

What is a Cap and Trade Program?

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.

Figure 1

Command and Control

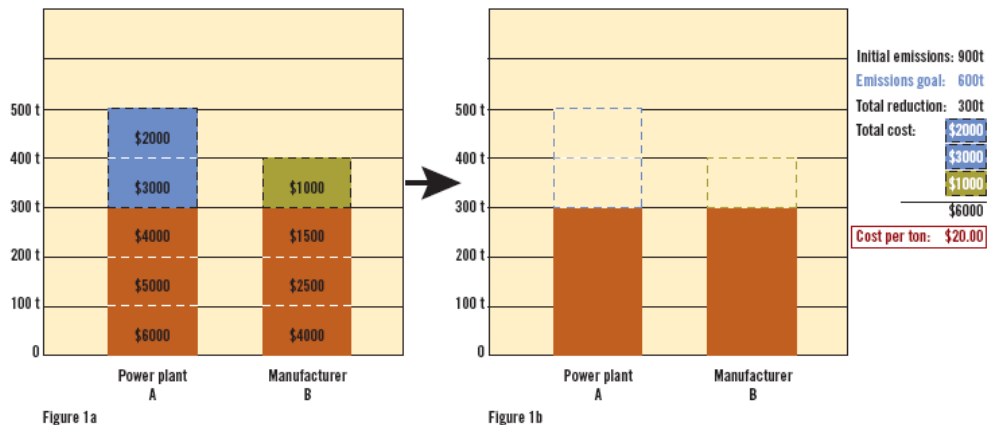
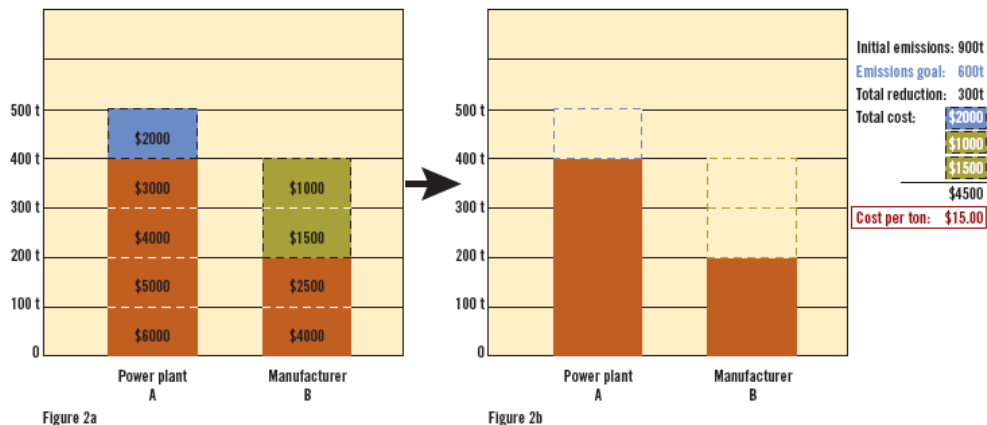


Figure 2

Cap and Trade



This example shows the benefits of a cap and trade system. Emitter A and Emitter B generate 900 tons of greenhouse gases (CO₂) a year. The government decides its goal is to reduce total emissions to 600 tons a year. As can be seen in figure 1a, the cost of reducing a given amount for Emitter A is greater than the cost for Emitter B. Under traditional environmental regulation, the government might direct each facility to cut emissions to 300 tons. Emitter A would spend \$5,000 while Emitter B would spend \$1,000. The 600 ton goal would cost a total of \$6,000 or \$20 per ton.

Under a cap and trade system, the government would set an overall emissions cap of 600 tons and then issue 600 emission allowances. Both emitters would have an incentive to trade because emission reductions costs are higher for A than for B (Figure 2a). Emitter B might cut emissions by 200 tons and sell its excess allowances to Emitter A for less than it would have cost Emitter A to make the reductions itself. In this scenario, the desired level of emissions is reached at a lower cost of \$4,500 and a lower cost per ton of \$15.

While achieving significant reductions on a regional scale, cap and trade programs can deliver substantial air quality improvements.
US Environmental Protection Agency