



AB 32 Cap-and-Trade Rule Fact Sheet

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Program Overview

The California legislature passed AB 32 in 2006 requiring the state's air resources board (CARB) to undertake a statewide effort to reduce global warming pollution. After extensive stakeholder input, research and analysis, CARB decided that cap and trade regulation should be one of the 70 separate measures used to cut greenhouse gas (GHG) emissions. Cap and trade has been used before in California and elsewhere to successfully reduce air pollution. It complements other statewide regulations such as building, vehicle and appliance energy efficiency standards. After years of development, the cap-and-trade rule is scheduled to begin on January 1, 2013.

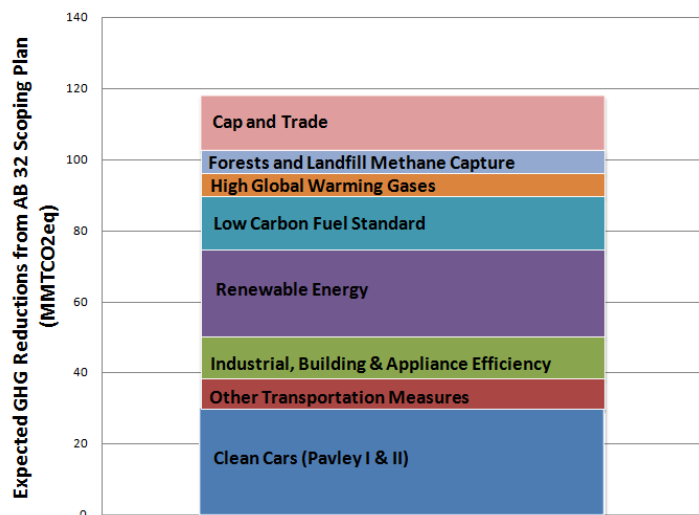
Key Features

- Sets a declining limit or “cap” on emissions in sectors with the highest amount of GHG pollution and eventually covers 85% of California’s emissions
- Provides regulatory certainty and gives companies flexibility to meet goals at the lowest cost
- Improves local and regional air quality in California
- Incorporates lessons learned from other cap-and-trade systems in the U.S. and Europe
- Includes safeguards for public oversight and prevention of market manipulation

Rule Overview

The AB 32 cap-and-trade rule sets a declining cap on emissions in sectors producing the most GHG pollution. **By 2020, cap and trade is projected to achieve nearly 20% of the total AB 32-required pollution cuts.** In the first three-year phase starting in 2013 pollution from utilities and other major industrial sources will be capped. In the second phase starting in 2015, pollution from transportation fuels and natural gas will be capped. This broad pollution limit is a “safety net” to ensure AB 32 targets are met even if other Scoping Plan policies don't deliver.

California's AB 32 cap and trade rule complements other regulations to reduce GHG pollution quickly



The program cap is enforced by requiring polluters to obtain and **surrender an allowance for each ton** of GHG pollution they release. The statewide limit for emissions, and hence the number of allowances available, declines over time, requiring companies to reduce pollution. Polluters can meet their allowance obligations through a combination of on-site emissions reductions, allowance purchases, and verified reductions made at other sources (i.e. offsets), such as the use of cleaner agricultural practices or more sustainable management of forests.

✓ **A proven regulation for reducing pollution**

Cap and trade has been used to successfully reduce pollution, including in the 1980s to phase lead out of gasoline and the 1990s to curb acid rain. It is also currently being used in Europe and the Northeastern United States (U.S.) to reduce climate pollution. California's program **incorporates lessons learned** from other cap-and-trade regulations in the U.S. and abroad. California's AB 32 program **contains numerous safeguards**, will be transparent and feature a task force of experts and stakeholders that will monitor and track operations.

✓ **Achieving substantial pollution reductions at low cost**

Since the cap-and-trade rule places an absolute limit - or "cap" - on the amount of pollution that polluters can emit and makes polluters pay for their emissions, the regulation creates a strong incentive for polluters to cut pollution quickly. The cap-and-trade component also helps **ensure that the state and ratepayers are not burdened with extra costs** and provides an incentive for technological innovation – benefits that will keep our economy growing while we meet our environmental targets.

✓ **Improving California's air quality and public health**

By reducing greenhouse gas emissions from the most polluting industries, cap-and-trade will significantly improve California's air quality. These reductions are likely to be greatest where there is a severe and pressing need to improve air quality. In the domestic acid rain cap-and-trade program, the **most significant air quality improvements were measured in areas with the worst air quality** because the same areas contained the most polluting facilities. Finally, since cap and trade is *additional* to existing air quality laws and requirements, regulated businesses must still meet California's existing air pollution standards and permit requirements while meeting GHG pollution reduction requirements.

A community benefits fund will also be created from auction revenues and will be used to help low-income families plan for climate change adaptation and manage any increases in prices for energy and energy-intensive goods and services.

✓ **Creating economic benefits for California**

The cap-and-trade regulation creates a powerful economic incentive to find innovative ways to reduce pollution. California companies can export these innovations to a global clean energy market that is expected to be valued at **\$2.3 trillion**ⁱ by 2020. Economic analyses also show that California will use at least 2% less energy in 2020 as a result of AB 32, creating a substantial savings for California small businesses and households. Since the regulation also creates an incentive to reduce transportation fuel use, California's program will reduce our dependence on oil by lowering demand and shifting to cleaner sources of energy – saving up to \$10 billion—or \$670 per household per year during oil price spikes.ⁱⁱ

ⁱ Pew Trusts, Global Clean Power; a \$2.3 Trillion Opportunity, 2010

ⁱⁱ Environmental Defense Fund, Shockproofing Society: How California's Global Warming Solutions Act (AB 32) Reduces the Economic Pain of Energy Price Shocks, 2010