The EU and California Cap-and-Trade Programs: Side-by-Side

	Key Differences	
	European Union Cap-and-Trade Program	**Californian Cap-and-Trade Program**
Carbon Cap	**Challenge:** Initially, carbon allowance allocations were based upon estimated, rather than measured, emissions, resulting in an initial over-allocation of allowances. **EU has:** set the emissions cap based on verified data, as of 2008.	**CA Approach:** From the outset, California's cap and allowance allocations will be based on actual measured emissions, using data going back to 2008. **CA should:** ensure that any jurisdictions linking into its program also base their cap on verified, historical data.
Carbon Allowance Allocation	**Challenge:** Over 95% free allocation of allowances in Phases I and II of the program resulted in windfall profits to some electricity companies and economic distortions of carbon pricing. **EU has:** committed to 100% auctioning of allowances for the electricity sector and a partial auction for industry, based on trade exposure and energy efficiency, beginning in 2013.	**CA Approach:** California will initially provide most allowances for industry for free, moving to a partial auction system based on trade exposure and energy efficiency in later years. In the electricity sector, providers will be given allowances for free but will be required to sell them at auction and return most of the proceeds to rate payers. **CA should:** monitor free allocation to ensure a balance between business and consumer interests.
Carbon Offset Activities	**Challenge:** Project by project approval of international offsets has proven inefficient and has created disincentives for developing countries to take action on climate change. **EU has:** excluded specific offset activities that have proven problematic and is considering an overhaul of the offset program.	**CA Approach:** California has adopted official protocols to guide approval of carbon-offset credit activities within designated domestic sectors. **CA should:** only approve international offset activities in countries, states, or sectors that already impose restrictions on GHG emissions.
Carbon Pricing	**Challenge:** Initially, companies could not bank excess allowances to use in later phases, causing their value to plummet. **EU has:** allowed banking of allowances for future use since 2008, helping smooth out prices over time.	**CA Approach:** The combination of allowance banking, free allocation, and an allowance reserve held back in case prices exceed a certain value will combine to keep carbon prices more stable. **CA should:** carefully monitor the market for unusual price fluctuations.

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