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21 June 2024

IETA Comments: CARB Workshop on Potential Amendments to California Cap-and-Trade Program

The **International Emissions Trading Association** (IETA) welcomes this opportunity to provide input on potential amendments to the California cap-and-trade program presented at the California Air Resources Board (CARB) workshop on 31 May 2024.

Urgency of Rulemaking: IETA underscores the critical need to finalize the rulemaking for implementation by 1 January 2025. Even a slight delay (e.g. one year) would necessitate a significantly steeper annual cap reduction curve to achieve the 48% target. This would place a heavier burden on regulated facilities. With the short timeline to 2030 and the substantial increase in stringency required, it is imperative to final amendments in place by 2025 to provide facilities with sufficient time to adapt and meet the increasing stringency.

Allowance Removals to Achieve 2030 Target: While IETA recognizes that the scenario examined during the workshop (i.e., Scenario B from the SRIA) is not a formal staff proposal, we reiterate our concerns about removal of allowances from the cost containment account. Scenarios where allowances are primarily removed from price containment accounts are problematic and could have severely negative consequences for both California consumers and industries. More specifically, removing allowances from cost-containment accounts would expose regulated facilities and California households to significant risk if the thresholds were met. Further, removing allowances from these accounts (instead of the auction/allocation accounts) would run counter to positioning the cap-and-trade program as the state's workhorse policy, as the impact of the removals would only materialize if the cost-containment thresholds are reached. Opting to remove allowances from the cost-containment accounts would likely result in fewer reductions driven by the program, requiring other, more costly supplementary policies to drive mitigation across the state. IETA and the broader business community eagerly await more clarification on CARB's position regarding the pools from which allowances will be removed to achieve the 48% target.

Corporate Association Group (CAG) treatment: IETA holds that any changes to the long-standing CAG rules should be informed by data/analysis providing significant lead time for any changes to avoid unintended consequences. For example, the benefit of any potential change needs to be considered relative to its impact on the market including a careful assessment of the number of market participants subject to the proposal as well as the total number of allowances that may need to be sold to conform with new requirements. The principle of careful aggregated

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analysis shared with stakeholders through a clear and transparent process has been a hallmark of the program and a necessary feature to provide the market confidence to invest in the program and, by extension, support mitigation efforts. As discussed in past submissions, CARB may want to consider providing automatic exemptions for individuals with account viewing agent roles only (i.e., no primary or alternative account representative roles for any account, and thus no ability to transfer allowances). This option could have merit, particularly for entities employing fund administrators. Further clarity on the proposed exemption process will be required. Specifically, whether the exemption is automatic or requires an application. If an application is necessary, fundamental questions will have to be addressed (e.g., who is responsible for application submittal - the primary/alternate account representative or the entity/individual creating the association?). In addition, if CARB identifies an association between two or more accounts, sufficient time should be given to the entities to respond before enforcing any allowance sales.

Border Carbon Adjustments: We recognize that achieving a 48% reduction target by 2030 effectively doubles the year-over-year stringency of the program as it strives to achieve carbon neutrality by 2045. This change and associated cap decline factor is likely to reduce the allocation of free allowances to industry, increasing the potential for leakage and competitiveness concerns particularly for energy intensive trade exposed sectors. IETA has long-standing, extensive expertise on border carbon adjustment (BCA) design and competitiveness considerations. This well positions IETA to support CARB's efforts in evaluating BCA potential required under AB 398, and our community remains committed to lending our global/sectoral insights to CARB as needed. Finally, we encourage CARB staff to review IETA's April 2024 keystone report, "*International Reaction to the EU Carbon Border Adjustment Mechanism*" *(CBAM)*[1].

Cap-and-Trade Beyond 2030: With caps declining to net zero emissions, the cap-and-trade program should be extended through at least 2045. Over the last year, IETA has provided both legal rationale and evidence in support of program extension. Beyond 2030, IETA holds that the program must be designed to continue allowing high-quality offsets to serve as an important flexibility mechanism for covered entities.

If you have questions about IETA's input, please contact Joey Hoekstra at hoekstra@ieta.org.

[1] Full IETA report, ***International Reaction to the EU Carbon Border Adjustment Mechanism*** (published April 2024), is available for download at: IETA publishes overview of international reaction to EU's carbon border levy - IETA