only unilateral approach but should instead allow for seamless linkage with other regional and international programs. A well-designed program is one that includes a broad use of offsets. Policies that increase the likelihood of an inadequate supply of offsets and the inability to link to other cap-and-trade programs will greatly decrease the potential for a cost effective California program.

CalChamber agrees with Governor Schwarzenegger's letter on March 24, 2010 to CARB Chair Mary Nichols that urges for availability of an "ample supply of high quality offsets" in the program. By this we believe he is re-directing CARB to re-evaluate the 4% offset limit proposed in the CARB's Cap-and-Trade PDR (November 24, 2009). As addressed by staff at the June 22nd workshop, CalChamber is supportive of increasing the offset availability to at least 8% of total emissions under the cap, again emphasizing the importance of offsets as an effective cost containment mechanism.

In light of the offset discussion at the workshop, CalChamber encourages CARB to consider the inclusion of other offset protocols outside of those currently in consideration/development by CARB. We believe that the key to the availability of quality offsets is for CARB to design a program that accepts as approved offsets other protocols including Climate Action Registry (CAR). Having overly restrictive requirements for offsets as those discussed at the workshop could ultimately jeopardize the available offset supply for use in California, making California's program less compatible.

AB 32 requires that CARB provide incentives for early action. In many cases, early action was taken under the CAR protocols. It is imperative that CARB recognize these early actions and categorically accept CAR-approved early action offsets. CARB must ensure that limited linkage and limited offsets do not preclude a cost-effective program.

Additionally, CalChamber has long advocated against a unilaterally designed program that could end up costing significantly more to the state's businesses and consumers by discarding the advantages associated with full integration into other programs. Given this, we do not believe offsets should have geographic limitations. And while CARB states that there will be no geographic limits – the workshop presentation stated that 'offset projects must be located in the United States, Canada or Mexico in order for CARB to issue credits.' A unilateral approach or one that sets geographic limitations poses a leakage potential, undermining the dual environmental and economic purpose of the program. After all, climate change is a global issue that requires a global solution.

*Enforcement and Liability*

We are concerned with CARB's thinking with regards to enforcement and liability of offset providers and buyers should the offsets be deemed ineligible by CARB. CalChamber opposes buyer liability amongst regulated entities and believes that enforcement of such liability negates the purpose of 'approved offsets.' Imposition of liability upon the buyer creates uncertainty that could suppress the market.

The obligation to replace offset tons due to reversals should be treated differently depending on the cause of the reversal (i.e.; intentional vs. unintentional). For unintentional reversals for example, lost carbon could be replaced from a reserve or a buffer pool, as discussed in the workshop. It is important for purchasers to go into the market with off-load risk where obligation should not be placed on buyers or users of offset credits.

Again, we appreciate your consideration and the opportunity to comment on the June 22, 2010 workshop. We look forward to further communication as the cap-and-trade workshops continue.

Should you have any questions, please feel free to contact me at 916.444.6670.

Sincerely,

Brenda M. Coleman

Brenda M. Coleman
Policy Advocate

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