



AB 32 Implementation Group



Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

"It is essential that we continue to develop market-based approaches to reduce carbon emissions" and such approaches "harness the power of the marketplace by giving financial value to carbon allowances and creating a financial incentive for emissions reductions We want to attack global warming but at the same time protect our economy."
- Governor Arnold Schwarzenegger

What is a Cap and Trade System?

It's a market system to reduce greenhouse emissions. First, overall emissions would be reduced in line with AB 32's greenhouse gas reduction goals. Emission allowances consistent with this "cap" would then be allocated and traded in a market which would encourage the least costly emission reductions to take place.

Markets Have Proven Track Record for Reducing Emissions

Well-designed cap and trade systems have been used effectively in the United States and internationally to lower the cost of reducing emissions. They have been used to phase out leaded gasoline and ozone depleting substances such as chlorofluorocarbons. The Clean Air Act's SO₂ Allowance Trading Program cut sulfur dioxide emissions in half with a savings of \$1 billion a year.

Climate Change Is Uniquely Suited for Cap and Trade Systems

The science of climate change is different from other pollution problems. It is truly a global issue. Climate impacts depend on the amount of greenhouse gas emissions in the atmosphere throughout the world regardless of where or how they are generated. That means greenhouse gas emission reductions yield climate benefits no matter how they are achieved or where in the state or the world those reductions occur. As a result of that flexibility, a cap and trade system can be used to lower the cost of emission reductions without compromising environmental integrity.

Reducing Compliance Costs Through Markets Benefits Everyone

The Congressional Research Service estimated that reducing greenhouse gas emissions through a cap and trade system would cost \$23 to \$50 per ton compared to \$193 to \$295 per ton if trading were not allowed. Climate change benefits would occur through either system. The money saved by using markets, however, comes with the added benefit of savings for consumers and encouraging more investment in California's economy and job creation.

Getting the Market Right – Avoid Imposing Carbon Tax (Auctions)

Everyone agrees that markets work best with many buyers and sellers, transparent prices and low transaction costs. Other market design choices are more controversial. Companies could be charged up front to emit any greenhouse gases. This "auction" would act like a multi-billion dollar tax on California companies and consumers. These burdensome taxes would chase investment and jobs away from California, increasing costs to consumers and taxpayers, and putting billions of dollars into government coffers for politicians to spend. To avoid this shock to the economy, companies should only have to reduce their own emissions or buy credits from others to cover their share of reductions.