The Hon. Mary Nichols, Chair

California Air Resources Board

1001 I Street

Sacramento, California 95814

Re: Proposed Cap-and-Trade Regulation

Dear Chairwoman Nichols:

The undersigned organizations are not opposed to a well-designed cap-and-trade program as an element of California’s greenhouse gas emissions reduction strategy. However, we have significant concerns that the rule currently contemplated by the California Air Resources Board is a poorly designed policy that will increase energy costs and lead to leakage of businesses, jobs and economic activity. This directly contradicts not only the requirement under AB 32 that such regulations must minimize negative economic impacts but the Governor and Legislature’s stated goal of preserving and creating jobs as the most important means of fueling our state’s economic recovery.

Specifically:

**California cannot afford to go it alone.** CARB’s AB 32 Scoping Plan observes that “California cannot avert the impacts of global climate change by acting alone,” and anticipates a regional cap-and-trade program in coordination with states in the Western Climate Initiative. However, no other states in the WCI are pursuing cap-and-trade policies, nor is the federal government. California would be going it alone, to the severe detriment of our competitiveness and economy.

The independent Legislative Analyst’s Office concluded last year:“California’s economy at large will likely be adversely affected in the near term by implementing climate-related policies that are not adopted elsewhere … this … will adversely impact the state’s economy through such avenues as causing the prices of goods and services to rise; lowering business profits; and reducing production, income, and jobs. These adverse effects will occur in large part through economic leakage, as certain economic activity locates or relocates outside of California where regulatory-related costs are lower.”

With the second-highest unemployment rate in the nation, California simply can’t afford to go it alone on cap-and trade.

**Arbitrary 10% “haircut” is an unjustified, job-killing tax.** By forcing trade-exposed industries to purchase up to 10% of what were to be free emissions allowances, CARB will be in effect imposing a new tax on regulated entities. In additional to being legally questionable, this tax will lead to dramatically higher energy costs that will harm virtually every sector of our economy.

You yourself have been quoted as estimating the amount of this tax will start at $500 million in the first compliance period and grow to $2 billion in subsequent periods. We respectfully disagree with your opinion that putting a multi-billion dollar tax on carbon will send the price signals necessary for a successful cap-and-trade program. On the contrary, such an approach will be successful only in killing jobs, driving more businesses out of California and exporting GHG emissions to unregulated regions.

**No environmental benefit.** Singling out trade-exposed industries by depriving them of the free allowances which are essential to a California-only cap-and-trade program will do nothing to achieve meaningful GHG reductions. The Analysis Group recently cautioned CARB: “With none of California’s neighboring states committing to climate targets, emission leakage will continue as a potential risk to the program’s environmental integrity.”

California ratepayers and businesses are already facing the burden of higher utility costs associated with existing laws and regulations mandating a transition to lower-carbon and renewable energy sources. In view of the fragile state of California’s economy, this is the worst possible time to impose yet another new energy tax on struggling businesses and consumers, especially since not even the other Western Climate Initiative states are willing to risk their own economies on costly cap-and-trade programs.

In summary, the imposition of a new tax on business or other “price signals” are not necessary to achieve the emissions reduction goals of AB 32, and will serve only to further cripple our economy, increase unemployment and impair our competitiveness.

We strongly oppose such taxes in any form, and urge you to modify the cap-and-trade program to avoid the economic consequences they will bring.

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