May 15, 2025

The Honorable Gavin Newsom
Governor of California
1021 O St. 9000
Sacramento, CA 95814

Senate Pro Tem Mike McGuire
1021 O Street, Suite 8518
Sacramento, CA 95814

Assembly Speaker Robert Rivas
1021 O Street, Suite 8330
Sacramento, CA 95814

Senator Brian W. Jones
California State Senator
1021 O Street, Suite 7640
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Assemblymember James Gallagher
California State Assembly
1021 O St. 4740
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Dear Governor Newsom, Pro Tem McGuire, Speaker Rivas, Senator Jones, Assemblymember Gallagher,

For more than a decade, cap-and-trade has anchored California's climate strategy, delivering deep, cost-effective emissions reductions alongside record economic growth in the most cost contained structure possible. This does not mean that the cap-and-trade program is without cost, but the smart market design has helped California decarbonize without draconian mandates. Quarterly allowance auctions have pumped nearly $30 billion into the state's Greenhouse Gas Reduction Fund, backing everything from wildfire-hardening to transit modernization, while also returning billions to households through the California Climate Credit on their utility bills. By coupling a transparent carbon price with cost containment safeguards and leakage protections for trade-exposed industries in AB 398 (Garcia, 2017), the cap-and-trade program has become California's most reliable engine for climate progress and clean-economy investment, an achievement the state cannot afford to jeopardize.

That success, however, is now at risk. AB 398 sunsets in 2030. The long-term investments necessary to drive further emissions reductions depend on market certainty and stable financing horizons. Every month without a firm post-2030 framework injects risk into financing models, raises borrowing costs, and prompts companies to redirect clean-energy capital out of state. In 2016-17, a single year of reauthorization doubt wiped billions off the auction floor and stalled a number of clean-energy projects. Repeating that uncertainty today would be costlier still, given the scale of investments now on deck.

Cap-and-Trade works because it relies on competition, ingenuity, and market discipline rather than prescriptive technology mandates. Reauthorizing the program during this legislative session, with continued strong cost-containment and leakage prevention, is the surest way to hold down compliance costs, keep investment flowing into California, and prove once again that economic growth and climate action can advance together. The Legislature can protect that legacy and secure the next generation of clean-economy opportunity through reauthorization of cap-and-trade in its existing structure.

Affordability & Cost-Containment Must Remain Core Features of Cap-and-Trade

California's cap-and-trade program embeds a three-layer price-containment architecture that keeps compliance costs in check for businesses and consumers. An annually indexed auction-reserve price (the "floor") guarantees that allowances never trade below levels that would undermine climate investment, while two APCR tiers stand ready to release extra allowances if prices spike. For 2025, CARB set Tier 1 at $60.47 / ton and Tier 2 at $77.70 / ton (figures that rise 5 percent plus inflation each year), providing a clear, predictable glide-path for corporate planning. Above the APCR sits a hard price ceiling of $94.92 / ton in 2025. If prices ever reach that level, CARB will issue special "ceiling" allowances to ensure a firm backstop on compliance costs.

The reserve system also dampens volatility by injecting supply only when needed. A Reserve sale can be scheduled only if the previous quarterly auction settles at 60 percent or more of the lowest APCR tier, a safeguard designed to prevent hoarding and speculation. This trigger has never been met, which is strong evidence that the floor, APCR, and ceiling work together to steer the market toward steady, manageable prices rather than sudden jumps.

Carbon offsets also play a pivotal role in containing compliance costs within California's cap-and-trade program. Because carbon offset projects, such as forest conservation or methane capture, can achieve emissions reductions at a lower marginal cost than many facility-level retrofits, offset credits almost always trade below allowance prices. In its 2024 Standardized Regulatory Impact Assessment of the cap-and-trade program, CARB expressly called out its carbon offset program as "an important cost-containment feature of [cap-and-trade]." By letting covered entities substitute offsets for a portion of their compliance obligation (4 percent in 2021-2025 rising to 6 percent in 2026-2030), the rule provides cost containment and compliance flexibility for covered entities.

Offsets also deliver tangible environmental and socio-economic gains that static allowances cannot. By statute, at least half of all surrendered offsets must confer direct environmental benefits within California. This has driven investment into projects like the forest-management programs run by the Yurok, Hoopa, and Round Valley tribes in Northern California that reduce wildfire risk, improve air and water quality, and support rural and tribal economies. Similarly, carbon offsets help projects like ARCA Recycling's Compton facility in Southeast Los Angeles, which helps destroy high-GWP CFCs from old refrigerators and provides jobs in a CalEnviroScreen-designated disadvantaged urban community, remain financially viable. High-integrity offsets therefore advance California's climate and equity objectives while safeguarding cost effectiveness. Curtailing this tool would transform cap-and-trade into a more expensive and less flexible mechanism, yielding higher costs without proportional climate or community benefits.

Offsets also smooth price volatility and delay the need to tap higher-priced safety valves such as the Allowance Price Containment Reserve (APCR) or the hard price ceiling. When allowance demand spikes, because of faster-than-expected economic growth, extreme weather, or steeper post-2025 cap reductions, firms can turn to the stock of lower-priced offsets before bidding allowances above APCR trigger levels. That flexibility cushions consumers from sudden cost pass-throughs, preserves market credibility by keeping prices within the expected “5 percent + inflation” glide path, and still achieves equivalent climate outcomes because every offset credit represents a verified ton of emission reduction outside the capped sectors. In short, high-quality offsets lower the overall cost of meeting California’s climate targets while maintaining environmental integrity and price stability.

If these cost-containment protections are weakened, businesses and households will bear the brunt of increased costs for fuel, goods, and services. For example, the Legislative Analyst’s Office recently estimated that hitting the existing price ceiling under the current program design would contribute 74 cents per gallon to the price of gasoline costing the average household about $700 per year in excess fuel costs alone. Reauthorizing cap-and-trade must therefore lock in and, where feasible, strengthen the affordability tools that keep cap-and-trade costs contained. By preserving this architecture, the state can achieve aggressive emission targets without exposing businesses or households to runaway prices.

Market Stability Drives Investment & Innovation

The cap-and-trade program’s multilayer cost-containment design (e.g., annual price floor, quarterly reserve tiers, hard price ceiling, and carbon offsets) has worked exactly as intended to guide the market toward steady, predictable pricing (with allowance auction prices generally clearing modestly above the program’s built-in-floor) rather than boom-and-bust swings.

That stability, in turn, unlocks private capital at the scale required for cost-effective, deep decarbonization. Because companies can model compliance exposure many years ahead, they are willing to finance long-lead assets. Far from dampening growth, the market has become a magnet for climate innovation investment. Venture-backed climate-tech deployments in California more than quadrupled between 2016 and 2024, and CARB’s own data shows that regulated firms met each compliance period without resorting to panic buying or production curtailments.

The program’s linkage with Québec further boosts liquidity and confidence. By combining two jurisdictions’ allowance pools, California businesses can access a deeper market with a broader spectrum of buyers and sellers. That, in turn, narrows bid-ask spreads and limits price volatility. CARB’s auction guidance emphasizes that linkage “enables the mutual acceptance of compliance instruments,” giving compliance entities a larger, more reliable platform for hedging emissions risk.

Stable auction revenue flows translate directly into public-private investment partnerships. Through the Greenhouse Gas Reduction Fund, the state has already committed many billions of dollars of cap-and-trade proceeds to programs that leverage private dollars, everything from multimodal freight corridors to industrial heat-pump retrofits. These California Climate Investments awards often require 1-to-1 or better matching funds, multiplying the impact of each allowance dollar and reinforcing a virtuous cycle: predictable prices → steady revenue → catalytic grants → more private investment → cost-effective achievement of climate goals → predictable prices.

Reauthorizing cap-and-trade through 2045 therefore isn’t merely bureaucratic housekeeping, it is the linchpin of a financing ecosystem that turns ambitious targets into meaningful emissions reductions – and does so while promoting innovation and investment leading to steel in the ground, patents in the lab, and paychecks on the factory floor. Stable rules keep allowance prices predictable, predictable prices keep capital cheap, and cheap capital drives the scale and speed of emissions-cutting innovation California needs to cost-effectively hit its climate goals while protecting businesses and consumers and maintaining global competitiveness.

Cap-and-Trade Must Provide Leakage Protection & Ensure Global Competitiveness

Allowances are the program's operating system: CARB creates one allowance for each metric ton of CO_2-equivalent permitted under the declining cap, and every covered facility must retire allowances equal to its verified emissions. Because the total pool of allowances shrinks each year to keep California on a glide-path towards the 2045 net-zero GHG emissions mandate enshrined in AB 1279 (Muratsuchi, 2022), the cap ratchets down automatically while preserving the freedom for individual companies to choose when and how they cut their own emissions.

A durable supply of tradable allowances helps keep compliance affordable. Firms can bank extra allowances earned by beating the cap today and use, or sell, them later, smoothing costs across business cycles and preventing price spikes.

CARB distributes allowances in just two ways. Most allowances are sold at quarterly auctions with revenue flowing into the Greenhouse Gas Reduction Fund to fund climate investment.[1] Other allowances are allocated at no charge to emissions-intensive, trade-exposed industries. These industrial allowance allocations are the program's first line of defense against emissions leakage, the hollow victory that occurs when companies move production (and the associated jobs and CO_2) to jurisdictions with weaker or no carbon emission protections. CARB's own guidance is explicit: industrial allowances are "allocated to … minimize emissions leakage while preserving incentives to maintain efficient production within California."

Industrial allowance allocation therefore strikes a balance. It shields trade-exposed producers and their workforce from a cost disadvantage big enough to trigger relocation, yet it still preserves the carbon signal. Every allowance has an opportunity cost, so firms that cut their own emissions below the benchmark can bank or sell the surplus, creating a margin to invest in cleaner kilns, electric arc furnaces, or low-carbon process heat. Remove that cushion and the likely result is lost payroll, higher global emissions, higher prices for consumers and no net climate gain.

Protecting California industry from emissions leakage has always been a primary concern of cap-and-trade design. These allocations are not windfalls, they are vital protections intended to prevent leakage and keep California industries globally competitive. A reauthorized cap-and-trade program must continue to include robust protections for energy-intensive trade-exposed industries, including the continued allocation of free allowances. Any attempt made to eliminate free allowances will simply lead to higher costs for California consumers.

The California Chamber of Commerce, and the undersigned, therefore urge lawmakers to move a reauthorization package for cap-and-trade in its existing form to the Governor's desk promptly. Doing so will provide the long-term clarity investors and employers need, sustain the steady flow of auction proceeds into climate-investment programs, and ensure that California continues to prove that climate action and economic prosperity can advance hand in hand. We stand ready to work with the Legislature and Administration to pass a bill that keeps the state's flagship climate mechanism strong and predictable while maintaining California's globally competitiveness.

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[1] Some of the allowances at auction are allocated freely to utilities who must consign such allocation to the auction with proceeds returning to utility customers in the form of rate relief.

Sincerely,

Jonathan Kendrick
Policy Advocate
California Chamber of Commerce
On behalf of

Association of Equipment Manufacturers, Director State Affairs, Nicholas Rudowich
Agricultural Council of California, Vice President of Government Affairs, Tricia Geringer
California Building Industry Association, Sr. VP & General Council, Nick Cammarota
California Construction and Industrials Materials Associations, President & CEO, Robert Dugan
California Cotton Ginners and Growers Association, President & CEO, Roger Isom
California Forestry Association, President & CEO, Matt Dias
California Manufacturers & Technology Association, VP of Government Relations, Elizabeth Esquivel
California Retailers Association, Director of Communications & Public Affairs, Sarah Pollo Moo
Coalition for Sustainable Cement Manufacturing and Environment, Chairman, Stephen Coppinger
Chino Valley Chamber of Commerce, President, Zeb Welborn
Dairy Institute of California, Executive Director, Katie Davey
Greater Coachella Valley Chamber of Commerce, President & CEO, Brandon Marley
Greater High Desert Chamber of Commerce, President & CEO, Mark Creffield
Lake Elsinore Valley Chamber of Commerce, President & CEO, Kim Joseph Cousins
Long Beach Area Chamber of Commerce, Government Affairs Manager, Celeste Wilson
Murrieta/Wildomar Chamber of Commerce, President & CEO, Patrick Ellis
Orange County Business Council, Amanda Walsh
Palm Desert Area Chamber of Commerce, General Manager, Patrick Klein
Rancho Mirage Chamber of Commerce, Governmental Affairs Director, James Brownyard
San Jose Chamber of Commerce, Policy Manger, Kat Angelov
San Juan Capistrano Chamber of Commerce, Director of Operations, Benjamin Medina
Simi Valley Chamber of Commerce, Director of Tourism and Government Affairs, Anthony Angelini
Southwest California Legislative Council, Chair, Erin Sasse
Torrance Area Chamber of Commerce, President & CEO, Donna Duperron
Walnut Creek Chamber of Commerce, President & CEO, Bob Linscheid
Western Growers Association, Vice President, State Government Affairs, Matthew Allen
Western Tree Nut, President & CEO, Roger Isom
Wine Institute, Director Legislative and Regulatory Affairs, Anna Ferrera
Glass Packaging Institute, President, Scott DeFife

cc: Legslative Affairs, Office of the Governor
Senate Climate Working Group, Chair, Senator Limon
Assembly Cap & Trade Working Group, Chair, Assemblymember Irwin

JK:nr