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California Air Resources Board gives green light to California's emissions trading program

Cap-and-trade program will drive innovation and jobs, and will promote efficiency, clean energy

SACRAMENTO - The California Air Resources Board today endorsed the cap-and-trade regulation, marking a significant milestone toward reducing California's greenhouse gas emissions under its AB 32 law. ARB's cap-and-trade regulation, along with several complementary measures will drive the development of green jobs and set the state on track to a clean energy future.

The regulation is a key measure to achieve the greenhouse gas reduction goals of AB 32, California's pioneering climate change law signed by Governor Schwarzenegger in 2006.

"This program is the capstone of our climate policy, and will accelerate California's progress toward a clean energy economy," said ARB Chairman Mary D. Nichols. "It rewards efficiency and provides companies with the greatest flexibility to find innovative solutions that drive green jobs, clean our environment, increase our energy security and ensure that California stands ready to compete in the booming global market for clean and renewable energy."

The regulation sets a statewide limit on the emissions from sources responsible for 80 percent of California's greenhouse gas emissions and establishes a price signal needed to drive long-term investment in cleaner fuels and more efficient use of energy. The program is designed to provide covered entities the flexibility to seek out and implement the lowest-cost options to reduce emissions.

The cap-and-trade program also works in concert with other measures, such as standards for cleaner vehicles, low-carbon fuels, renewable electricity and energy efficiency, and complements and supports California's existing efforts to reduce smog-forming and toxic air pollutants.

The cap-and-trade program and the other measures to reduce greenhouse gases provide a model for action that can be used at the federal, state and regional levels. As climate policies are being addressed worldwide, California's early actions are positioning its economy to reap the benefits on the world stage and are catalyzing action throughout the country and the world.

"The cap-and-trade program provides California with the opportunity to fill the growing global demand for the projects, patents and products needed to move away from fossil fuels and to cleaner energy sources," added Nichols

The regulation will cover 360 businesses representing 600 facilities and is divided into two broad phases: an initial phase beginning in 2012 that will include all major industrial sources along with utilities; and, a second phase that starts in 2015 and brings in distributors of transportation fuels, natural gas and other fuels.

Companies are not given a specific limit on their greenhouse gas emissions but must supply a sufficient number of allowances (each covering the equivalent of one ton of carbon dioxide) to cover their annual emissions. Each year, the total number of allowances issued in the state drops, requiring companies to find the most cost-effective and efficient approaches to reducing their emissions. By the end of the program in 2020 there will be a 15 percent reduction in greenhouse gas emissions compared to today, reaching the same level of emissions as the state experienced in 1990, as required under AB 32.

To ensure a gradual transition, ARB will provide significant free allowances to all industrial sources during the initial period (2012-2014). Companies that need additional allowances to cover their emissions can purchase them at regular quarterly auctions ARB will conduct, or buy them on the market.

Electric utilities will also be given allowances and they will be required to sell those allowances and dedicate the revenue generated for the benefit of their ratepayers and to help achieve AB 32 goals.

Eight percent of a company's emissions can be covered using credits from compliance-grade offset projects, promoting the development of beneficial environmental projects in the forestry and agriculture sectors. Included in the regulation are four protocols, or systems of rules, covering carbon accounting rules for offset credits in forestry management, urban forestry, dairy methane digesters, and the destruction of existing banks of ozone-depleting substances in the U.S. (mostly in the form of refrigerants in older refrigeration and air-conditioning equipment).

There are also provisions to develop international offset programs that could include the preservation of international forests. A Memorandum of Understanding has already been signed with Chiapas, Mexico, and Acre, Brazil, at the Governor's Global Climate Summit 3 to establish these offset programs.

The regulation is designed so that California may link up with programs in other states or provinces within the Western Climate Initiative, including New Mexico, British Columbia, Ontario and Quebec. Efforts are also underway to link the WCI with other regional climate programs, such as the Midwest Greenhouse Gas Reduction Accord and the Regional Greenhouse Gas Initiative which covers the power generation emissions of 10 northeastern states.

The regulation has been in development for the past two years since the passage of the Scoping Plan in 2008. ARB staff held 40 public workshops on every aspect of the cap-and-trade program design, and hundreds of meetings with stakeholders. ARB staff also benefited from the analysis of a blue ribbon committee of economic advisers, consultation with world-renowned institutions that specialize in climate issues, and advice from experts with experience from other cap-and-trade programs elsewhere in the world.