



Union of Concerned Scientists

Citizens and Scientists for Environmental Solutions

Statement to ETAAC – September 6, 2007

I'm Chris Busch, an economist with the Union of Concerned Scientists' California Climate Program. Thanks to the Committee for your efforts and the opportunity to offer these comments.

The Union of Concerned Scientists shares the Committee's belief that innovation is central to successfully managing the global warming challenge.

Our view is that California enjoys a comparative advantage in technological innovation – the same creativity and drive that enabled California to lead the internet revolution can be harnessed to generate improved global warming solutions.

We urge the ETAAC to make recommendations in its final report regarding the question of how decisions regarding particular features of a cap-and-trade program could affect incentives for innovation.

Our position is that a well designed cap-and-trade program could be a useful component of the scoping plan, but that the bulk of the reductions should come from other policies.

We see two design parameters as key to the question of the extent to which cap-and-trade promotes innovation: allowance distribution and offsets.

Auctioning allowances can support innovation. Auctioning allowances rather than distributing them for free provides an efficient source of revenue that could be used to provide incentives for clean tech development and deployment. This is just one of the many advantages of auctioning.

Limiting offsets promotes innovation in capped sectors. The Market Advisory Committee report emphasized investment in research to promote innovation; their emphasis was on the supply side. Berkeley Professor Margaret Taylor's research suggests that innovation is maximized when policy gives attention to the demand side of the market as well. To the extent that offsets spread out the mitigation effort they reduce the stringency of the program and they also weaken the price signal that will indicate to entrepreneurs the returns expected from their inventive aspirations.

For these reasons amongst others, we hope that the ETACC will support auctioning allowances and limiting offsets to a modest fraction of the emission reductions from a cap-and-trade program.

We would like to offer a few preliminary thoughts on E2's Carbon Trust concept.

Overall, this seems a promising idea, though not as a substitute for limits on offsets. The idea of an early auction, prior to implementation of a cap-and-trade program, should one be adopted, could be a useful means of providing early funding for investment in development and deployment of global warming solutions. The Carbon Trust could be a valuable way to prioritize projects that provide maximum co-benefits for California-- especially improved air quality--and projects that set California on the path to achieving its long-term emission goals of 80 percent below 1990 levels by 2050.

We understand that the Carbon Trust concept is still being developed and suggest attention to the following areas:

- The proposal that the Carbon Trust serve as a manager of the price of carbon deserves further consideration. The precise mandate and rules for intervention in the market would of course be important as would the criteria and process for selecting the Trust's management team.
- While early price discovery could be useful, if an auction takes place before aspects of the presumptive program and its role in the overall scoping plan have been decided or understood, the resulting uncertainty might produce unacceptably low allowance prices. For these reasons, a price floor could be especially important in an early auction.
- The proposal discusses funding emission reduction projects for which no accounting protocol has been established. We suggest it be made clear that such projects would not be considered for generation of offsets. Environmental integrity must be made paramount for offsets to be considered. We note with concern mounting evidence of non-additional projects under the Clean Development Mechanism.
- The Carbon Trust proposal describes a neighborhood energy efficiency project in a low-income community. Such investments could be a useful way of funding projects with climate benefits that counter the potentially regressive economic effects of climate policies and could produce reductions at the targeted end uses. Nonetheless, such a project would not change the number of allowances available to entities operating under the cap plus the offsets. The project would allow the utility servicing the neighborhood to increase their electricity sales elsewhere. Thus, in the context of a cap-and-trade program covering electricity, such a project would not produce net emission reductions, would not pass the additionality requirement for offsets, and so would not produce real offsets.