Comment Letter on CARB's Informal Cap-and-Trade Workshop
International Emissions Trading Association

The International Emissions Trading Association (IETA) is a 300-member nonprofit business association that supports the use of carbon markets to address the climate crisis. Our active members in California include compliance entities, financial companies, and advisory firms. IETA's mission is to establish market-based trading systems for greenhouse gas (GHG) emissions that are environmentally robust, fair, open, efficient, accountable and consistent across boundaries.

California's cap-and-trade program is already reducing GHG emissions and local air emissions. A recent peer-reviewed first-of-its-kind academic study shows a causal reduction in GHGs of 9 percent annually at a subset of industrial facilities between 2012 and 2017 attributable solely to the cap-and-trade program. The study also finds reductions in local air emissions including nitrogen oxides and particulate matters, which are harmful to human health.[i] Beyond these benefits, California's cap-and-trade program has already raised over $22 billion in funds that the legislature then appropriated toward projects that further reduce GHG emissions, improve public health, and provide meaningful benefits to disadvantaged and low-income communities.[ii]

<u>Cap-and-Trade as a Workhorse</u>

A number of stakeholders are advocating for more climate ambition from the cap-and-trade program. In IETA's view, the cap-and-trade program should be made into California's workhorse for achieving reductions in GHG emissions. Specifically, IETA advocates for improvements to the cap-and-trade program to achieve an increasing share of California's required reductions to meet its climate target in 2030 and carbon neutrality target by 2045 for the following reasons:

- A cap-and-trade program is much more effective at ensuring the achievement of ambitious climate targets than direct regulations or government subsidies.[iii]
- A workhorse program would achieve reductions at dramatically lower costs compared to command-and-control policies or government subsidies, which cost between $60 and $18,000 per ton according to UC Berkeley[iv] and the Legislative Analyst's Office.[v]
- A workhorse program would bolster revenues for the California Climate Investments program, which as of November 2022 had already awarded more than $6.7 billion—equal to 73% of total funds—to priority populations, including disadvantaged and low-income communities.[vi]

To that end, IETA commends CARB's support for a steadily increasing allowance price that balances cost-effectiveness, emissions leakage, technological feasibility, and energy prices. In addition, IETA supports CARB's ongoing modeling efforts that include lower cap levels, which will increase the program's ambition. With these design changes, the program will continue to serve as a model and extend the influence of California's decarbonization policies beyond its borders.

Cap-and-Trade Beyond 2030

In IETA's view, the cap-and-trade program should be extended imminently through at least 2045 with caps declining to net-zero emissions for the following reasons:

- The ambiguity over whether the program extends beyond 2030 is impacting the carbon market today. Extension would eliminate this uncertainty and strengthen the carbon market, including bolstering revenues for California's Climate Investments program.
- Extending the cap-and-trade program would unleash additional private and federal climate investments for California. According to the Independent Emissions Market Advisory Committee, once "investors know a carbon price will exist they can evaluate low-carbon technologies" however "the market will not effectively drive investor behavior if the market's future is uncertain".[vii] Specifically, investors will be incentivized to further invest in long-lived emissions-reducing in-state infrastructure if they anticipate a credible carbon market with steadily increasing allowance prices beyond 2030.
- By extending the cap-and-trade program imminently, California would create the ideal conditions for public and private investors to assertively reduce in-state emissions by combining the effectiveness of the state's carbon market with the unprecedented scale of the Inflation Reduction Act.
- Extending the market beyond 2030 alleviates concerns around banked allowances by minimizing overuse of any banked allowances in 2030.
- IETA believes CARB has the authority to extend the program beyond 2030 and should do so absent legislation. That said, we prefer clear legislative action since it further reduces uncertainty and reinforces the program.
    - IETA's legal analysis[viii] suggests a strong case for CARB's authority to extend the program beyond 2030 through regulation.
    - IETA's legal analysis[ix] also suggests a simple majority is all that is required for the legislature to extend the program in statute.

To that end, IETA commends CARB for modeling scenarios under which the cap-and-trade program extends beyond 2030 and contributes to achievement of 2045 carbon neutrality targets. Moreover, IETA recommends CARB continue to clarify as appropriate the role for the cap-and-trade program through 2045.

Consider an Emissions Containment Reserve

CARB may consider an emissions containment reserve as a reasonable option to address allowances supply concerns in conjunction with other changes to the cap-and-trade program for the following reasons:

- The emissions containment reserve complements existing cost containment provisions in the cap-and-trade program, respectively balancing climate ambition and economic growth.[x]
- The emissions containment reserve is a predictable rules-based adjustment to allowance supply that ensures the cap-and-trade program will remain a workhorse over time as macroeconomic conditions and policy mixes inevitably change.
- The emissions containment reserve is also automatically implemented, such that changes to allowance supply can occur without the need for reopening regulation. This provides a degree of certainty over market changes.
- Rules-based automatic adjustments to allowance supply are best-practice in cap-and-trade programs around the world. An emissions containment reserve already operates in the Regional Greenhouse Gas Initiative, which IETA supports. In addition, IETA advocated for and actively supports the market stability reserve operating in the European Union Emissions Trading System.

To that end, IETA commends Quebec for considering an automatic supply-based mechanism and encourages both California and Quebec to further consider an emissions containment reserve specifically. In the California context, the emissions containment reserve could help to ensure that the cap-and-trade program remains a workhorse over time, regardless of exogenous shocks to allowance demand caused by competing policies or other sources.

Incorporate High-Quality Carbon Removals

In light of recent passage of Assembly Bill 1279, it is of utmost importance to ensure that removals are properly accounted for and incentivized by the cap-and-trade program. A market-based approach would allow for an efficient allocation between removals and reductions, leading to more affordable outcomes. Consistent with IETA's principle, any carbon removals should be high-quality, as outlined by IETA's criteria for crediting carbon geostorage projects.[xi] It would be helpful to pair cap-and-trade program design changes with permitting forms to ensure projects expeditiously break ground in California while also minimizing impacts to already overburdened communities. To that end, IETA applauds California and Quebec for considering how to incorporate removals into their respective cap-and-trade programs.

Conclusion

IETA is grateful for the opportunity to comment on CARB's informal cap-and-trade workshop. We look forward to additional opportunities to provide comments. Any correspondence can be directed to IETA's U.S. Strategic Advisor, Clayton Munnings (munnings@ieta.org).

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[i] Hernandez-Cortes, Danae and Kyle C. Meng. 2023. "Do Environmental Markets Cause Environmental Injustice? Evidence from California's Carbon Market." *Journal of Public Economics* 217: 104786. Link available here.

[ii] California Climate Investments. 2023 Annual Report Fact Sheet.
[iii] For example, California's cap-and-trade program regularly achieves 100 percent compliance. See California Air Resources Board. 2021. 100% of Companies in Cap-and-Trade Program Meet 2020 Compliance Obligations.
[iv] Meredith Fowlie. 2022. What's the Plan for Carbon Pricing in California? Energy Institute Blog.
[v] Legislative Analyst's Office. 2022. The 2022-2023 Budget: Zero-Emissions Vehicle Package.
[vi] California Climate Investments. 2023 Annual Report Fact Sheet.
[vii] Independent Emissions Market Advisory Committee. 2022 Annual Report.
[viii] IETA. 2022. Legal Memorandum on California Cap-and-Trade Program Beyond 2030. Submitted to the Independent Emissions Market Advisory Committee. Link available here.
[ix] See above.
[x] Burtraw, D., Holt, C., Palmer, K. and W. Shobe. 2022. "Price-Responsive Allowance Supply in Emissions Markets". *Journal of the Association of Environmental and Resource Economists* 9(5).
[xi] International Emissions Trading Association. 2022. High Level Criteria for Crediting Carbon Geostorage Activities. Link available here.