

May 10, 2010



CALIFORNIA
FORESTRY
ASSOCIATION

The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger:

Thank you for your letter of March 24, 2010 to California Air Resources Board (CARB) Chair Mary Nichols stating your concerns about how certain elements of the proposed AB 32 cap-and-trade program could increase costs for California businesses and consumers. We agree with you that several elements of the program under consideration by CARB merit careful scrutiny.

Cost containment is critical to ensuring that businesses in California can remain competitive. For that reason, we appreciate your statements that offsets should be maximized in a cap-and-trade program and auctions should be minimized initially to reduce the costs of AB 32.

We strongly support your view that an ample supply of high-quality offsets would reduce the cost of complying with AB 32. In fact, the Charles River Associates (CRA) study cited in your letter found that expanding the use of offsets to 15% instead of 4% would reduce AB 32 compliance costs by 40%.¹ Maximizing the use of offsets is a critical means of reducing AB 32 costs and keeping California companies competitive.

With respect to auctions, your letter correctly pointed out that utilizing 100% auctions would impose very high and abrupt costs on the public agencies and companies subject to the cap-and-trade program. This is demonstrated by estimates from CARB's Economic and Allocations Advisory Committee (EAAC) that at a price of \$60 per ton, the auction costs would total \$143 billion between 2012 and 2020.²

Increased costs for energy resulting from an AB 32 auction would also lead to lost jobs because consumers would have less disposable income to spend. Higher costs would also force some companies to downsize, shift their operations out of California, or shut down altogether.

The program now under consideration by CARB does not contain plans to protect California businesses from trade exposure to competitors who are not similarly regulated. While the cost containment tools that you identified are important, CARB must make use of all of the cost containment tools available including linkage, phasing and transition polices to ensure that California does not experience significant leakage of both jobs and emissions.

Finally, we want to bring to your attention the negative consequences that must be considered in the development of a California-only cap-and-trade program for managing global warming emissions. The California-only cap-and-trade is one of those

¹ "Analysis of the California ARB's Scoping Plan and Related Policy Insights," Charles River Associates, March 24, 2010.

² "Allocating Emission Allowances Under a California Cap-and-Trade Program," CARB Economic and Allocations Advisory Committee (EAAC), March 2010, page 32.





elements of the CARB approach that merits careful scrutiny to prevent unintended consequences.

According to CRA, replacing or linking California’s cap-and-trade program with a national policy would lead to lower allowance prices, smaller increases in electricity rates and lower social costs to California.³

Thank you again for recognizing the high cost of a poorly designed AB 32 cap-and-trade program. Your recommendations on a broader use of offsets, linkage to the federal and international markets and minimizing auctions initially are a positive start. We look forward to further discussion with you to find ways to achieve greenhouse gas emission reductions without sacrificing California jobs and our state’s economy.

Sincerely,

California Forestry Association

Steven A. Brink
Vice President – Public Resources

CalChamber

Jeanne Cain
Executive Vice President

California Independent Petroleum Association

Rock Zierman
Chief Executive Officer

Associated General Contractors of America-California

Tom Holsman, CEO

Western States Petroleum Association

Cathy Reheis-Boyd
President

California Taxpayers’ Association

Michele Pielsticker
Vice President/General Counsel

California Business Properties Association

Rex Hime
President & CEO

Wine Institute

Tim Schmelzer
Legislative Regulatory Representative

California Metals Coalition

James Simonelli
Executive Director

California League of Food Processors

Ed Yates
President and CEO

California Business Roundtable

Bill Hauck
President

California Manufacturers and Technology Association

Dorothy Rothrock, Vice President

California Retailers Association

Bill Dombrowski
President and Chief Executive Officer

California New Car Dealers Association

Peter K. Welch
President

Valley Industry & Commerce Association

Stuart Waldman
President

cc: Susan Kennedy
Mary Nichols
ARB Board
Cindy Tuck
James Goldstene

Virgil Welch
Jan Mazurek
Dan Pellissier
Michael Gibbs

³ “Analysis of the California ARB’s Scoping Plan and Related Policy Insights,” Charles River Associates, March 24, 2010.

