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April 29, 2026

Chair Lauren Sanchez
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Members of the Board
California Air Resources Board (CARB)
1001 I Street
Sacramento, CA 95812

RE: Proposed 15-Day Amendments to the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation

Dear Chair Sanchez, and CARB Board Members and Staff:

The cap-and-invest program is the cornerstone of California's world-leading climate policies. The World Resources Institute is greatly concerned that elements of the April 14, 2026, revisions to the proposed rule will undermine the effectiveness of the emissions cap and provide unjustified subsidies to oil refiners, rather than drive innovation and effective emissions reductions from the industrial sector.

To avoid these bad outcomes, we recommend that CARB do the following:

1. Retire 118.3 million surplus allowances immediately as initially proposed.
2. Remove the Manufacturing Decarbonization Incentive (MDI) program from the current proposal and implement it through a future rulemaking with stronger guardrails to increase emission reductions and innovation, using allowances drawn from within the emissions cap.

We provide brief explanations for these recommendations below.

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1. CARB's original analysis found that at least 118.3 million surplus allowances need to be retired to ensure that the cap-and-invest program fulfills its intended role in meeting California's mandatory emission reduction targets. CARB should revert to its original proposal to retire this amount of surplus allowances. Using them to incentivize emission reductions from the industrial sector, even if fully effective, just shifts emissions from one sector to another without accomplishing the needed overall reductions that would be achieved by retiring these allowances.

2. The MDI program as proposed in the April 14 revisions would provide a huge windfall to oil companies that are already earning windfall profits due to President Trump's war on Iran. University of California economist Meredith Fowlie estimates that the proposed revision would increase the allocation to refineries from 2.25 allowances per barrel produced to over 6.1 allowances per barrel, which is more than the refinery benchmark emissions rate of 3.89 tons per barrel.[1] There is no justification for such a lavish subsidy, particularly on top of the $1-2/gal tax credit for Sustainable Aviation Fuel proposed in the Governor's budget.

   While WRI supports the concept of an MDI program to incentivize industrial electrification, carbon capture and storage, and carbon removal, the proposed program awards allowances based on money spent, not on emissions reduced or innovation supported. Rather than set aside half of the allowances in the MDI for the refinery sector, as proposed in the April 14 revisions, a revised MDI should set aside a portion of its allowances to clearly defined innovative projects, such as carbon dioxide removal, and allocate the remaining allowances through a competitive process based on emissions reductions, such as a reverse auction. The allowances for the MDI should be drawn from within the cap (after retiring 118.3 million allowances), either from future years, as originally proposed, or from allowances that would otherwise be allocated for free in the current year.

Thank you for considering these recommendations. We would be happy to discuss them in greater detail at your convenience.

Sincerely,

Daniel Lashof, Ph.D.
Senior Fellow
World Resources Institute