

# Environmental Policy Case Study

## Designing Effective Regulations

### POLICY CONTEXT

In 2006, California passed Assembly Bill 32: Global Warming Solutions Act (AB 32), which requires the state to reduce its greenhouse gas (GHG) emissions to 1990 levels by 2020. In addition, AB 32 empowers the California Air Resources Board (CARB) to implement a suite of policies and regulations to achieve that goal, including a statewide cap-and-trade program that establishes declining limits on the collective GHG emissions of the state's largest emitters, including electric power suppliers, petroleum refineries, and cement manufacturers.

In response to these developments, the six cement manufacturers in California formed the Coalition for Sustainable Cement Manufacturing and Environment (CSCME). CSCME's mission is to engage California regulators in a constructive dialogue regarding the design, development, and implementation of a cap-and-trade program that has the potential to drive cost-effective reductions in GHG emissions while minimizing the risk of emissions leakage, as required by AB 32. Shortly after its formation, CSCME engaged Keybridge to serve as its principle adviser on economic and public policy matters.

### APPROACH

Keybridge provides CSCME with a wide range of services, including:

- **Strategic Advice:** Provides strategic guidance regarding the design, development, and communication of policy proposals.
- **Policy Design:** Develops proposals with the goal of maintaining industry incentives to reduce GHG emissions while minimizing the risk of emissions leakage.
- **Impact Analysis:** Analyzes proposed regulatory language to estimate the financial impact on California cement manufacturers and the industry's risk of emissions leakage.
- **Industry Data Collection & Analysis:** Collects, analyzes, and aggregates industry data to support engagement with state regulators while maintaining data confidentiality.
- **Comment Letters:** Drafts industry response letters to CARB's proposed regulations, methodologies, and analyses.
- **Technical Presentations:** Presents technical analyses to CARB leadership regarding the economic and environmental impacts of various policy design alternatives.

### RESULT

As a result of the long-term collaboration between Keybridge and CSCME, the cement industry has earned a reputation among key stakeholders for credible analysis, thoughtful comments, and constructive policy proposals. Due to these efforts, CARB has adopted a range of measures that seek to minimize the risk of

leakage in general and within the cement industry in particular. For instance, as a result of its “high leakage risk” designation and other key policy decisions, the California cement industry will receive the highest rate of output-based free allowances possible under the program. Keybridge estimates that such measures will reduce the industry's net compliance costs by more than \$1 billion by 2020 relative to CARB's initial proposals.