Meredith Fowlie

I appreciate the opportunity to comment on the California Air Resources Board's proposed revisions to California's Cap-and-Invest program. I write as an economist who studies environmental markets and climate policy design. I am also honored to serve as the current Chair of the Independent Emissions Market Advisory Committee (IEMAC). The comments that follow are my own and may not reflect the views and perspectives of my IEMAC colleagues.

CARB has been tasked with translating an ambitious and multi-objective legislative mandate into workable regulations under challenging conditions. Recent developments—including high gasoline prices, refinery closures, and shifting federal support—underscore the difficulty of balancing greenhouse gas (GHG) emissions reductions, affordability, leakage risk, and industrial competitiveness. More broadly, California is advancing ambitious climate policy in a fragmented landscape, without a fully integrated carbon market that levels the playing field for emissions-intensive, trade-exposed industries. Expectations about what any single program can deliver should be calibrated accordingly.

In response to feedback received on the ISOR proposed back in January, CARB has revised the proposed program design in a way that effectively relaxes the GHG emissions cap and expands the share of allowances allocated to industry. In principle, such changes could be justified based on concerns about emissions leakage and industrial competitiveness impacts. In practice, the analytical basis for the magnitude of these adjustments has not been clearly articulated. Given the scale of the transfers involved, greater transparency around the underlying rationale would strengthen confidence in the program.

That said, I recognize that these broader design choices reflect difficult policy tradeoffs and constraints that others are better positioned to evaluate in detail. I will, therefore, focus on how to improve the design of the proposed Manufacturing Decarbonization Incentive (MDI).

1. Link support more directly to emissions reductions.
As currently structured, the MDI resembles a capital expenditure reimbursement program: firms receive additional allowances based on qualifying investments. This risks directing resources toward projects that are not cost-effective or that would have proceeded absent support. Tying support more directly to verified emissions reductions would better align incentives with the program's core objective and improve cost effectiveness.

2. Introduce competition or performance-based incentive allocation.
Rather than relying solely on administrative criteria, CARB could incorporate competitive or scoring mechanisms that prioritize projects delivering greater emissions reductions per dollar of support. This would help target limited resources toward higher-impact opportunities.

3. Seize the opportunity to learn more about industrial decarbonization opportunities
If California is going to commit significant public resources to industrial decarbonization, it should also use this opportunity to build an evidence base. Standardized reporting on project costs, performance, and emissions impacts would generate valuable information about investments in industrial decarbonization where empirical evidence on abatement costs remains limited.

These recommended modifications would not eliminate the underlying tradeoffs. But they would help ensure that, within those constraints, the program delivers GHG emissions reductions and advances cost-effectiveness objectives.

Thank you for your consideration.

Meredith Fowlie