

An Estimate of the Economic Impact of a Cap-and-Trade Auction Tax On California

The AB 32 Implementation Group commissioned Thomas Tanton, Principal of T² & Associates, to undertake an analysis of the economic impacts of an AB 32 cap-and-trade auction tax on California. An auction tax is one of the proposed methods for allocating permits to California companies and public agencies subject to the AB 32 cap-and-trade program under preparation by the California Air Resources Board.

In an auction system for allocating GHG permits, CARB would hold an auction between cap-and-trade participants to determine the price of emission permits. Entities would then have to purchase permits equal to every ton of GHG emissions they generate. In practice, these auction costs on companies and agencies would function much like a direct tax because, in order to operate, they would be required to purchase these permits.

Here are a few examples of what individual companies and public agencies would have to pay under a cap-and-trade program using 100% auctions at a price of \$60 per ton:

- A California winery would pay \$2.6 million a year for these AB 32 Auction Taxes or more than \$26 million over ten years.
- The Los Angeles Department of Water and Power would pay \$246 million a year for its electricity generation facilities in California alone.
- UCLA would pay nearly \$11 million a year in AB 32 auction taxes.

Summary of Economic Impact From an AB 32 Cap-and-Trade Tax:

- An annual effective cost increase to the typical family of four to be \$818 the first year growing to \$2800 in 2020, if market clearing prices for permits are \$60 dollars per ton. Those figures are \$270 and \$930 if permit prices are at \$20 and as much as \$2720 to over \$9330 per family if prices clear at \$200 per ton. Costs increase for most goods and services. These cost increases are average for the population, although some residents may be compensated through a partial return of auction revenues.
- Annual job losses to the California Economy of 76,000 to 107,000 the first year growing to perhaps 485,000 jobs in 2020, assuming a market clearing price of \$60 per ton. These are net jobs losses, accounting for lost jobs and for jobs created by redirecting revenues collected from the auctions.
- Lost economic activity of nearly 2% of gross state product, or about \$250 to 350 billion over ten years. Much of this derives from reductions in productivity across the economy, and negative trade implications due to reduced competitiveness.