

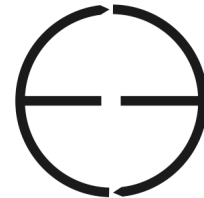


California Council for Environmental and Economic Balance



**SCAQMD Global Warming
Cap and Trade Program Forum**

**Industry Perspective:
Creating a GHG Emissions Market in California**



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“The Chinese use two brush strokes to write the word 'crisis.' One brush stroke stands for danger; the other for opportunity. In a crisis, be aware of the danger - but recognize the opportunity.”

-John F. Kennedy



What is CCEEB?

- Founded by Governor Edmund G. “Pat” Brown in 1973
- Coalition of business, labor and public leaders
- Sound economy, healthy environment
- Non-profit, non-partisan
- Organization
 - Board of Directors
 - Air Quality and Transportation Project
 - Bay Area Partnership
 - Climate Change Project
 - Public Policy Project
 - South Coast Air Project
 - Waste and Water Quality Project



CCEEB credentials

- 30+ years experience in helping to develop state and local air quality programs.
- Active stakeholder in RECLAIM design, implementation and continuous improvement.
- Members include those industries likely to fall under AB 32
 - Energy, transportation and agriculture.
- Represent major businesses in the South Coast.
 - Utilities, entertainment, railroads, energy, refineries and aerospace.



RECLAIM & AB 32

RECLAIM teaches valuable lessons, but is not 100% applicable to GHG.

- Different Objectives
 - RECLAIM \Rightarrow forces BARCT.
 - AB 32 \Rightarrow mitigate climate change.
- Different Geographic Scopes
 - RECLAIM \Rightarrow regional problems, operates as a silo.
 - AB 32 \Rightarrow global problems, anticipate integration with others.
- Different starting points
 - Development of RECLAIM was an alternative to an existing regulatory program.
 - There is no existing GHG regulations--starting from scratch.



Lesson Learned

- Cap and Trade achieves real, verifiable and additional reductions at the least cost, while providing the ability to plan investments.



Lesson Learned

- Avoid over-allocation of initial credits.
- Smaller and/or inexperienced businesses need time to adopt and adapt.
- Pricing must be transparent.
 - Transmit price signals to buyers in the next cycle.
 - Maximum amount of market info.



Lesson Learned

- Credits need to be property, with full rights.
 - Prerequisite for international trading.
- Anticipate continued power and energy demand growth.
- Smaller players need special design consideration.
 - Large players drove prices in RECLAIM.



RECLAIM report card

RECLAIM exemplifies how California is ahead of the curve in environmental protection, and is important as a case study.

California has an opportunity to apply these lessons in designing an effective and efficient Cap and Trade system that controls dangerous GHG emissions.

California is a national and international leader. Now is the time for global partnerships to combat one of the most critical problems facing life on earth.



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CCEEB Principles: General Design for AB 32

- Maximize environmental benefits.
 - Focus on GHG emissions reductions.
 - Protect progress of criteria pollutant programs.
- Maximize flexibility.
- Simple to understand, easy to comply.
 - Minimize administrative burden.
- Consistent, coordinated system across the state.
- Avoid economic harm to prevent impeding program and to sustain political support.
- Anticipate integration: Success will take regional, national and global cooperation.



Principles: Pathways

- Cap and Trade: lower \$/ton + increased innovations and best practices.
 - EU enviros, business, and government support Cap and Trade.
- Command-and-Control vs. Cap-and-Trade.
 - Identify who should fall under each program.
 - Do not starve or disrupt a fledgling market.
- Inclusion minimizes costs, reduces leakage.
 - Across sectors.
 - Across regions and regimes.



Principles: Setting Up a Market

- Allocation method is critical to success, but will be highly political.
 - Avoid initial shortfalls of allowances.
 - Send clear market signals.
- Accessible and fungible credits
 - All sectors, all sources, regardless of geography.
- Credit for voluntary early reductions.
- Transparency - credible info, publicly available.
 - e.g., Clean Air Act's Acid Rain Program.
- *WATCH! some industries cannot pass on compliance costs.*



Principles, con't.

- Beware of unintended consequences.
- Minimize regulatory intervention; let the market drive down emissions.
 - Marketeers and market participants need certainty.



Conclusions for AB 32

- RECLAIM is not 100% applicable to AB 32.
 - Different objectives, geographic scope & starting point.
- Allocation process is critical, but political.
- Resist knee-jerk regulatory intervention in response to price fluctuations.
- Credits should be property rights.
- Acknowledge needs of smaller players.