

Thank you for the opportunity to provide comments on the 2022 IEMAC Annual Report. This feedback is not an endorsement of the cap and trade program, and a phaseout is needed to realize direct emission reductions. However, as the program exists, we strongly encourage reforms to be implemented.

We, the undersigned, are writing to provide support for and feedback on the “No-Trade Zones and Facility-Level Emission Limits” chapter. The cap and trade program is a market based mechanism overdue for a reckoning of the proper balance between economic efficiency, environmental justice, and public health. We appreciate seeing the IEMAC uplift the Environmental Justice Advisory Committee recommendations, particularly the safeguard of “no trade zones or facility-level emissions limits”, and define these practical concepts for further discussion.

As the current draft chapter reflects, the EJAC has recommended:

“Establish no-trading zones or facility-level emissions limits in EJ communities. Facilities in or directly adjacent to disadvantaged communities as defined by Health & Safety Code Section 39711 should be restricted from using allowances to demonstrate compliance. Instead they should be subject to regulations requiring direct emissions reductions equivalent to the declining caps applicable to the overall program (e.g., 3% per year). This would protect the most impacted communities from excessive exposure to co-pollutants. A proportional number of allowances should subsequently be removed from circulation to avoid further exacerbating existing oversupply issues.”

The EJAC has recommended this reform of the cap and trade program primarily because, after years of cautioning against the potential discriminatory effects of the cap and trade program on disadvantaged communities, evidence has mounted showing that such effects are in fact occurring. In just the past year two reports, one by OEHHA¹, the other by Manual Pastor et al², have documented that facilities in at least some problematic source categories, such as refineries, have essentially been left uncontrolled under the cap and trade program. As a result, environmental justice communities across the state and especially in the San Joaquin Valley have been overburdened with localized pollution created through the program. Such an outcome is a clear conflict with public policy regarding equity and discrimination, and a program review should center these issues.

Another recommendation we would like to be explored by the IEMAC in this chapter is the development of a superemitter limitation. This could identify some of the worst actors under the program for regulatory review as an opportunity for improving emissions, and they can be subject to particular trading restraints until they meet a set target. This would develop a pathway where trading privileges are suspended or restricted for a particular failure or pattern to meet emission reductions across the program to prevent the inequitable impact on public health discussed earlier.

In conclusion, we strongly believe no trade zones or facility-level emissions limits is a good conceptual fit with the potential inequities revealed in both the OEHHA and Pastor et al reports, and

¹ “Impacts of Greenhouse Gas Emission Limits Within Disadvantaged Communities”, OEHHA, February 3, 2022; <https://oehha.ca.gov/media/downloads/environmental-justice/impacts-of-ghg-policies-report-020322.pdf>.

² “Up in the Air: Revisiting Equity Dimensions of California’s Cap-and-Trade System”, Pastor et al, February, 2022; https://dornsife.usc.edu/assets/sites/1411/docs/CAP_and_TRADE_Updated_2020_v02152022_FINAL.pdf.

is consistent with US EPA guidance on economic incentive programs. Although we hope to see a gradual decrease in reliance on the cap and trade program in the future, these could be substantial reforms to address some of our existing concerns. We look forward to the report's release and are interested in being a part of further consultation and review of the cap and trade program.

Thank you.

Sincerely,

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