Here Comes Cap and Trade, California Style

Next week, state regulators will act on the state's climate change law that limits greenhouse gas

Ngoc Nguyen, Bay Citizen, 12-10-10

In November, Californians chose to move forward with, not derail, the state's sweeping climate change law when they defeated Proposition 23, which would have suspended it. A key milestone in the implementation of that law will take place next week, when officials adopt regulations for a cornerstone emissions trading – or cap and trade – program.

With the economy in the tank and what some call a jobless recovery, there's much at stake in the ultimate design of an emissions trading program that could generate billions in revenue annually and create jobs.

"How California designs its emissions trading program is a multibillion dollar question," said Noel Perry, the founder of Next 10, a nonpartisan organization based in San Francisco, in a press release.

Next 10 today released a series of five studies that analyze the impact of a cap-and-trade program on the state's economy and lay out the impacts of various design schemes. They were conducted by university researchers in California and a nonpartisan research organization in Washington, DC.

The state's climate change law, AB 32 calls for reductions in greenhouse gases that cause global warming. Starting in 2012, the state will impose a cap on emissions and gradually lower the limit. The emissions reductions will be required of the state's largest polluters, including power plants, cement kilns, and oil refineries.

The state Air Resources Board, which is in charge of implementing the climate law, will offer permits that allow businesses to emit a certain amount of pollution. The Board will decide whether to offer the permits for free, auction them, or some combination of the two—the most likely scenario. The revenue raised for the permits, or allowances, could be significant.

"Enterprises pay for the right to pollute the atmosphere. That's what the permits are all about," said David Roland- Holst, a professor at the University of California, Berkeley, and one of the researchers for the Next 10 studies. "The atmosphere is a public good, it belongs to everyone."

The revenues generated from the sale of the emissions permits could reach $7.5 billion in 2012, the first year of the program.

Roland-Holst says if the revenues are channeled back to households and used for energy-efficiency upgrades, it would aid the economy. His previous research found that California's energy efficiency policies in the 1970s created 1.4 million jobs over three decades.

According to a Next 10 study, one of the best scenarios for job creation under cap-and-trade is an estimated 115,000 jobs by 2020. Roland-Holst says that it's nowhere near the number of jobs that are currently being shed, but "the fact is, we'll have more jobs if we implement the policy than if we don't."

Overall, the Next 10 studies buttress findings by the state that AB 32 will have a small effect -- either negative or positive -- on the economy. Roland-Holst says the state would reach the same level of economic growth if it implemented AB 32 than if it didn't, but the growth would just be delayed by a matter of weeks.

“We can achieve the climate goals of AB 32 and arrive at the same economic growth 12 weeks later in 10 years,” he said. Other key findings offer insights into how an emissions-trading program would affect businesses. The Next 10 studies found that changes in retail electricity prices would be minimal, and that the law would not cause an exodus of businesses from the state.

The state is taking seriously the impacts of cap-and-trade on business. Initially, the program is unlikely to auction off allowances, because it does not want to overly burden businesses, according to Dallas Burtraw, a senior fellow with Resources for the Future, a nonpartisan research organization in Washington, DC, and one of the Next 10 study researchers.

Burtraw says that the Air Resources Board has eliminated the “worst option,” in which permits are given away for free to businesses that have historically been heavy polluters. The ARB decided not to grandfather in any polluters.

“It’s likely they are being generous to protect manufacturing industries, more generous than they need to be,” he said. Burtraw was a member of a commission of economists and researchers appointed by the Air Resources Board to make recommendations about how allowances should be allocated, and how to spend the revenues.

The commission recommended auctioning most of the allowances, and returning 75 percent of the revenues to households in the form tax breaks or an annual dividend, much like the one Alaskans receive funded by royalties for oil extraction in the state. The commision also recommended using the remaining quarter for “strategic purposes,” such as helping low-income communities adapt to climate change.

Roland-Holst says the board is taking an “incremental” approach, phasing in changes gradually to give firms time to adjust. That approach appears to resonate with most Californian voters at this time.

According to a recent Field Poll commissioned by Next 10, 52 percent of those surveyed favor giving away allowances to businesses for free.

“They are not socking it to businesses, at least at this time,” said Field Poll director Mark Dicamillo. He says voters are hesitant to tax or add fees to businesses during a bad economy for fear of jeopardizing a recovery.

When asked how the state should spend the money, if it were to require businesses to pay for the pollution permits, respondents preferred getting tax breaks to receiving an annual check in the mail.