Carbon Market California: What you need to know about year one of cap and trade

After gathering extensive data and stakeholder input, the California Air Resources Board (CARB) officially launched a groundbreaking cap-and-trade program on January 1, 2013. As one of a suite of policies aimed at reducing greenhouse gas pollution, cap and trade is the insurance mechanism that guarantees California gets back to 1990 levels of emission by 2020.

Data over the first year reveals a healthy and enduring carbon market, which will only continue to strengthen and develop in the coming year. This achievement comes amidst sustained economic recovery and continued job growth in California. Indicators of success include:

- Five successful quarterly auctions with complete sale of all 2013 vintage allowances. All future allowances offered in the last two auctions of the year were purchased, indicating participants believe the market will be actively trading until at least 2016.
- Prices on the secondary market have stabilized and settled in a reasonable range close to the floor price, indicating low marginal abatement costs in the first compliance period. Trading volumes and liquidity on the secondary market have also increased significantly in the past year.
- The offset market showed significant signs of growth at the year’s end, with the first batch of certified offset credits issued in September 2013. With the recent development of a standardized offsets trading contract and two new offset protocols in the pipeline for approval, the supply of offset credits is expected to increase significantly.
- Wise investment of the state’s auction proceeds ($533 million to date) will be an integral part of achieving AB 32 pollution reduction goals.
- Memorandums of understanding signed with other jurisdictions around the world and linkage with Quebec show that California is leading by example.

Future expectations: Important upcoming events include the consideration of regulation amendments by CARB in the spring of 2014; the first retirement of compliance credits by regulated entities in November 2014; the addition of transportation fuels to the cap in 2015; and continuing discussions of post-2020 targets.

“The auction results have been one of the most positive takeaways from this year in the sense that the auctions have gone well, they have been well subscribed, they have cleared at very reasonable prices, and they have indicated a healthy interest in the market...” – Emilie Mazzacurati, Industry Consultant, Four Twenty Seven