

IETA

Input to Inform CARB's Potential Amendments to the Cap-and-Trade Program

26 October

The [International Emissions Trading Association](#) (IETA) welcomes this opportunity to provide input on potential amendments to the California cap-and-trade (C&T) program presented by California's Air Resources Board (CARB) at the 5 October workshop. For over 20 years, IETA has been the leading global business voice on robust market solutions to tackle climate change while driving clean finance at scale. Our global non-profit organization represents over 300 companies, including many with operations, clean investments, and workforces across California. IETA's comments are structured around the following topics:

- > **Cap-and-Trade as a Workhorse**
- > **Allowance Removals to Achieve 2030 Target**
- > **Treatment of Electricity Imports from Unlinked Jurisdictions with Carbon Pricing**
- > **Cap-and-Trade Beyond 2030**

Cap-and-Trade as a Workhorse:

We see a growing chorus of California stakeholders now advocating for more climate ambition driven by California's cap-and-trade program. As IETA has communicated previously to CARB, our strong view is that cap-and-trade should play a workhorse role, meaning the instrument *should* do most "heavy-lifting" on driving measurable, cost-effective greenhouse gas (GHG) reductions. Through CARB's forthcoming cap and trade rulemaking process, IETA will continue stressing the importance of program improvements to achieve an increasing share of California's reductions to meet its 2030 climate target and 2045 carbon neutrality target.

We support CARB's ongoing modeling efforts that include lower cap levels. At present – and at a minimum – IETA encourages CARB to implement the proposed 48% reduction below 1990 levels by 2030 scenario. Going forward, IETA's community also has strong interest in seeing the 55% scenario modeled by CARB; this would allow stakeholders have a more fulsome understanding of the breadth of scenarios and their respective impacts.

Allowance Removals to Achieve 2030 Target:

IETA strongly holds that a large majority, if not all, of allowance removals required to achieve the state's 2030 climate target should come directly from the auction/allocation accounts rather than the Allowance Price Containment Reserve (APCR) and ceiling cost-containment accounts. Removing allowances from the cost-containment accounts would expose regulated facilities and California households to significant risk if the thresholds were met. CARB should not reduce these crucial cost-containment measures.

Additionally, removing allowances from these accounts instead of the auction/allocation accounts would run counter to positioning the program as the state's workhorse policy, as the impact of the removals would only materialize if the cost-containment thresholds are reached. Opting to remove allowances from the cost-containment accounts would likely result in fewer reductions driven by the program, requiring other (more costly) policies to address the state's emissions.

Treatment of Electricity Imports from Unlinked Jurisdictions with Carbon Pricing:

IETA strongly supports program linkage as the most optimal solution to treat imported electricity into the state. Linkage not only addresses electricity import concerns, as electricity would be treated equally across jurisdictions, but it also supports a wide range of abatement opportunities and improved efficiencies, thereby driving down program costs while driving up clean projects,

jobs, and market opportunities. IETA encourages California to explore and, if possible, implement linkage with Washington, which has recently released a preliminary linkage analysis outlining positive linkage impacts for the state. California should work closely with its neighboring jurisdictions to support forthcoming linkage efforts.

Cap-and-Trade Beyond 2030:

With caps declining to net zero emissions, the C&T program should be extended through at least 2045. Over the last year, IETA has provided both legal rationale and evidence in support of program extension. In brief, extension would eliminate post-2030 uncertainties, unlock additional climate investments for the state, create ideal conditions for investors to confidently reduce in-state emissions, and alleviate concerns around banked allowances. Legal analysis, published by IETA in late 2022,¹ not only suggests a strong case for CARB's authority to extend the program through regulation, but also that a simple majority is all that's required for post-2030 extension.

IETA commends CARB for including initial model pathways for 2030-2045 during the October workshop and supports further detailed analysis in future workshops. IETA recommends CARB continue to clarify as appropriate the role of the C&T program through 2045.

In terms of APCR allocation, IETA Supports CARB using modelling to determine whether designating a specified percentage of post-2030 allowances to the APCR is appropriate.

Beyond 2030, IETA holds that the program must be designed to continue allowing offsets to serve as an important flexibility mechanism for covered entities. Compliance offsets are important cost-containment measures that support the overall goals of the program while delivering financial signals to reduction sectors/opportunities that are not covered by compliance requirements. Further, the continued inclusion of offsets as a GHG mitigation policy option, both in statute and regulation, recognizes the myriad of social, environmental, and economic co-benefits to California realized in all areas of the state, including tribal, rural, and urban communities. IETA supports CARB's recognition that many of the approved offset projects provide direct environmental benefits to California, including improvements in air and water quality, as well as conservation, biodiversity and local economic benefits that come with technological innovation and bring new jobs and skills to the state.

Conclusion:

IETA appreciates this opportunity to record insights and recommendations to CARB on potential amendments to the California C&T program. If you have any questions or follow up requests, contact Joey Hoekstra at hoekstra@ieta.org.

¹ IETA Legal Memorandum on California Cap-and-Trade Program Beyond 2030. Submitted to the Independent Emissions Market Advisory Committee. ([Link](#))