



GOVERNOR ARNOLD SCHWARZENEGGER

March 24, 2010

Ms. Mary D. Nichols  
Chairwoman  
California Air Resources Board  
1001 I Street  
Sacramento, California 95812

Dear Ms. Nichols,

When I signed Assembly Bill 32 in 2006, California became a world leader on climate change. The impact of our efforts to date has been tremendous. California leads the nation in every measurable way when it comes to building the foundation of a clean tech economy. California entrepreneurs opened more than 10,000 green businesses and created more than 125,000 new jobs – more than any other state in the U.S. California has received more than \$6.5 billion in venture capital investment from 2006-08, more than all other states combined. In fact, in 2009, while other sectors saw little or no venture capital investment, California received \$2.1 billion – 60 percent of the total for all of North America. I just signed legislation to speed development of 22 renewable energy projects that will generate nearly 10,000 megawatts in California's desert region. These projects will attract as much as \$30 billion in investment in California's economy and produce more than 12,000 new jobs starting this year. There are more than 220 other renewable energy projects seeking permits to build in California.

California's leadership on climate change has been a model for other states and also for Washington, DC. Congress is now prepared to move toward the adoption of a federal program that will help drive this country's transition toward a cleaner, more efficient and more secure energy future. With this in mind, I offer these comments to the Air Resources Board about the AB 32 implementation process and the importance of ensuring that our efforts here keep California on a strong, economically sound path and are carefully aligned with efforts underway at the federal level.

As we have discussed many times, California's goal is to implement AB 32 in such a way as to mesh our program as seamlessly as possible into a comprehensive national strategy. Last summer, the U.S. House of Representatives passed legislation that mirrors many elements of California's AB 32 Scoping Plan, and now Senators Kerry, Lieberman and Graham are working in the U.S. Senate on a bipartisan proposal that I believe represents a strong framework that will take this nation in the right direction.



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There are several elements of a cap-and-trade program being evaluated by the Air Resources Board that I believe merit careful scrutiny in order to ensure that businesses in California are able to remain competitive and positioned to fully reap the benefits of a federal program. The first is the way that allowances are distributed. I understand that the Economic and Allocation Advisory Committee has recommended full auction of allowances. Let me say that, while a well-designed auction system may be the optimal approach to reach our carbon reduction targets, full auction of allowances at the beginning of a cap-and-trade program may be too abrupt a transition – posing high short-term costs to capped companies. A free allocation system, on the other hand, should reward companies that have already made significant investments in energy efficiency and carbon reduction, and should not penalize those that produce goods in California.

It is critically important that California's program be designed in a way that gives businesses and industries in this state sufficient time to reduce their emissions in a cost-effective manner without unnecessary short-term costs. I strongly support a more carefully phased approach to development of an auction system, beginning with a very small percentage of allowances subject to auction. CARB should also consider whether revenues from an auction could be used to replace a fee system.

In addition to the distribution of allowances, CARB should carefully consider how to assure an ample supply of high-quality offsets to help companies comply with carbon reduction strategies in a cost-effective manner. As the new economic study shows, offsets will play a critical role in the successful implementation of AB 32 and provide a link to a future national framework as well as to international carbon markets. In designing its program, California should strive for compatibility with the European Union trading system and offset policies. Given the importance of interstate and international trade to California's economy, we must design our program to ensure that California companies are appropriately positioned to compete under any future federal or international program

As we move forward with implementing AB 32, we should keep our eyes on the goal: to reduce our greenhouse gas emissions to 1990 levels by the year 2020. I am confident that we can achieve this goal and foster strong economic growth as long we do not waiver in our commitment and we are sensitive to the challenges businesses face, particularly until our national economy fully recovers from this recession.

Sincerely,



Arnold Schwarzenegger

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