Coalition for Sustainable Cement Manufacturing & Environment
1107 9th Street, Suite 930 | Sacramento, CA 95814 | (916) 447-9884

July 31, 2024

Ms. Liane M. Randolph
Chair
California Air Resources Board
1001 "I" Street
Post Office Box 2815
Sacramento, California 95812

Subject: The California Cement Industry's Comments on the July 10, 2024 Cap-and-Trade Program Workshop

Dear Ms. Randolph:

The Coalition for Sustainable Cement Manufacturing and Environment ("CSCME"), a coalition of all five cement manufacturers in California,[1] provides these comments on the California Air Resources Board ("CARB") July 10, 2024 Cap-and-Trade Program Workshop. As detailed in prior comment letters, the California cement industry has:

- Established a long history of working cooperatively and constructively with legislators and regulators to develop policies that advance the state's climate goals;
- Served as a reliable source of jobs, investment, and other benefits for local communities, while also making significant contributions to the state's climate objectives;[2] and
- Functioned as a laboratory for innovative policies, pilot projects, and new technologies that have the potential to further reduce GHG emissions inside the state and around the world.[3]

In its July 10, 2024 Workshop Presentation, CARB appears to have concluded that the Cap-and-Trade Regulation should be amended to reflect "increased ambition" and, accordingly, should require a 48 percent reduction in the overall cap beyond 1990 levels by 2030. This level of reduction will begin with 2026 vintage allowances, resulting in a compressed implementation period, and will substantially exceed the current 40 percent statutory reduction target.

As detailed in our June 21, 2024 comments, CSCME considers that this increased ambition could have severe negative effects on the California cement industry. Even without any adjustments to the cement industry's al-

[1] The Coalition includes CalPortland Company, Cemex, Inc., Mitsubishi Cement Corporation, National Cement Company of California Inc., and Tehachapi Cement, LLC. There are seven cement plants currently in operation in California.

[2] For example, between 2008 and 2021, the California cement industry produced 7 percent more cement but with 12 percent fewer GHG emissions. Cement production data from: United States Geological Survey (2008-2021). Mineral Industry Surveys, Cement, Table 1A. Greenhouse gas emissions data from: California Air Resources Board (2023). 2000-2021 GHG Inventory.

[3] *See*, *e.g.*, National Cement Company of California selected for award negotiation by the U.S. Department of Energy (DOE) Office of Clean Energy Demonstrations (OCED) as part of the Industrial Demonstrations Program, https://www.nationalcement.com/news-main/national-cement-of-california.

lowance allocations, increasing the stringency of the cap will result in a reduction of the overall supply of allowances and higher allowance prices — thereby increasing the risk of economic and emissions leakage in the cement industry.

Given its mandate to minimize leakage, consider cost effectiveness, and rely on the best available economic and scientific information (including an assessment of existing and projected technological capabilities), CARB should avoid making generalized adjustments to the program without carefully considering the implications of the unique circumstances faced by certain high leakage risk industries. The consequences for failing to consider such unique industry circumstances for the cement industry will be significantly higher leakage risk, a reduction of private capital and federal investment dollars available at a critical time for the development and deployment of new technologies, and significant uncertainty and unpredictability in California's future regulatory landscape.

As requested in our prior comments, CARB should only lower the cap, based on its proposed 48 percent target or otherwise, in a way that does not negatively affect industry allowance allocations to those California cement industries at high risk of leakage, particularly in the absence of an effective level-the-playing-field measure (e.g., border carbon adjustment). For example, CARB should freeze the CAF for high leakage risk industries, such as cement, at current levels. Such a freeze should remain in place unless and until CARB is able to create mechanisms that apply similar environmental standards to imported product and effectively level the carbon playing field between local and imported products. In the case of the California cement industry, such treatment is merited and justified based on the outsized exposure to the program's carbon cost burdens compared to virtually every other manufacturing industry in California.[4]

The most recent workshop presented two potential "smoothed scenarios" with respect to reducing the CAF. These "smoothed scenarios" are preferrable to the "SRIA Proposed Scenario A" trajectory and the associated discontinuity in CAFs after 2031. CSCME also believes that "Smoothed Option 1" is preferable to "Smoothed Option 2" — both because it provides a more consistent and continuous trajectory toward 2045 goals and because it does not artificially force more emissions reductions in the near term than needed to achieve the state's climate goals. That said, CSCME encourages CARB to consider alternative trajectories that are consistent with a more realistic scenario in which critical abatement technologies continue to develop over the next decade and are then commercially deployed over the following decade. CSCME believes that such a trajectory would be more consistent with CARB's mandate to achieve the state's official climate goals in a manner that is technologically feasible, cost-effective, and minimizes the risk of leakage. Simply put, the most successful path to carbon neutrality by 2045 not only is unlikely to be a straight line, but also is more likely to be a scenario in which GHG reduction rates accumulate and compound over time.

Finally, CSCME strongly recommends that CARB hold one additional workshop to address the "micro" impact on specific industrial sectors, particularly those that are difficult to decarbonize and face a high risk of leakage, of CARB's "macro" adjustments to the Cap-and-Trade Program. Now that CARB has essentially confirmed its proposal to adopt a more stringent statewide GHG emissions cap, it would be helpful for CARB to provide more details regarding how a more stringent cap will be implemented, which would give stakeholders an opportunity to provide CARB with more constructive input.

[4] For additional information regarding the cement industry's outsized exposure to the program's carbon cost burdens, see CSCME's comments on the workshop on potential amendments to the Cap-and-Trade regulation on May 31, 2024.

We look forward to continuing to work with CARB and other stakeholders to make California's signature climate program an economically feasible, efficient, and effective pathway to carbon neutrality for the California cement industry by 2045.

Sincerely yours,

Steve Coppinger
Chair, Executive Committee
Coalition for Sustainable Cement Manufacturing & Environment

CC:
Honorable Steven S. Cliff, Ph.D., Executive Officer, California Air Resources Board
Edie Chang, Deputy Executive Officer, California Air Resources Board
Rajinder Sahota, Deputy Executive Officer, California Air Resources Board
Mark Sippola, Chief, California Air Resources Board
Rachel Gold, Esq. Supervisor, California Air Resources Board
Mihoyo Fuji, Staff Air Pollution Specialist, California Air Resources Board