



June 17, 2020

The Honorable Gavin Newsom
 Governor, State of California
 State Capitol
 Sacramento, CA 95814

SUBJECT: REQUEST FOR LINE ITEM VETO-SB 74, ITEM 3900-003-3237

Dear Governor Newsom:

The California Chamber of Commerce and the organizations listed strongly urge you to **LINE ITEM VETO Item Number 3900-003-3237 of SB 74**, which would force the Air Resources Board (ARB) to re-do a rulemaking that was just completed. This re-do substantially risks the balance of environmental protection and cost-effectiveness agreement reached in passing AB 398 (E. Garcia, 2017), California's landmark, bipartisan Cap-and-Trade agreement, jeopardizing the program itself in addition to drastically increasing costs on all Californians at a time of record high unemployment. We urge you to exercise your authority under Article IV, Section 10(e) of the California Constitution to veto this item.

SB 74, Item 3900-003-3237 currently reads:

3900-003-3237—For support of State Air Resources Board, payable from the Cost of Implementation Account, Air Pollution Control Fund.....

Schedule: (1) 3510-Climate Change..... 200,000

Provisions:

1. Funds appropriated in this item shall be used by the State Air Resources Board to conduct rule-making to consider changes to the Cap-and Trade Program

This proposal was first set forth in the agenda for Senate Budget Subcommittee 2 over the Memorial Day weekend and the provisions have received no public hearing or public debate. In fact, a large number of legislators are opposed to bringing forward the measure at all, let alone in the budget process without a public hearing. Unfortunately, the proponents put legislators who opposed this measure in the uncomfortable position of voting against the entire budget.

As you are no doubt well aware, much work and many hard votes went into the re-authorization of cap-and-trade in 2017, with many Republicans crossing the aisle to develop the first bi-partisan carbon emissions reduction program in the United States, which was heralded by the press and by California as a landmark achievement. AB 398, the bi-partisan legislation, directed the Air Resources Board to conduct studies and engage in a rulemaking to design an appropriate, cost-effective cap-and-trade system that would meet our emissions cap while keeping “leakage”—the concept of emissions (and jobs) leaving California—at a minimum. This rulemaking set an escalating floor price and a price ceiling (“price collar”) and provided for a series of decreasing allowances for industries ARB determined were at a high risk of leakage. This rulemaking was completed in 2018, and its provisions go into effect next year.

Now, opponents of that deal have abused the budget process to insert this provision to require the ARB to conduct a very expensive re-do of that very rulemaking, which, in the words of the Air Resources Board, “would make the Cap-and-Trade Program more expensive to comply with and those increased costs would be passed through to every Californian in the form of increased fuel costs, electricity and gas rates, and consumer goods prices.” ARB also noted that the Cap-And-Trade Program is intended to decrease greenhouse gas emissions, not generate revenue.

Increases the Price of Gas, Energy, and Consumer Goods, but Does Not Help Reduce Emissions

Making changes to the market aspects of cap-and-trade, such as the price ceiling, price collars, and allowances does not decrease emissions. Instead, it increases the costs, which are passed along to Californians at a time of record high unemployment. This applies to gas, energy, glass products, canned goods, dairy, and many other industries. For example, ARB’s own analysis found that for every \$10 increase in the ceiling price, gasoline prices would increase 9 cents per gallon. In their analysis of electricity costs, ARB found that by 2021, prices for natural gas and electricity would increase by 7.7 and 6.3% respectively.

In addition to contemplating the impacts to the costs of goods, ARB’s 2018 Initial Statement of Reason (ISOR) considers the impacts of implementing an overall higher-cost program, finding that as ceiling prices increase, so too does the possibility of leakage, resulting in more businesses leaving the state. As a result of these findings, ARB set an appropriate price floor, price ceiling, speed bumps, and allowances to achieve the balance dictated by AB 398, which regulations go into effect this year. ARB has indicated that “as with all programs, CARB monitors the Cap-and-Trade Program and initiates rulemakings when data demonstrates changes are needed.” The fact that emissions are lower than usual, and thus revenues are lower than usual, does not signal that the program is “broken.” In fact, legislative override of the cost-effectiveness of Cap-and-Trade can cause market instability, leading to even lower revenues.

Cap-And-Trade Is an Emissions Reduction Plan, Not a Reliable Revenue Source

Cap-and-trade was designed as an ambitious emissions reduction plan, and it continues to work. When emissions are down, revenues will decrease. We understand the frustration of groups that have traditionally

relied upon GGRF funding, funded by cap-and-trade. However, changes to the market system do not guarantee that funding will be available. For example, even if the price floor increases, if the economy does not immediately improve, auction results will continue to be low. This is how cap-and-trade is designed to work.

Instead, what will happen is that investors and partners who have joined or are considering joining our market-based system of cap-and-trade will lose faith in the system. How can businesses or investors continue to plan when this will be a strong signal from the legislature that they themselves do not believe in letting cap-and-trade work as designed? A lack of investment will drive down GGRF revenues even further.

Conclusion

Because this plan does nothing to reduce emissions, but only increases costs and jeopardizes California's hard-won agreement on cap-and-trade, this proposal is unwise. For these reasons and others, we strongly urge you to exercise your authority under Article IV, Section 10(e) to **LINE ITEM VETO** Item 3900-003-3237 before this continued debate irrevocably damages participants' and partners' faith in California's landmark Cap-and-Trade emissions reduction program.

Sincerely,



Leah Silverthorn, Policy Advocate
California Chamber of Commerce

Agricultural Council of California
American Chemistry Council
American Pistachio Growers
Brea Chamber of Commerce
California Building Industry Association
California Business Properties Association
California Business Roundtable
California Citrus Mutual
California Cotton Ginners and Growers Association
California Farm Bureau Federation
California Fresh Fruit Association
California Fuels & Convenience Alliance
California Independent Petroleum Association
California League of Food Producers
California Manufacturing & Technology Association
California Taxpayers Association
CARE-Californians for Affordable and Reliable Energy
Energy Users Forum
Farwest Equipment Dealers Association
Fountain Valley Chamber of Commerce
Greater Coachella Valley Chamber of Commerce
Industrial Environmental Association
Lodi Chamber of Commerce
Long Beach Area Chamber of Commerce
Mendocino Humboldt Redwood Companies
North Orange County Chamber of Commerce
Olam
Orange County Business Council

The Honorable Gavin Newsom
Page 4
June 17, 2020

Pleasanton Chamber of Commerce
San Gabriel Valley Economic Partnership
Sierra Pacific Industries
Torrance Area Chamber of Commerce
West Coast Lumber & Building Material Association
Western Agricultural Processors Association
Western Growers Association
Western Independent Refiners Association
Western Plant Health Association
Western States Petroleum Association

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