



AB 32 Implementation Group



Working Toward Greenhouse Gas Emission Reductions
And Enhancing California's Competitiveness

October 2, 2009

Dr. Lawrence Goulder
Chair, Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Dr. Goulder:

The AB 32 Implementation Group represents 185 business and taxpayer organizations. Our mission is to ensure that AB 32 policies not only meet AB 32's greenhouse gas (GHG) emissions reduction goals, but do so in a balanced and cost-effective way.

One of the difficult issues your Committee is considering is how to design a market-based approach including cap-and-trade and offsets that would minimize costs while also addressing the environmental justice community's objective of reducing localized criteria pollutant emissions.

After considerable review and consultation with experts such as Harvard economist Robert Stavins, we've arrived at the conclusion that trying to achieve all of these goals through a cap-and-trade and offset program would lead to failure on all fronts.

The value of a cap-and-trade/offset program to reduce GHG emissions is that these programs provide certain emissions reductions at a lower cost. This occurs because there's an actual cap on emissions, and market mechanisms encourage reducing those emissions at the lowest possible cost.

Cap-and-trade programs cover a broader set of emissions sources than could be covered by source or sector-specific standards. They encourage the accelerated replacement and/or reduced utilization of less efficient equipment, and they encourage innovative emissions reduction measures. Cap-and-trade programs could automatically come with co-benefits when reductions are done on-site. In addition, according to Dr. Stavins a GHG cap-and-trade program is unlikely to cause localized increases in co-pollutant emissions in localized areas.

However, restricting the use of a cap-and-trade/offset program by attempting to link it with a localized criteria pollutant program would significantly increase compliance costs. These enormous costs will not only marginalize the success of AB 32 in general, but would do the greatest harm to low income communities by increasing costs, and impacting jobs and the health care benefits that go along with them. And, according to Dr. Stavins' research this restrictive approach would yield highly uncertain effects on local air quality.

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Let's be clear: AB 32's purpose is to reduce greenhouse gas emissions. It was never designed to be a vehicle for managing other air pollutants which already are regulated under the state and federal Clean Air Act. A better way of achieving the benefits of both GHG market based programs and localized co-pollutant reductions is to separate the two programs. Environmental justice concerns can best be addressed through complimentary policies that specifically focus on criteria pollutants in neighborhoods of concern. This approach would avoid sacrificing the many economic and environmental benefits of a GHG cap-and-trade and offsets program while making it possible to target environmental justice concerns more effectively.

The elements of such a program would include:

1. Setting appropriate criteria for a localized co-pollutant program to address any increase in localized air pollution resulting from the GHG cap-and-trade/offset program. Calculate an appropriate co-pollutant emissions reduction target, limited to any increase of co-pollutant emissions resulting from a cap-and-trade/offset program, minus co-pollutant reductions achieved from other regulatory elements of the AB 32 Scoping Plan.
2. Commensurate funding for the program limited to the criteria outlined above, if revenues are raised in a cap-and-trade program.
3. Providing these funds to local air districts based on the population in the district. Most local air districts already have programs to reduce emissions impacting environmental justice communities such as Moyer Funds, and have the expertise to effectively use these funds to supplement those programs or create other programs for this purpose.
4. Ensuring that co-pollutant emissions reductions are achieved in conjunction with an activity that provides GHG reductions.

If AB 32 is to serve as a model for national or international global warming reduction programs, it must be designed with this larger focus in mind. Separating the two programs would achieve both goals here in California, and preserve a path forward for a united program both nationally and internationally.

We would be pleased to discuss our proposal further at your convenience.

Sincerely,



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