Agricultural Council of California

August 17, 2023

Liane M. Randolph, Chair
California Air Resource Board
1001 I Street
Sacramento, CA 95812

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

Submitted via CARB Website

Dear Chair Randolph,

I am writing on behalf of the Agricultural Council of California ("Ag Council") to provide comments regarding the proposed amendments to the Cap-and-Trade program. Ag Council represents approximately 15,000 farmers across the state of California, from small, farmer-owned businesses to some of the world's best-known brands. Our membership includes producers and food processors who are either active participants in the Cap-and-Trade program or may be subject to participation requirements in the future. We look forward to working with CARB's staff and board throughout this amendment process.

Mechanisms to Reduce Potential Risk of Emission Leakage:
We endorse the implementation of mechanisms to address the risk of leakage. However, we are concerned that the current data used to determine leakage risk is outdated. The last leakage study was conducted in 2016. Since then, numerous executive orders, legislative measures, and updated scoping plans have changed the nature of California's emission goals. We respectfully urge CARB to conduct an updated emissions leakage study to account for the changed regulatory landscape in the state. This study should also include the rapid change in energy prices experienced by Californians in recent years.

To further reduce the risk of leakage, we recommend that CARB maintain current levels of free allowances for both the utility and industrial sectors. Doing so will assist with cost containment and help reduce the risk of utilities passing the costs of participating in cap-and-trade onto consumers and the regulated community.

Food production is subject to variations in climate and seasonality. Due to the unpredictable nature of the natural environment, we request adjustments be made to accommodate variations in commodities resulting from changes in climate and the season by eliminating regulations on minimum solids for raw products. This will allow entities participating in the program to have some flexibility to account for the natural life cycles experienced in food production. Additionally, Ag Council urges CARB to institute more robust stopgaps as the declining cap becomes more stringent in future years. Additional releases of allowance reserves will be key to preventing price spikes in the allowance markets as emission caps decline.

Cap-and-trade Amendment Implementation:
Ag Council proposes that CARB minimize Cap-and-Trade program adjustments between scoping plans to enable companies to consistently implement technologies and practices for compliance. This approach fosters stability and predictability for companies making strategic decisions to adapt to Cap-and-Trade requirements. Making minor changes to the program between scoping plans undermines the significant investments that have been made by

regulated entities in an effort to comply with Cap-and-Trade.

Additionally, we ask that CARB offer technical assistance and workshops to assist the regulated community in navigating regulation changes, benefiting both compliance efforts and broader emissions goals in California.

Continuing Incentives for the Food Production Investment Program and Climate Smart Agriculture programs:

We also want to express support for programs that continue to advance emissions reductions in food and agriculture and receive funding from California Climate Investments. The Food Production Investment Program (FPIP) has proven extremely successful in aiding emissions reduction in the food processing sector. As outlined in the California Climate Investments 2023 annual report, approximately $124 million of investments have financed 48 projects that are scheduled to collectively lower greenhouse gas emissions by 2,783,000 MTCO2e[1] over the life of the projects. These technologies, which have achieved impressive emissions reductions within the sector, would otherwise be financially unattainable without the cost-share funding opportunities made available through California Climate Investments. Notably, 82% of these reductions were achieved in disadvantaged and low-income communities, aligning with CARB's commitment to prioritize emissions reduction in these areas to ensure equity.

Additional programs supportive of emissions reductions in these sectors are the various climate smart agriculture programs at the California Department of Food and Agriculture (CDFA). Specifically, programs such as the Dairy Digester Research and Development Program (DDRDP), Alternative Manure Management Program (AMMP), Healthy Soils Program (HSP), and the State Water Efficiency Enhancement Program (SWEEP), provide critical assistance for producers who, without cost-share financial support, would be financially prohibited from implementing emissions reduction strategies and technologies. Climate smart agriculture programs at CDFA continue to help producers contribute to achieving emissions reductions that align with the goals of cap-and trade and the 2022 scoping plan.

Emission-Intensive, Trade-Exposed Allowances and Classifications:

We support CARB's proposal to allocate allowances for the previous year's production commencement of newly added emission-intensive, trade-exposed (EITE) products. Furthermore, we advocate for the expansion of EITE classification to encompass canned

fruits/vegetables and juices, which exhibit medium leakage risk. Biofuel production should also be eligible for free allowances.

2030 Goals and Carbon Capture Technology:

We express significant reservations regarding the ambitious 55% reduction goal by 2030. We believe that this target is technologically and economically infeasible. Specifically, carbon capture is relied on heavily in this amendment as a tool to close the gap on emissions to meet higher reduction goals such as the 55% proposed. While carbon capture and storage are promising technologies, it lacks proven real-world applications at the scale necessary to achieve this objective. The International Energy Agency (IEA) has determined that the technology required to implement carbon capture programs is behind expectations with only an estimated

[1] California Climate Investments. *California Climate Investments Using Cap-And-Trade Auction Proceeds*. Apr. 2023.

90 facilities projected to be operational worldwide by 2030[2]. Although there is growing momentum in the carbon capture sector, using undeveloped technology not tested at the required scale would undermine the goals of the program. We suggest that carbon capture technology should not be incorporated into these amendments until it has demonstrated technological and economic feasibility at the scale necessary to achieve the proposed emissions reductions in these amendments.

Allowance Incentives for Adoption of Zero Emission Vehicles:

Moreover, we inquire about the possibility of incorporating incentive allowances for covered entities that proactively transition to Zero Emission Vehicles (ZEVs) ahead of schedule. Such incentives could serve as a powerful mechanism to accelerate the adoption of ZEV within the sectors covered by the Cap-and-Trade program. By offering allowances or other benefits to entities that embrace ZEVs, California would not only move closer to achieving its emissions goals but also, its ZEV targets. We believe exploring these incentives aligns with the broader goals of the program and could have positive ripple effects on emission reductions throughout the food production industry.

California's Cap-and-Trade program has been a success story in reducing emissions and spurring innovation. We look forward to collaborating with CARB to develop practical solutions tailored to the unique challenges faced by the food and agricultural industries.

Thank you for the consideration of our comments. If you have any questions or comments, please contact me at emily@agcouncil.org.

Sincerely,

Emily Rooney

Emily Rooney
President

[2] "Carbon Capture, Utilisation and Storage - Energy System." *IEA*, www.iea.org/energy-system/carbon-capture-utilisation-and-storage#tracking. Accessed 14 Aug. 2023.