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UCS statement to ARB on MAC report

I'm Chris Busch, an economist with the Union of Concerned Scientists' California Climate Program.

Thank you for the opportunity to offer our perspective on the Market Advisory Committee's recommendations.

Our view is that the advancement of California's successful sectoral policy approaches should serve as the foundation of AB 32 implementation; however we would support inclusion of a well-designed cap-and-trade program as one instrument amongst a larger portfolio of policies. Cap-and-trade shifts some of the burden of charting a path to California's 2020 target from regulators to industry, while at the same time offering some flexibility in compliance to encourage efficiency. A well-designed program would also establish an enforceable quantitative limit on emissions for the capped sectors.

Turning to the MAC report itself, we find ourselves in agreement with many of its recommendations.

On the issue of allowance distribution, a new consensus is emerging on the advantages of auctioning allowances, and the MAC report presents a powerful integration of these arguments. The report states that "the fundamental objectives of cost-effectiveness, fairness, and simplicity" favor a system in which California auctions all of its emissions allowances eventually. We hope the State arrives at this 100% auction destination expeditiously.

The MAC's rejection of price caps on allowances is an important step toward designing a program with environmental integrity. We also agree with the MAC's recommendation that the scope of the program should be as broad as is practical, and that transportation fuels should be included.

We have serious concerns about the MAC's recommendation that there be no quantitative or geographic limits on offsets.

A key problem with such an unlimited offsets approach is that this would make it possible that very little – or even none – of the reductions that the cap-and-trade program produces will be in California. Can California really claim to be a leader on global warming if we outsource the effort and allow our own emissions to rise?

Investments in global warming solutions have valuable co-benefits, environmental and economic, especially lowered emissions of conventional air pollutants. Limiting offsets to ensure that these co-benefits accrue to the people of California is particularly important given the air quality challenges facing California and the concerns of environmental justice advocates

Unlimited offsets would substantially reduce the emission reductions required of capped sectors and would weaken the innovation forcing capacity of cap-and-trade. There should be no higher priority than innovation in the design of policies to surmount the climate challenge. Innovation both reduces the future costs of clean technologies, and will allow California businesses to capture a larger share of the booming clean tech market.

Economic modeling does not account for new technologies that could be spurred by climate policies, nonetheless the State's own economic modeling and UC Berkeley research suggest that we can reach AB 32's 2020 target with net economic benefits even before considering the ancillary environmental gains.

Increasing reports of offset projects that don't yield real emission reductions is another area of concern. AB 32 requires real, surplus, verifiable, enforceable, and permanent emission reductions. Allowing offset projects outside of California's border would add to the challenge of ensuring reductions from offset projects meet these criteria.

Finally, an unlimited offsets policy could create difficulties should California wish to link with other program. Every other cap-and-trade program to reduce greenhouse gas emissions has imposed quantitative limits on the use of offsets as a compliance option.

For these reasons, we strongly urge that offsets be limited to a modest fraction of emission reductions.

In closing, I would like to present to the Board a letter to the MAC that was signed by 16 environmental, public health, and other public interest organizations.

The letter addresses the draft report for public review, but the MAC's final recommendations did not change substantially.