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California Panel Considers Money From Climate Rules

By [JESSE MCKINLEY](#)

SAN FRANCISCO — Offering an early glimpse of how California might manage a central element of its ambitious greenhouse-gas law, a state committee has recommended that residents receive cash or tax breaks resulting from auctions of emission allowances to industries and other polluters.

Under the proposal, described by the committee as a “household friendly” approach, Californians would receive 75 percent of the proceeds from emissions auctions, either in tax decreases or checks sent directly to residents.

The proposal was one of several released on Monday in a final report from the 16-member Economic and Allocation Advisory Committee, which is charged with advising the state’s Air Resources Board on a [cap-and-trade](#) system. Such a system has become a central element of enacting the landmark California law enacted in 2006 to limit emissions of greenhouse gases in the state.

The report was met with a measured response from state officials, including Gov. [Arnold Schwarzenegger](#), a Republican who has championed his environmental record as a bright spot in a second term marred by continual budget crises and cutbacks.

“I continue to believe the best program will be one that returns value to the people through tax cuts, rebates or dividends,” the governor said in a statement. “And I applaud the committee for recognizing those options.”

In cap-and-trade systems, individual polluters are given allowances to pollute to a certain level, with the total number of permissible emissions slowly reduced year by year. In California, the emissions law, AB 32, requires that emissions of heat-trapping gases statewide be reduced to 1990 levels by 2020.

In some cases, the allowances have been offered to polluters without charge to soften the economic impact or to win the confidence of businesses, which will bear higher costs to reduce emissions and which can sell unused allowances. The cap-and-trade legislation passed by the United States House last summer had some free allowances, as does much of the legislation being considered in the Senate.

Under the California committee’s recommendation, however, allowances would be auctioned, and the bulk of the proceeds returned to the state’s residents. It says auctions “would be more transparent and provide additional advantages including price discovery and market liquidity.”

Cap-and-trade policies, which have been used to fight acid rain and other types of pollution, can be controversial, and their fate in the Senate is uncertain.

Robert Stavins, the director of the Harvard Environmental Economics Program, said the California proposal faced uncertain political prospects and that such a plan could eventually put California at odds with a national cap-and-trade program.

“The political question,” Mr. Stavins said, “is whether the approach of compensating sectors and geographic areas through free allocation” — the approach in the House bill — “turns out to be more politically effective than the populist approach of trying to win the support of the population directly with checks in the mail.”

The California Chamber of Commerce responded warily to the proposal, saying in a letter to [Mary Nichols](#), chairwoman of the resources board, that “auctioning of allowances must be kept at de minimus levels” to avoid higher costs to businesses, and in turn, consumers.

A board spokesman, Stanley Young, said members would consider all the committee’s recommendations and issue draft regulations for the cap-and-trade program this spring. The board has until next January to adopt such a program, which is required to be in place by 2012.

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