Center for Energy Efficiency & Renewable Technologies
Center for Resource Solutions * Climate Protection Campaign
Environmental Defense Fund * Natural Resources Defense Council
Sierra Club California * Union of Concerned Scientists

May 13, 2009

VIA E-MAIL: ccworkshops@arb.ca.gov
Mihoyo Fuji
California Air Resources Board
1001 "I" Street
Sacramento, CA 95812

RE: Emissions Leakage Issues in a Cap-and-Trade Program

Dear Ms. Fuji,

On behalf of the undersigned organizations, thank you for the opportunity to comment on issues relating to emissions leakage in a California cap-and-trade program. We recognize that minimizing leakage – the shifting of emissions out of California in a way that reduces the net decrease in global greenhouse gas emissions due to California's programs – is a statutory requirement of AB 32 and an important design objective in any cap-and-trade program. Without question, California should aim to avoid shifting emissions to other states and countries that lack, or have less stringent, climate programs. However, it is possible to overstate the ease with which economic activity and associated emissions can be relocated, and we believe that CARB should be suspect of exaggerated claims that industries will relocate or expand in other jurisdictions as a result of AB 32.

As CARB assesses the potential risks of leakage in a California cap-and-trade program, we encourage CARB to make competitiveness assessments with empirical evidence based on real world economic effects of previous environmental initiatives. For example, the Public Policy Institute of California's report, *Business Location Decisions and Employment Dynamics in California*, analyzes the historical data on California's business climate. The PPIC concludes, "[Our] findings overall give no cause for concern about California's business climate. Although some businesses move or expand out of the state, others move or expand into the state."[1] In addition, experience shows that the costs of environmental compliance have usually proven to be lower than they are predicted to be before a program went into effect. Recent Congressional testimony from Nat Keohane, Environmental Defense Fund,[2] and Richard Morgenstern's award-winning article, "On the Accuracy of Regulatory Cost Estimates,"[3] both provide excellent insights on this topic.

Furthermore, we note with concern recent reports that steel manufacturers in the European Union received excess allowances (i.e. allowances left over after submitting allowances to cover their

[1] Jed Kolko and David Neumark, "Business Location Decisions and Employment Dynamics in California," *Public Policy Institute of California*, 2007, pg. x, http://www.ppic.org/main/publication.asp?i=710
[2] See page 20, figure 6, at http://www.edf.org/documents/9605_keohane-carbon-cap-testimony-2009.pdf
[3] Morgenstern, R., Harrington, W. and Nelson, P. 2000. "On the accuracy of regulatory cost estimates," *Journal of Policy Analysis and Management* 19(2): 297-322

emissions) from the EU Emissions Trading Scheme worth $1.5 billion.[4] Were that to occur in California, such excess payments would reward out of state corporations at the expense of Californians, and would represent a lost opportunity to direct allowance value to advance technological innovation and protect economically vulnerable households in California. Allowances represent a valuable public asset and should be invested carefully to further the public good. We urge CARB to ensure that the value of allowances accrue to the public interest and support the goals of AB 32.

CARB should be on guard against tried-and-proved-untrue arguments that economic growth and environmental protection are a zero-sum tradeoff. That is to say that we can both grow the economy and enjoy cleaner air and water. In fact, California has been an environmental leader for decades, while adding jobs and businesses in the state. In particular, California's energy efficiency measures have enabled California businesses and consumers to reduce emissions, save money, and increase economic growth. CARB's competiveness assessments should recognize that efficiency investments will enable industries to lower energy bills, to the benefit of their bottom line.

Moreover, we hope that competitiveness assessments will not assume a static policy environment. Progress on climate policy is taking place the world over,[5] and to assume that the policy landscape in 2012 will look the same as it does today would be a very pessimistic view about the future.

Thank you for considering our views. We look forward to continued dialogue on how to address competitiveness and leakage issues in California's cap-and-trade program.

Sincerely,

Chris Busch, Ph.D., Center for Resource Solutions

James Fine, Ph.D., Environmental Defense Fund

Kristin Grenfell, Natural Resources Defense Council

Ann Hancock, Climate Protection Campaign

Bill Magavern, Sierra Club California

Danielle Osborn Mills, Center for Energy Efficiency and Renewable Technologies

Erin Rogers, Union of Concerned Scientists

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[4] Szabo, Michael. 2009. "EU Steelmakers Reap $1.5 Billion Benefit from EU ETS," Reuters. (April 9)

[5] China is often cited as a laggard on climate policy, but the truth is much more nuanced. The country has adopted aggressive vehicle standards, a 10% by 2010 renewable electricity portfolio standard, and has adopted a goal to reduce economy-wide energy use per unit of economic output by 20 percent by 2010. See "Renewables 2007: Global Status Report," Renewable Energy Policy Network for the 21st Century, 2007, http://www.ren21.net/pdf/RE2007_Global_Status_Report.pdf