



CLIMATE FOCUS

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California Air Resource Board
Attn: AB 32 Program Design Technical Stakeholder Working Group
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Subject **AB 32 Scoping Plan Comments**

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Dear Air Resources Board Staff,

Climate Focus welcomes the opportunity to submit comments on the Scoping Plan Program Design to the Air Resources Board (ARB) in advance of the April 4 Scoping Plan Workshop. We appreciate the efforts of ARB staff to date, and would like to support this with comments on the proposed scenarios.

1. Scope of Cap-and-Trade Scenarios

Climate Focus supports ARB's broadest cap-and-trade scenario option that includes all large stationary industrial and commercial sources, including electricity generators and transportation fuels. A broad cap-and-trade program will enable cost-effective emission reductions through spreading the required cuts across a number of sectors. National trading (with WCI, RGGI and other developed schemes), will also create a deeper and more liquid market and allow streamlined compliance strategies of companies with national operations.

2. Cap-and-Trade Scenario Implementation

A. Integrated Scheme Development

As an addition to the broadest scenario (or as a separate scenario), Climate Focus would urge the consideration of expanded trading opportunities beyond the national level. While it is appreciated that California must adopt a scheme unique to the needs and characteristics of the State, development of a cap-and-trade scheme that can efficiently allow for integrated trading with existing and future international schemes will promote international partnerships and allow California to continue to serve as leader in climate policy. Partnering with other countries in the development of standards and allowance registries should play a key role in scheme development. Recognition of approved foreign government emission allowances (and ideally reduction credits such as those set forth under the UNFCCC regime) would be advantages for a number of reasons and help integrate California's scheme and regulated entities into the required global effort to address climate change. Expanded international trading will foster greater technology transfer (including export potential for Californian technology), encourage the development of similar schemes in other countries, and provide for greater flexibility and larger market access which will in turn foster a more liquid and stable market with more predictable and stable allowance prices.

The use of approved foreign government allowances or international reduction credits can easily and effectively be carried out in a manner that would maintain environmental and economic integrity. Unilateral importing of these credits does not raise issues associated with mutual recognition of



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allowances between Kyoto and non-Kyoto countries. Double counting can be easily avoided by placing the allowances or credits into a closed account. Once placed into the closed account the allowances or credits would be unable to be returned to the market. Exporting Californian allowances would also be possible through clearing houses holding matching foreign allowances to allow for swapping into Kyoto compliant or other schemes that may have trouble recognizing Californian allowances. The price impact of unilateral or mutual recognition of international allowances or credits can be readily controlled via limits on the amount of international allowances or credits that may be used for compliance. To avoid market uncertainty any such limits should be as predictable and certain as possible.

B. Price Cap

Climate Focus does not support a cap on allowances prices. Because a price cap would make eventual integration with other schemes not utilizing such a cap much less feasible, other methods for price control such expanded use of trading, offsets, and banking should be utilized instead.

C. Duration / Market Security

Long-term planning and investment will only be changed with a long-term cap and trade scheme. Hesitation over long-term investment such as that observed in the EU Emission Trading Scheme can be reduced with a long-term cap-and-trade scheme. Short term caps create uncertainty and do not promote the long-term planning and investment required to “de-carbonize” economic growth. Market participants should be confident that a post-2020 reduction strategy will build upon the cap-and trade approach.

D. Auctioning

Climate Focus supports auctioning of allowances within the cap-and-trade scheme. Auctioning would help avoid over-allocation issues such as those faced in the initial allocation under the EU Emissions Trading Scheme and prevent potential windfalls for large emitters. It also benefits new or existing technologies that have reduced or no emissions and which may be ineligible to receive freely allocated allowances. The proceeds of allowance auctions can also be channeled into research and development and other environmental or social purposes.

Thank you for this opportunity to provide comments,

Yours Sincerely,

Robert O'Sullivan
Executive Director North America
Climate Focus

Climate Focus is a leading provider of advisory services in climate law and policy, emissions trading, and carbon market transactions. Founded in 2004 by carbon market veterans, Climate Focus has worked with clients and projects in over 50 countries and has offices in Washington D.C., Rotterdam, Lisbon and Beijing.