



IETA Comments on Draft Chapters of IEMAC's 2022 Report

The International Emissions Trading Association (IETA) appreciates the opportunity to comment on the draft chapters of IEMAC's 2022 report. IETA is an international nonprofit business association founded in 1999 with over three hundred members that support the use of cap-and-trade programs to address the climate crisis. IETA seeks continuous improvement in carbon pricing systems and innovations to advance natural climate solutions.

IETA believes a central objective of climate change policy should be the efficient direction of capital within the market towards low and zero carbon emission investment. As outlined in IETA's principles¹, a prerequisite for this outcome is long-term clarity and predictability of rules and targets. In our public comments, we focus on the long-term clarity of California's cap-and-trade program by commenting on post-2030 extension and on predictability of rules by providing suggestions related to carbon offset design.

Significant Benefits of Extending the Program Beyond 2030

The draft chapter written by Dr. Dallas Burtraw and Katelyn Roedner entitled "Carbon Market After 2030: Market Design" provided an intellectually coherent analysis of IEMAC's contributions to date culminating in numerous findings. IETA appreciates that the draft chapter recommended that CARB take steps to identify options and clarify the role of the carbon market after 2030. However, IETA feels that the authors missed an opportunity to explicitly elaborate on the benefits of extending the program beyond 2030 as soon as possible. We discuss two such benefits below.

First, ambiguity over post-2030 extension introduces unnecessary risk to any investments of climate-friendly projects relying on achieving a return through the monetization of allowances (or the avoidance of needing to acquire allowances). This is particularly the case for larger infrastructure investments, which will likely not begin to operate until closer to 2030, given the lengthy permitting processes in California. IETA recommends that IEMAC further analyze the negative impacts of post-2030 ambiguity on historical and current levels of climate-friendly investment into California. In addition, IETA recommends that IEMAC analyze the extent to which extending the program beyond 2030 would unlock additional climate-friendly investments and associated reductions in California before 2030.

Second, IETA believes that extending the program beyond 2030 would alleviate concerns around achieving California's 2030 climate target. IETA appreciates that IEMAC referenced the recent report by the Legislative Analyst's Office, which urged the Legislature to consider extending the program beyond 2030 as one potential change to make cap-and-trade more consistent with California's 2030 goal.²

As explained by Dr. Meredith Fowlie, allowance banks can be likened to saving accounts.³ This means that firms will be disinclined to "overspend" their banked allowances before 2030 if the cap-and-trade program extends beyond 2030, thereby decreasing the chances that emissions exceed California's 2030 target. IETA agrees with Dr. Fowlie that "it will be important to extend the time horizon of the carbon market to align with the horizon of our policy goals".⁴ For these

¹ <https://ieta.org/Our-Principles>

² <https://lao.ca.gov/reports/2023/4656/2022-Scoping-Plan-Update-010423.pdf>

³ <https://energyathaas.wordpress.com/2022/05/16/whats-the-plan-for-carbon-pricing-in-california/>

⁴ <https://energyathaas.wordpress.com/2022/05/16/whats-the-plan-for-carbon-pricing-in-california/>



reasons, IETA advocated during last year’s legislative session for extending the cap-and-trade program through 2045 with caps declining to net-zero emissions. While IEMAC has spilled much ink identifying the concern of banked allowances negatively impacting California’s 2030 target, IETA suggests that IEMAC now analyze with equal vigor the most obvious solution to this concern: extending the program beyond 2030.

Ensuring Predictability Around Carbon Offset Rules

IETA disagrees that the idea of initiating “an ex-post evaluation of the performance of offset projects and make adjustments to allowance supply accordingly” deserves consideration.

IETA sees the value in ex-post evaluations as they can indicate areas for improvement. However, such evaluations should be comprehensive and unbiased. Moreover, IETA believes any findings from any evaluations should be incorporated into updating protocol design via the regulatory rulemaking process. IEMAC should elaborate on the processes for conducting such evaluations and should emphasize comprehensive and unbiased methodological approaches.

Further, IETA believes that the notion of adjusting allowance supply as a consequence of ex-post evaluations should be avoided, as it would lead to unpredictability in the market. At a minimum IEMAC should endeavor to clarify (1) why adjustments to allowance supply are more appropriate than other equally feasible measures and (2) which allowances it proposes to be adjusted and the timing of such adjustments.

The aforementioned recommendations IETA makes are consistent with the IETA principle that offsets should be created through a transparent process that recognizes business decision-making realities and is both environmentally effective and economically efficient.⁵

Conclusion

IETA commends IEMAC for the breadth and depth of their chapters. We look forward to continuing our engagement with the Committee and its Members. You can reach me by email at munnings@ieta.org.

Sincerely,

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⁵ <https://ieta.org/Our-Principles>