

March 20, 2026

Independent Emissions Market Advisory Committee

Submitted Electronically: iemac@calepa.ca.gov

RE: California Chamber of Commerce Comments on 2025 Draft IEMAC Report

Dear Independent Emissions Market Advisory Committee Members:

The California Chamber of Commerce (CalChamber) appreciates the opportunity to submit comments on the Draft 2025 IEMAC Report (the Draft Report). The Draft Report comes at an important moment as the California Air Resources Board (CARB) considers what the implementing regulatory package for last year's reauthorization of the Cap-and-Invest program should look like.

Since its prior 2017 reauthorization, California's Cap-and-Invest program has delivered meaningful emissions reductions while maintaining economic stability through strong cost-containment mechanisms and leakage protections. The success of the program depends on maintaining a careful and deliberate balance between environmental ambition, affordability, and leakage protections. Preserving that balance is essential to ensuring that the program is politically and economically durable. The long-term climate results sought through the program can only be achieved if the regulated community and consumers alike have confidence that the program contains meaningful protections against cost escalation and leakage. We have significant concerns with the regulatory package introduced to implement the 2025 reauthorization. Increased ambition without corresponding enhancements to cost-containment and leakage protection threaten to upset the program's historical balance.

The IEMAC report appropriately recognizes the inherent tradeoffs involved in programmatic decision-making. However, in several key respects, the draft report places disproportionate emphasis on increasing program stringency and structural changes without sufficient consideration of the economic safeguards that underpin the program's success. As CARB moves forward with rulemaking under AB 1207, it is essential that policy recommendations remain firmly grounded in the Legislature's direction to minimize emissions leakage and consider affordability and cost-effectiveness. We therefore provide the comments below for IEMAC's consideration.

Revenue Expectations Must Be Aligned with Program Realities

The report's discussion of program revenue identifies a significant and important issue: a structural disconnect between anticipated Greenhouse Gas Reduction Fund (GGRF) revenues and the spending levels contemplated in SB 840. As the report notes, projected revenues are unlikely to reach the levels assumed in statute and are expected to decline over time, even under scenarios that assume higher allowance prices.

CalChamber strongly agrees that this disconnect presents a structural challenge. While the report does not prescribe policy responses, the existence of a persistent gap between projected revenues and statutory spending expectations creates a risk that policy decisions will be shaped, implicitly or explicitly, by a perceived need to increase allowance prices or otherwise maximize auction proceeds. This would shift the program away from its core function as a cost-effective emissions reduction mechanism toward a revenue-driven framework that increases cost pressures on California families and businesses.

It is particularly important to recognize that allowance value is a byproduct of compliance costs borne throughout the economy. Decisions that increase allowance prices or reduce cost-containment flexibility in order to support higher revenue generation ultimately translate into higher energy costs and broader cost-of-living impacts. ***The primary purpose of the Cap-and-Invest program, therefore, must remain the achievement of emissions reductions in a cost-effective manner.*** Policy design should not be driven

by revenue targets, particularly where those targets are not supported by realistic projections. To avoid hurting California businesses and families, revenue generation should not be prioritized over cost-containment and leakage protection.

Recommendations on Environmental Ambition Should Be Sequenced with Technological and Economic Realities

The report's discussion of environmental ambition emphasizes the potential for additional near-term allowance reductions, including scenarios that would increase program stringency beyond CARB's current proposal. Increasing near-term ambition without corresponding enhancements to cost containment and leakage protection raises significant concerns.

Many emissions-intensive, trade-exposed industries operate under long capital investment cycles and face substantial technological and infrastructure constraints. In many cases, commercially viable decarbonization pathways are still emerging and depend on factors such as permitting timelines, grid capacity, fuel availability, and capital deployment cycles.

Accelerating emissions reductions beyond what these sectors can realistically achieve risks driving compliance costs above sustainable levels. This, in turn, increases the likelihood of further cost-pressures on consumers and emissions leakage, where production shifts to jurisdictions with less stringent climate policies resulting in higher global emissions, rather than meaningful reductions. A least-cost, durable approach to climate policy must sequence ambition with technological readiness and infrastructure availability.

Cost Containment Must Remain a Central Design Feature of the Program

While the report discusses cost containment mechanisms such as the Allowance Price Containment Reserve (APCR) and other market stability tools, it does not sufficiently emphasize the importance of strengthening these mechanisms as the cap becomes more stringent.

As allowance supply declines, the role of cost containment becomes more critical. Without robust safeguards, tightening the cap can lead to rapid and unpredictable increases in allowance prices, with cascading effects throughout the economy.

CalChamber has consistently emphasized that cost containment is not a secondary consideration; it is a core design principle of California's carbon market. The program's price ceiling, APCR, and related mechanisms were specifically designed to prevent destabilizing price spikes and maintain economic stability. To preserve program balance, it is necessary to evaluate whether existing cost containment tools remain sufficient under AB 1207's more stringent cap trajectory and, if not, to strengthen those mechanisms accordingly.

Leakage Mitigation Should Be Treated as an Essential Environmental Safeguard

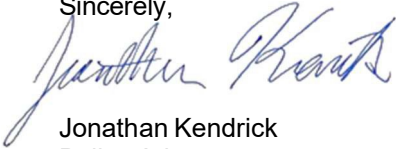
The report correctly identifies output-based allocation as a key tool for mitigating emissions leakage. While the report recognizes the importance of leakage mitigation, it frames it as a tradeoff that comes at an "opportunity cost" and an "abatement cost" rather than as a central component of the program's environmental integrity. This framing understates the importance of leakage protection. When production shifts out of California due to rising compliance costs, associated emissions often increase globally due to less stringent environmental standards in other jurisdictions. In such cases, California's policies may reduce in-state emissions while increasing global emissions, undermining the program's environmental objectives. Maintaining robust industrial allocation is therefore essential to achieving real, global emissions reductions.

As the cap tightens, CARB should ensure that allocation methodologies continue to provide effective leakage protection, particularly for emissions-intensive, trade-exposed industries.

Conclusion

The draft IEMAC report provides valuable insights, but its recommendations should be refined to more fully reflect the statutory directives on affordability, cost-effectiveness, and leakage mitigation. A durable and effective program must ensure that increased stringency is paired with proportionate enhancements to cost containment, leakage protection, and broader economic safeguards. CalChamber appreciates the opportunity to provide these comments and looks forward to continued engagement with CARB and IEMAC as the rulemaking process moves forward.

Sincerely,



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California Chamber of Commerce