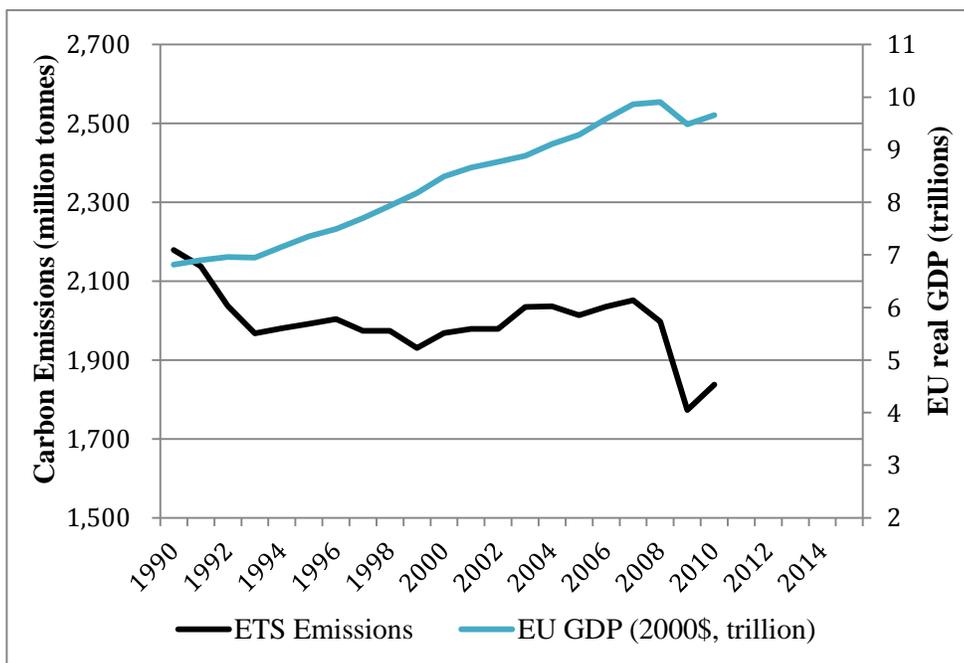


THE EU CAP-AND-TRADE PROGRAM: LESSONS FOR CALIFORNIA

Europe’s experience with cap-and-trade since 2005 has provided California with some important lessons about things that worked, things that didn’t, and effective improvements. California is poised to utilize these lessons and ensure that these pre-emptive measures are effective in both practice and theory.

KEY DIFFERENCES	
European Union ETS	California ETS
From 2005 to 2007, allowance allocations were based upon estimated, rather than measured, emissions, resulting in an initial over-allocation of allowances.	From the outset, California’s cap and allowance allocations will be based on actual measured emissions, using data going back to 2008.
Europe is moving towards a system of auctioning more allowances instead of distributing them for free, as was the case at the outset, since some electricity companies did receive windfall profits when the program began.	Windfall profits will not be possible in the highly regulated California electricity sector and industry will receive a mix of free and auctioned allowances based on trade exposure and energy efficiency.
Carbon-offset activities are approved on a project-by-project basis by a UN sponsored process, and questions have been raised about the integrity of certain carbon-offset programs.	California has adopted official protocols to guide approval of carbon-offset credits within designated activity areas, like urban forests.
Initial program design features led to carbon price volatility, which Europe has taken steps to address. For example, Europe now lets allowances be "banked" or saved for future use.	California has taken further steps to provide more pricing stability. For example, creating an allowance reserve that can be tapped if prices climb above a specified amount.

This graph shows GDP growth and the simultaneous drop in carbon emissions for the EU’s 27 Member States:



“The EU ETS has shown that cap and trade policies that tackle the climate challenge can coexist with a growing economy.”
The EU Emissions Trading System: Results and Lessons Learned