

Critical Policy Reforms for 2024

How to Improve California's Cap and Trade Program

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Cap-and-Trade – future prospects?

- What is the Cap-and-Trade program?
- Does it work? Do we need it?
- How can we improve it?

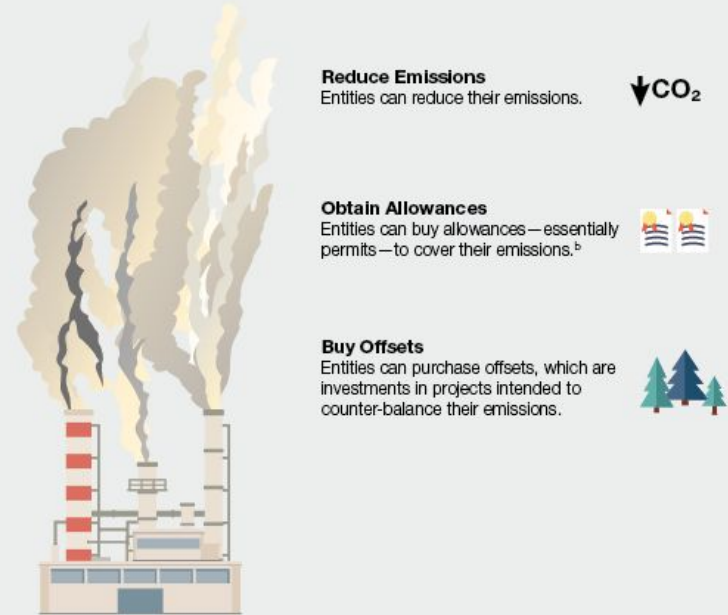
Cap-and-Trade

A brief description

- Reduce emissions
- Buy or sell allowances

Figure 2

Ways Entities Can Comply With the Cap-and-Trade Program^a



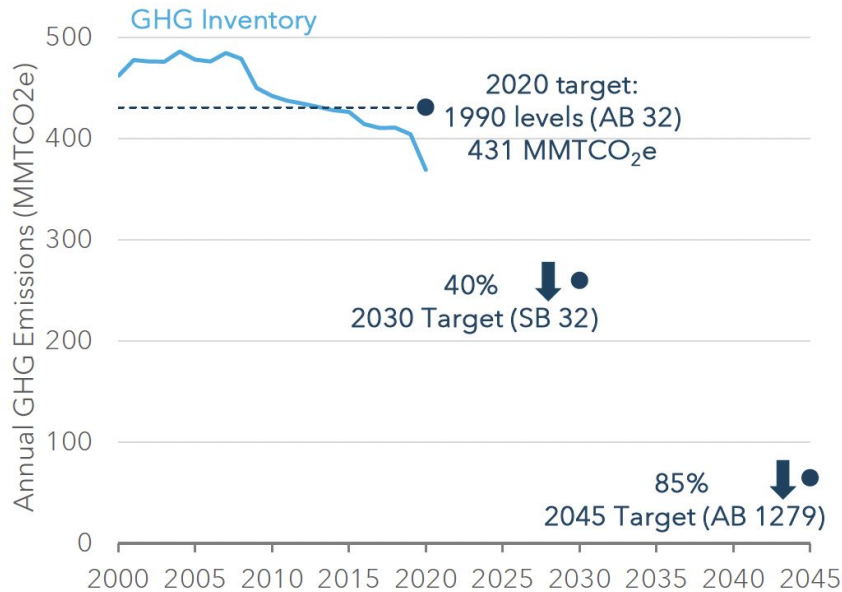
^a "Covered entities" subject to the cap include large GHG emitters such as oil refineries, electricity generators and importers, and manufacturing facilities.

^b Some covered entities receive free allowances, such as some utilities, natural gas suppliers, and industrial facilities.

GHG = greenhouse gas and CO_2 = carbon dioxide.

California GHG Reduction Targets

Achieved AB 32 target in 2014



ACHIEVING
CARBON
NEUTRALITY
BY **2045**

GHGs included in statute: Carbon dioxide (CO₂), Methane (CH₄), Nitrous oxide (N₂O), Hydrofluorocarbons (HFCs), Perfluorocarbons (PFCs), Sulfur hexafluoride (SF₆), Nitrogen trifluoride (NF₃).

Cap-and-Trade HIGHLIGHTS

Cap-and-Trade was launched in 2012 to reduce greenhouse gas emissions. It places a long-term steadily increasing price on climate pollution.

HOW IT WORKS



Statewide cap limits total climate pollution



Emitters reduce climate pollution or pay increasing prices



Climate pollution emissions drop over time

BENEFITS

GHG reductions

- ✓ 2020 GHG reduction targets achieved early
- ✓ Climate pollution down 14% below 1990 levels
- ✓ Spurred innovation and clean technology deployment

OVER \$40 BILLION invested in communities

\$25.6 billion supports programs to improve air quality in overburdened communities



zero-emissions mobility



transit & rail



affordable housing



sustainable communities



\$15 billion to benefit utility customers, including \$7.4 billion in credits on utility bills

WHAT'S NEXT

CARB is making stringency updates to align program with new GHG emissions reductions target of 85% by 2045.



Goals of the Cap-and-Trade program

- Reduce GHG emissions at the lowest cost
- Put a price on carbon to encourage innovation, clean energy investments, and emissions reductions
- Establish California as a global leader



The record so far...

- Emissions have been reduced but need to ramp up the program
- Price on carbon – it does not reflect the actual damage costs from the pollution
- California is recognized as a leader on Climate policy.

Why have a market-based program?

- Charging polluters a price for carbon emissions gives polluters incentives to reduce emissions
- Revenues raised from the sale of allowances can be used
 - To address the pollution burden of disadvantaged communities.
 - To stimulate investments in low-carbon technologies

Reforms for the program...

- Change how the supply of allowances responds to the carbon price.
- Close loopholes to make polluters pay the real damage costs
- Stop subsidizing pollution

Adjust number of allowances when prices are low

- When too many allowances are available, the carbon price drops very low, well below the damage costs from this pollution.
- Currently, policies exist to increase the supply of allowances when carbon prices are high, but there are no policies to deal with a carbon price that is too low.
- We need an Emission Containment Reserve (ECR) to automatically decrease the number of allowances when carbon prices fall below a certain threshold.

Phase out the offset provision

- In the Cap-and-Trade program, emitters can use evidence of emission reductions done by other parties labelled 'offsets' to meet 4% of their required compliance obligation. But offsets are unreliable and lack integrity.
- Beside problems with validity this offset option has enabled pollution to continue and results in greater environmental injustice in disadvantaged communities.
- Offsets should be phased out - we cannot afford to waste time and effort on policies that do not deliver actual emissions reductions

Stop subsidizing pollution – no free allowances

- Many allowances are given away for free.
- Why are we subsidizing high polluting firms and giving them valuable allowances to continue with business as usual?
- A better option would be to offer transitional funding conditioned on their implementation of a decarbonization program.

Next steps...

- An effective cap-and-trade can be a powerful instrument to achieve cost-effective carbon reductions. We urgently need to fix the California program
- Carbon pollution policies must not override air and other pollution concerns
- We need to increase our ambition – this is a climate emergency



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We are all in this together