

The California carbon dioxide emissions cap-and-trade program is the best designed emissions trading program in the world and has contributed to the state achieving its 2020 goals four years ahead of schedule. In 2017, the California Legislature and Governor Edmund G. Brown, Jr. directed the development of the Independent Emissions Market Advisory Committee (IEMAC or Committee) through the passage of Assembly Bill (AB) 398. The provisions specific to the Committee are set out in the Health and Safety Code, Section 38591.2.

The statute established the IEMAC within the California Environmental Protection Agency (CalEPA) through January 1, 2031. IEMAC members include at least five experts on emissions trading market design appointed by the Governor (three members), the Senate Committee on Rules (one member), and the Speaker of the Assembly (one member). Membership also includes a representative from the Legislative Analyst's Office.

Committee members must all possess academic, nonprofit, and other relevant backgrounds and lack financial conflicts of interest with entities subject to the cap-and-trade regulations adopted by the California Air Resources Board (CARB). Statute requires at least one annual public meeting and a report to both CARB and the Joint Legislative Committee on Climate Change Policies on the environmental and economic performance of the cap-and-trade regulation and other relevant climate policies¹.

Summary of the Committee Research and Recommendations

The role of the IEMAC as outlined by AB 398 is to monitor the environmental and economic performance of the state's carbon markets. This report presents six reviews, conducted in subcommittees, of issue areas that affect the performance of the market. The reviews cover environmental justice, leakage, offsets, managing allowance supply, price ceilings, and overlapping policies. In this summary, we highlight several recommendations to CARB about data collection, reporting and analysis that the committees believe would help ensure the integrity of California's emissions reduction efforts and help inform regulatory choices. In some of the subcommittee reports we also comment on CARB's proposed regulations for the cap-and-trade market. We first offer several overarching comments focused on big design issues facing CARB in shaping the cap-and-trade market post-2020 and in evaluating the state's efforts to date.

Program Design

We begin with three important principles. First, it is crucial that decarbonization of the state's economy not interfere with California's economic growth and that the state continues the trend of decoupling greenhouse gas emissions from economic activity. Ensuring that our climate policies are as cost-effective as possible (consistent with other goals) is important to achieving this outcome. Second, the programs the state has adopted to reduce our GHG emissions – both legislatively and administratively – must be administered in ways that maximize benefits to all Californians, particularly those in disadvantaged and vulnerable communities. And third, the state's programs to reduce emissions must be designed to maximize environmental integrity – to produce real, verifiable emissions reductions that help reduce overall global emissions. As the state's emissions targets ratchet down and the state aims to achieve carbon neutrality by

¹ Statute also requires CARB to consult with the IEMAC and report to the Legislature in the event of specified cap-and-trade auction outcomes.

2045², achieving cost-effective reductions that have environmental integrity and produce benefits to all Californians will become tougher. Our aim in this report is to begin to evaluate areas of carbon market design with these background principles in mind.

Our subcommittee reports are worth reading in their entirety but below we summarize our key recommendations. Most of our recommendations ask CARB to gather – either directly or through independent research – information and analysis that would cast light on potential problem areas identified by the subcommittees. In some cases, this information may exist and we welcome direction to that information; in other cases, there may be opportunities for improvement of existing information or new analysis is needed. In some cases, we suggest revisions to the draft cap-and-trade regulations CARB issued on September 4, 2018. We appreciate that tradeoffs must be made in assigning scarce resources within California’s regulatory agencies. In this light, we try to identify priorities.

Subcommittee Report on Environmental Justice

Subcommittee Report on Leakage

Subcommittee Report on Offsets

Subcommittee Report on Managing Allowance Supply

Subcommittee Report on the Price Ceiling

Subcommittee Report on Overlapping Policies

Looking Forward

Before moving to the subcommittee reports, we offer a word on process. This committee had an abbreviated schedule to meet and develop recommendations, and we accelerated the process to provide our first report within the fall 2018 comment window for the proposed amendments to the cap-and-trade program. Going forward, we are committed to improve the opportunity for committee activities and to enable better engagement with the public and the legislature.

We appreciate the hard work and dedication of the staff of CalEPA and CARB, under the leadership and direction of the Executive Officer, the CARB Board and its Chair. Their work to date has produced emissions reductions that have met the 2020 GHG emissions cap four years early at the same time that California has led the country in economic growth. Our recommendations intend to assist the Board in the next phase of program implementation, as we work collectively to ensure that California meets its ambitious climate goals with

² [Executive Order B-55-18 to Achieve Carbon Neutrality](#)

environmental integrity, with environmental justice, and in a way that continues to contribute to California's economic health.