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Program Overview

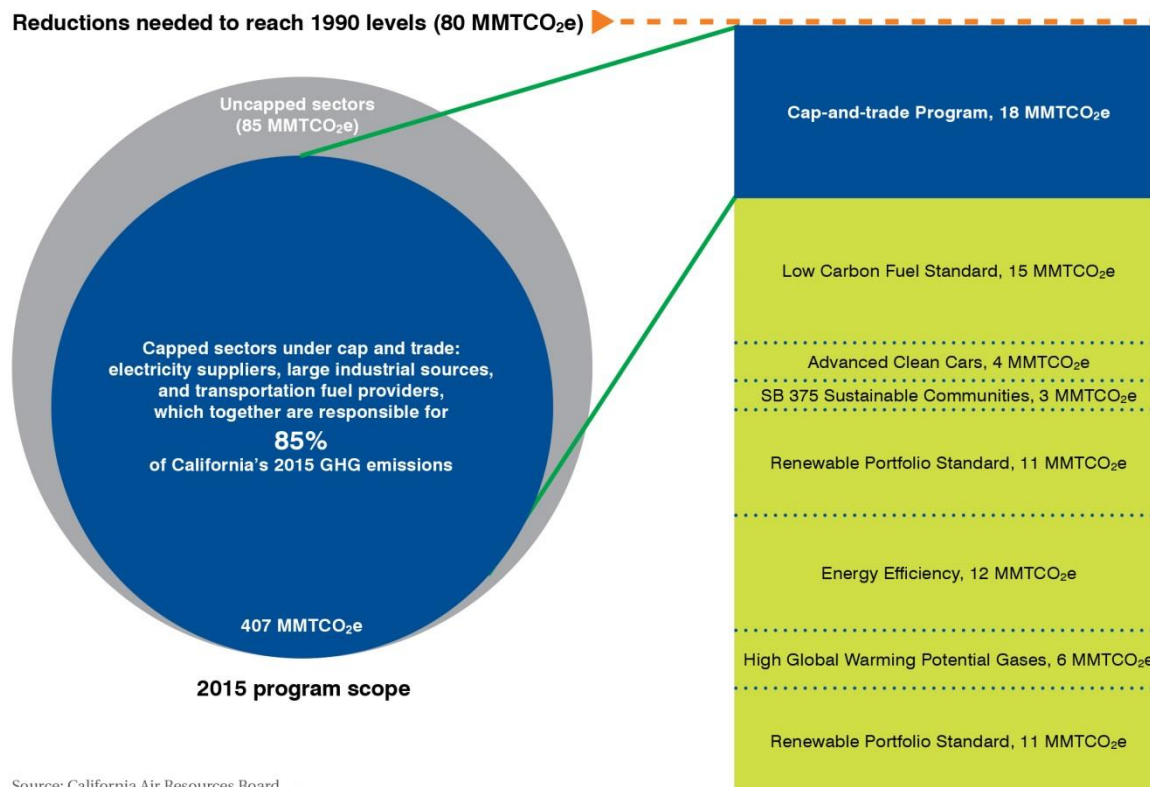
The California legislature passed AB 32 in 2006, requiring the state’s Air Resources Board (CARB) to undertake a statewide effort to reduce global warming pollution. After extensive stakeholder input, research, and analysis, CARB decided that cap and trade should be one of the many separate measures 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 officially began on January 1, 2013.

Key Features

Cap and trade:

- 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

Scope of the cap-and-trade program and its complementary policies under AB 32



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 approximately 20% of the total AB 32-required pollution cuts.** In the first phase, which started in 2013, pollution from utilities and other major industrial sources are 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.

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 a limited amount of 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, in the 1990s to curb acid rain, and in the 2000’s to cut GHGs throughout Europe. It is also currently being implemented in the Northeastern United States to reduce climate pollution from the power sector. California’s program [incorporates lessons learned](#) from other cap-and-trade regulations in the U.S. and abroad including: **numerous safeguards, transparency provisions,** and a **task force of experts** that 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 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 has also be created to direct a portion from the allowance auctions proceeds toward investments that benefit disadvantaged communities. A portion of the proceeds must also be used to mitigate increases in prices that may result from the program.

✓ **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 reduces 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

In addition, the proceeds from the sale of state-owned allowances – \$633 million to date – are required to be invested in GHG reductions through activities like renewable energy, energy efficiency, advanced vehicles, water and natural resource conservation, and waste reduction. At least 25% of these proceeds must go to the benefit of disadvantaged communities, who are the most impacted by climate pollution.

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