January 31, 2025

Independent Emissions Market Advisory Committee

Submitted Electronically: iemac@calepa.ca.gov

RE: California Chamber of Commerce Comments on 2024 Draft IEMAC Report

Dear Independent Emissions Market Advisory Committee Members:

The California Chamber of Commerce (Cal Chamber) appreciates the opportunity to submit comments on the Draft 2024 IEMAC Report (the Draft Report). As California's leading advocate for business and economic growth, Cal Chamber supports the continued use of Cap-and-Trade's market-based mechanisms to achieve ***cost-effective*** greenhouse gas (GHG) reductions. Reauthorization of Cap-and-Trade must maintain the program's economic viability by producing cost-effective GHG reductions while providing California businesses with regulatory certainty and ensuring global competitiveness.

While the Draft Report provides a thorough review of California's Cap-and-Trade Program, Cal Chamber is concerned that some of the policies contemplated in the Draft Report would undermine the cost-effective functioning of the Cap-and-Trade Program if implemented. We therefore provide the comments below for IEMAC's consideration.

Affordability Implications

The purpose of the Cap-and-Trade Program is to use market-mechanisms to produce cost-efficient GHG reductions. The need for cost-efficiency is amplified by the affordability crisis faced by California's businesses and consumers.

In the face of the affordability crisis and contrary to the goal to deliver GHG reductions cost-effectively, the Draft Report evaluates several options that would increase carbon pricing without corresponding GHG reductions. For example, the Draft Report examines an Emissions Containment Reserve (ECR), which would withhold allowances if prices fall below a set threshold. If prices fall below that threshold, it likely signals either (1) significant successful emissions reductions by covered entities—an achievement that should not trigger higher costs, or (2) an economic downturn, where raising costs would further burden struggling businesses. In both scenarios, raising carbon prices through ECR would impose unnecessary economic burdens without guaranteeing additional emissions reductions, fundamentally weakening Cap-and-Trade's efficiency.

Similarly, the Draft Report advocates increasing carbon prices solely to send price signals to consumers. Rather than allowing covered entities to pursue cost-effective GHG emissions reduction, the Draft Report seeks to modify consumer behavior through price increases which may or may not result in GHG emissions reductions. Should either of these proposals be adopted, the Cap-and-Trade Program will have delinked cost-effectiveness from GHG reductions. Other policies considered in the Draft Report, including reduced allocations and offsets, will also contribute to further cost pressures on businesses and consumers. IEMAC should avoid recommendations for reforms that fail to provide cost-effective GHG reductions, and which put California's businesses at a competitive disadvantage and consumers under increased cost pressures.

Cap-and-Trade as a Cost-Containment Mechanism: Avoid Redundant and Costly Prescriptive Policies

The Cap-and-Trade Program is designed to be a cost-effective, market-driven approach to reducing GHG emissions. A key strength of Cap-and-Trade is its ability to achieve broad cost-effective GHG reductions

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by allowing businesses to choose the most efficient compliance strategies. In contrast, prescriptive policies impose rigid compliance measures that often force businesses into higher-cost abatement strategies. While some argue that such companion policies may reduce the need for allowances, they also increase total compliance costs—creating inefficiencies that harm businesses and consumers. By layering prescriptive policies on top of Cap-and-Trade, regulators inadvertently drive-up costs in multiple ways, such as:

- **Unnecessary duplication** – When businesses are required to meet both direct emissions reductions under mandates and market-based reductions under Cap-and-Trade, they face double compliance costs with diminishing marginal benefits;
- **Reduced cost-effectiveness** – Mandates, such as facility-specific caps, may limit a business's ability to allocate resources efficiently (e.g., if a facility-specific cap forces a business to invest in expensive equipment at one location providing limited GHG reductions as opposed to investing in cheaper solutions elsewhere which ultimately provide greater overall GHG reductions); and
- **Increased administrative burdens** – Additional regulatory programs require businesses to navigate complex compliance structures, increasing costs without guaranteeing proportional GHG reduction.

In the Draft Report, IEMAC recognizes the need for cost-containment and the potential for the hidden costs of prescriptive mandates to "significantly increase the overall cost of GHG abatement while also putting downward pressure on the GHG allowance price (and thus reducing the incentives to reduce GHG emissions in other parts of the California economy)." Recognizing the unique role the Cap-and-Trade Program plays in cost-effective GHG reductions, IEMAC should discourage the implementation of costly and redundant prescriptive policies.

Cal Chamber appreciates IEMAC's continued efforts to analyze and refine California's cap-and-trade program. However, we strongly urge the Committee to reconsider recommendations that increase compliance costs, reduce regulatory flexibility, and jeopardize business competitiveness.

Thank you for your consideration.

Sincerely,

Jonathan Kendrick
Policy Advocate
California Chamber of Commerce