

October 24, 2023

Liane Randolph, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814
Comments Submitted Electronically

RE: Public Comments on Potential Amendments to the Cap-and-Trade Regulation

Submitted via CARB Website

Dear Chair Randolph:

The California League of Food Producers (CLFP) appreciates the opportunity to provide comments to the California Air Resources Board (CARB) regarding the proposed amendments to the Cap-and-Trade program. CLFP is a statewide association representing processors of fruit, nut, vegetable, and dairy products. Our membership includes producers that are active participants in the Cap-and-Trade program.

Food processing is one of the largest industrial sectors in the California economy. There are hundreds of companies who collectively employ about 198,000 full-time and part-time workers, and there are thousands more workers employed in trucking, packaging, energy, equipment and other related businesses that depend on the food processing industry. Food processing adds \$220 billion in total output annually to the California economy and contributes \$8.2 billion in state and local tax revenue. Many farmers across the state rely on food companies to purchase their harvests for processing. In a number of rural counties and disadvantaged communities, food processing is a primary engine of local economic prosperity.

The GHG cap-and-trade program has been an important and successful tool for CARB to achieve emissions reduction goals, and CLFP supports continuance of that system. There are 40 food processing facilities that currently participate in the program because their greenhouse gas emissions exceed 25,000 mt CO₂e per year. It should be noted that the total annual carbon emissions of these companies are only about 1.8 mmt CO₂e, and the total emissions for the entire food processing sector are 3.2 mmt CO₂e, accounting for less than 1% percent of total annual statewide GHG emissions. So, even under the most aggressive regulatory scenarios, the food processing industry is only capable of making a relatively minor contribution to achieving CARB's statewide GHG reduction goals.

Carbon Neutrality Goals Must be Balanced with Economic Viability

California seeks to continue as a global leader in climate change policy. CLFP recognizes the goal of California to achieve carbon neutrality by 2045 pursuant to AB 1279 (Muratsuchi, 2022). However, aligning California's Cap-and-Trade program with new carbon neutrality targets will require a fine balance between cost effectiveness, technological feasibility, and environmental action.

Of particular concern to CLFP are the changes to the Cap-and-Trade program that currently are under consideration -- including lowering overall greenhouse gas caps on industry sectors through 2030 and reducing the number of free allowances to the utility and industrial sectors.

CLFP fears that this path forward could result in substantial collateral economic damage to the food processing industry. CLFP is highly concerned that food processing will be adversely affected, which could have tangible impacts on food supplies and prices here and across the U.S. given California's status as a major food producer.

Further, most of the food processors in the cap-and-trade program are located in rural communities in the Central Valley that rely on the processors and the thousands of farmers that supply them for jobs and local tax revenue. In addition to GHG compliance costs, food processors are also facing rising costs for labor, packaging, water, and trucking, affecting the long-term economic viability of these operations. Closure of these facilities would have a devastating effect on local and regional economies, which would be inconsistent with social justice goals.

We recommend the following:

- CARB should maintain the existing levels of free allowances. Any reduction in the existing allocations means fewer resources to invest in decarbonizing plant operations and will ultimately jeopardize the economic viability of these companies and risk the production of affordable food products in California.
- CARB should ensure that food processors continue to receive the same industry assistance factor and allowances equal the pre-2020 sector emissions allocations. This transition assistance is necessary for an industry with high economic and emissions leakage risk that needs a predictable compliance path.
- CARB staff should conduct an assessment of the impact of carbon allowance prices and energy costs on food processors, food prices, and rural communities and before making any amendments to the Cap-and-Trade program. If food cost inflation substantially exceeds the historical average, then food processors in the Cap-and-Trade program should be granted additional free allowances – not fewer-- to help them control compliance costs.

- CARB should not require more aggressive emissions reductions for food processors by amending the Cap Adjustment Factor. The current emissions reduction path is aggressive and accelerating reductions will unduly increase production costs and inhibit economic growth. As noted earlier, the food processing industry accounts for a very minor portion of total statewide GHG emissions and that should factor into the regulatory framework.

The Potential for Economic Leakage in the Food Processing Sector

Most of the processors in the Cap-and-Trade program produce basic food products (canned tomatoes, dehydrated vegetables, milk, cheese, and meat products) and operate on small economic margins. They compete directly with producers in other states and countries and so they are at a significant leakage risk. These products are not luxury items, they are an essential part of the diet for most households. Imposing significant new costs on food processors will ultimately affect the price of food, to the detriment of low-income households where food costs can account for as much as 27% of income.¹

A general objective of CARB, and the principal purpose of the cap-and-trade program, is to contain compliance costs and minimize economic and environmental leakage. Until recently, carbon allowance prices have remained relatively low, but as they increase so does the risk for leakage. Some industries such as food processing are both energy intensive and trade sensitive and they will be most affected by rising carbon prices.

CLFP welcomes the implementation of mechanisms to reduce the risk of leakage. Again, we recommend that CARB maintain the current levels of free allowances for the industrial sector.

The Food Production Investment Program

CLFP highly recommends that CARB support the continuance of and funding for the Food Production Investment Program (FPIP). This program is an example of what can be achieved via a public-private funding partnership. Administered by the CEC, the stated goals of the program are to accelerate the adoption of advanced energy efficiency and renewable energy technologies at California food processing plants, demonstrate their reliability and effectiveness, help California food processors work towards a low carbon future, and benefit priority populations. The program provides matching funding for both commercially available and new demonstration technologies. Recipients can coordinate FPIP funding with money obtained from public utility energy efficiency programs.

Since the inception of FPIP in 2018, \$118 million in matching funds have been distributed for 50 projects. Some of the technologies include solar thermal systems, microgrids, advanced refrigeration systems, boiler modernization and optimization, compressor upgrades, and high

¹ **Food Prices and Spending**, USDA Economic Research Service, 2020

efficiency dryer systems. To date 164,000 mt of CO₂e has been removed due to these projects, equivalent to the emissions from about 35,000 cars. CARB has reviewed this program and found that in terms of cost per ton of carbon removed, it is one of the most cost-effective programs currently being funded. It should also be noted that over 90% of the funding has been for projects located in disadvantaged and/or low-income communities.

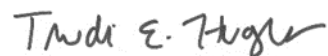
Data from CEC regarding the first round of FPIP funding indicates that larger scale projects to reduce GHG emissions at food processing facilities cost well in excess of \$50/mt CO₂e. Unless financial incentives such as with FPIP are provided, many projects and technologies will not be cost effective and meeting emissions reduction targets will be delayed. CARB should also work with the Public Utilities Commission to ensure that utility industrial custom energy efficiency programs are geared to be more creative and productive, especially since it is the customers who pay for those programs.

Summary

Food processors are currently participating in the Cap-and-Trade program and want to be a part of the climate change solution, but regulations must be designed to ensure that the compliance costs incurred are economically feasible given the considerable leakage risk facing the industry.

CLFP urges CARB to carefully consider the economic impact of the potential amendments to the Cap-and-Trade program on food costs for low-income households, jobs in rural minority communities, business compliance costs, and the ability of processors to compete in the global market and remain economically viable. Funding for new technologies will be important, but CARB must also provide a predictable, fair, and cost-effective long-term regulatory compliance path for the business community. CLFP looks forward to working with CARB to achieve that goal.

Sincerely,



Trudi Hughes
President/CEO