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Hidden Tax on Carbon Trading Is a Bad Idea

Commentary - Teresa Casazza

California is leading the way in implementing a strategy to reduce greenhouse gas emissions. In fact, California's AB 32, the Global Warming Solutions Act, requires the state to achieve a 30 percent reduction in carbon emissions by 2020.

One strategy being considered is the use of a "cap and trade" program, a market system used effectively in the United States and Europe to achieve reduced emissions at a lower cost than traditional regulations.

The design of the cap and trade program is crucial to whether or not it will be an effective emission-reduction tool and whether or not it will be cost-effective. The design debate centers on using allocations through an administrative allocations approach or using an auction system.

Upon reviewing these two approaches, the California Taxpayers' Association strongly advocates using allocations, not an auction component.

Auctions have a number of factors that dilute the effectiveness of the market, placing undue burdens on California businesses and ultimately consumers.

New Taxes

For example, auctions would impose billions of dollars in new taxes. California's already high tax rates and cumbersome bureaucracy put the state at a competitive disadvantage when it comes to attracting and retaining job-creating companies.

Auction revenues would add from \$760 million to \$39 billion in de facto taxes per year on California companies that wish to continue operating in this state, depending upon the scope of the cap and trade program and the per ton cost of carbon.

These billions of dollars in hidden taxes will wind up being paid by California consumers. That's a high price to pay when other states are aggressively working to recruit California businesses to their regions.

And what's the reward for companies that are determined to remain in California?

Not much. If they do stay, they will be paying the high costs associated with staying in business here, plus the uncertainty of the prices in a potential auction.

Even as little as a 10 percent auction effectively doubles the cost of compliance for California's businesses.

The cost of an auction is capital that cannot be used by the facility for market opportunities and/or projects that can reduce greenhouse gas emissions at the facility.

Better Solution

The better solution is to allow California facilities the latitude needed to invest in greenhouse gas reduction projects, not force them to make the tough decision to stay, or leave California.

Another concern is how the auction revenue would be spent.

Unfortunately, California government has a poor track record of using earmarked dollars for their intended purposes.

These new taxes would represent a government windfall with no guarantee that the funds would be used to reduce greenhouse gas emissions.

Using a cap and trade market system with a benchmarking allocation program based upon a company's actual emissions is the correct tool to implement AB 32.

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