Greenhouse Gas Regulation
Market-Based Approach Will Have Broadest Impact

California is regarded both nationally and internationally as a leader in climate change policy. It is important to remember, however, that California makes up a mere 1% of global greenhouse gas (GHG) emissions. Where California can make the most impact in further reducing GHG emissions is by serving as a model for a robust, cost-effective cap-and-trade system that encourages participation by other jurisdictions. This system requires buy in from all parties—not just government and environmental groups, but from the businesses and industries that will support and implement these regulations.

THE BASICS
In 2017, California enacted AB 398 (E. Garcia; D-Coachella), reauthorizing and expanding the California Global Warming Solutions Act of 2006. AB 398 was a bipartisan bill, supported by the California Chamber of Commerce, that solidified California’s future as a leader in the market-based approach to reducing GHG emissions.

Notably, AB 398 allows for the continuation of California’s cap-and-trade program, extending the program until 2030 and providing for market certainty. Among other things, the Legislature made improvements to the cap-and-trade system, directing the California Air Resources Board (CARB) to evaluate and address carbon credit banking rules to avoid speculation, and to provide additional industry assistance to California businesses that are most susceptible to “leakage”—the climate change parlance for the unfortunate fact that environmental regulations sometimes push businesses to relocate out of state, instead causing emissions in a less-regulated state.

AB 398 also sought to set a hard price ceiling on carbon credits, such that businesses could be assured that additional credits would not be astronomically high in future years. In doing so, AB 398 sought to strike a balance between ensuring continued economic growth in California while achieving measurable, tangible GHG reductions.

The CARB was directed to create regulations to implement AB 398. CARB finalized the cap-and-trade regulations on December 13, 2018. Over many objections by the business and civil rights community, CARB set price ceilings and market speedbumps for the cap-and-trade auction at a level that is inconsistent with “best available science,” and arguably inconsistent with AB 398’s bipartisan mandate. Price ceilings are designed to stabilize markets, prevent runaway costs, encourage additional governments to join our cap-and-trade system, and minimize leakage of California businesses. It is important to maintain stability of the market as we move forward with cap-and-trade.

THE POLICY CONCERNS

Duplicate Legislation. AB 398 and its companion bill, AB 617 (E. Garcia; D-Coachella), address impacts from specified
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sources. AB 398 seeks to place a cap on emissions from entities constituting approximately 80% of specified emission sources in California. Together, these two bills address both GHG and local air emissions. Despite these far-reaching laws, California continues to enact piecemeal bans and procurement requirements for utilities, agriculture, buildings, and energy producers. For example, in 2018, a bill was introduced that sought to curtail all natural gas electricity production in California, despite cleaner natural gas being used to reduce overall emissions and provide for energy stability when solar or wind are unavailable. AB 398 attempted to address some of this duplication, banning local air districts from adopting or implementing an emission reduction rule from a stationary source that also is subject to cap-and-trade. Duplicative legislation hinders economic expansion in this state, and provides a disincentive for businesses to support wide-ranging market-based approaches in the future.

Efficient Use of Greenhouse Gas Reduction Funds. Profits from the credits produced in the cap-and-trade auction have generated more than $8 billion in funding to state agencies for emission reduction programs and projects. The Legislature intentionally left flexibility in determining appropriate projects. However, AB 398 established GHG reduction fund spending priorities, including:

• Air toxic and criteria air pollutants from stationary and mobile sources.
• Low- and zero-carbon transportation alternatives.
• Sustainable agricultural practices that promote transitions to clean technology, water efficiency, and improved air quality.
• Healthy forests and urban greening.
• Short-lived climate pollutants.
• Climate adaptation and resiliency.
• Climate and clean energy research.

The bill also contained certain reporting and oversight requirements to ensure market performance and track progress on emission reductions to ensure California meets its ambitious climate change goals. The Legislature should ensure that GHG reduction funds are creating measurable and substantial reductions in GHG emissions, which is the goal of the cap-and-trade program.

LEGISLATIVE ACTIVITY IN 2019

The Legislature will continue to advance climate policies, including introducing bans or limits on industry that already is subject to the cap-and-trade laws. It is important to maintain economic stability of the market-based program. If California is to be a leader in climate change, it must successfully balance scientifically proven GHG emissions with economic growth.

Given the major objections to CARB’s setting of price ceilings for future cap-and-trade auctions, there may be some push to redirect CARB to follow AB 398’s mandate. With a supermajority in both houses, however, such a push may prove challenging.

CALCHAMBER POSITION

CalChamber supports climate change laws and regulations that are cost-effective, technology-neutral, and promote the use of market-based strategies to reduce GHGs. The Legislature should ensure that any changes to California law safeguard the economy while having a demonstrable impact on GHG reduction and attract private capital to the state.

Staff Contact
Leah Silverthorn
Policy Advocate
leah.silverthorn@calchamber.com
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