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# CALIFORNIA'S CAP-AND-TRADE: WILL IT PROTECT THE POLLUTERS OR OUR COMMUNITIES?

C.C. Song  
*Green Assets Fellow*

## Introduction

California is on schedule to implement the Global Warming Solutions Act (AB 32), and the Greenlining Institute is working to ensure that communities of color and low-income communities are active stakeholders in the new clean-energy economy. On December 16, 2010, the California Air Resources Board (CARB) adopted regulations for the cap-and-trade program. Cap-and-trade is identified by AB 32's Scoping Plan as one of the strategies to reduce California's greenhouse gas emissions to 1990's level by 2020.

We are concerned about some of the regulations' impact on California's most vulnerable communities. If the cap-and-trade program is not executed with caution, communities of color and low-income communities may experience more pollution and public health problems. In addition, the same communities will be vulnerable to energy price hikes, especially minority-owned small businesses.

In order for California's small businesses to thrive in the growing green economy, the cap-and-trade regulations should include the following:

1. Provide effective incentives for polluters to reduce greenhouse gas (GHG) emissions and invest in clean technologies.
2. Protect consumers from energy price hikes and encourage energy conservation with effective rebate programs and community outreach.
3. Create a Community Benefits Fund that will help reduce the impact of climate change on underserved communities and provide workforce development programs in order to provide a pipeline of qualified workers and support the growing green jobs sector.

## What is Cap-and-Trade?

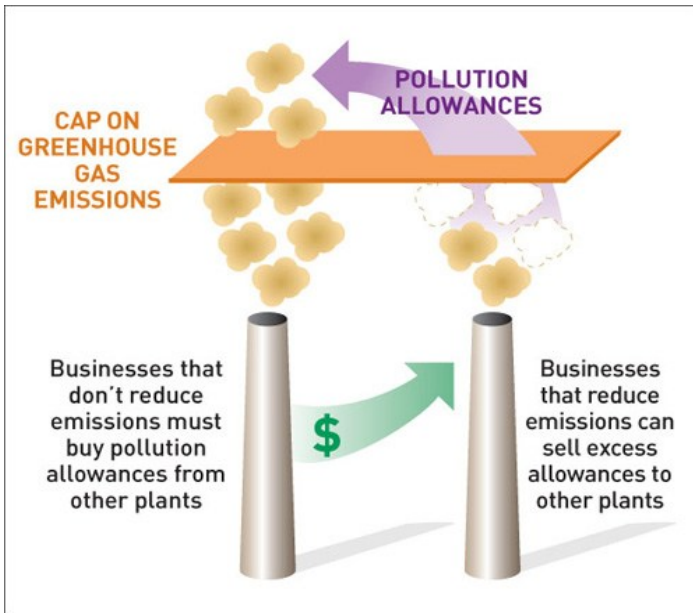
Cap-and-trade is a market-based mechanism used to reduce GHG emissions. It would reduce emissions by placing a cap on how much a polluter can emit. If the polluter emits an amount above the cap, it is responsible for purchasing allowances from the state to pay for this pollution.

In order to work, the cap would decline every year, so polluters that do not invest in renewable energy sources or energy-efficient technologies will have to purchase more and more allowances. As a result, it is in the

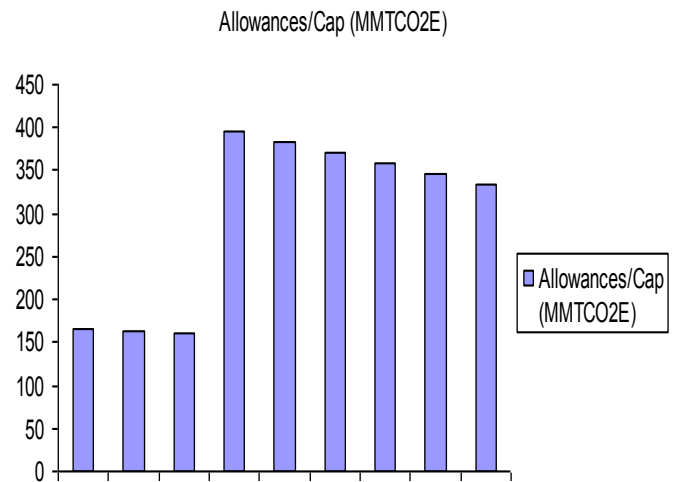


**THE GREENLINING INSTITUTE**  
1918 UNIVERSITY AVENUE, 2ND FL.  
BERKELEY, CALIFORNIA 94704  
T: 510-926-4001  
F: 510-926-4010  
[WWW.GREENLINING.ORG](http://WWW.GREENLINING.ORG)

**Contact**  
Preeti Vissa  
Community Reinvestment Director  
T: 510-926-4006  
E: [preetiv@greenlining.org](mailto:preetiv@greenlining.org)



Businesses that produce lower than the capped amount can auction their allowances. The profit can be used to invest in energy-efficient technologies. Businesses that produce higher than the capped amount will have to purchase allowances from other businesses or CARB.  
Source: Environmental Defense Fund



Based on California's Cap-and-Trade program schedule, the cap declines steadily from 2012 to 2014. Beginning in 2015, transportation fuels will be included in the program, therefore increasing the amount of allowances/cap. The cap will gradually decline until it reaches to 1990 level by 2020.

## What is Cap-and-Trade (cont'd)

polluter's interest to make those investments to reduce emissions while upgrading the capital infrastructure of their business.

Ideally, an effective cap-and-trade program can stimulate economic activities and create jobs. As the cap lowers, the demand for renewable energy and energy-efficient technologies will increase. More labor will be demanded to invent, manufacture, and install these technologies. The revenue generated by the program can help to create programs that encourage energy conservation and protect vulnerable communities from the transitional increase in energy prices.

### CARB Should Protect Consumers and Small Businesses, not Polluters

A successful cap-and-trade program relies on strategic allocation of allowances. Unfortunately, CARB has pro-

posed to give away 90% of the initial allowances for free to big industrial polluters. CARB rationalizes that big polluting industries will leave the state without free allowances. However, many studies have rejected the need for such a large giveaway to big polluters.

For example, the Economic and Allocation Advisory Committee (EAAC), an advisory board of economists and policy experts appointed by California's Secretary of Environmental Protection Linda Adams and CARB Chairman Mary Nichols, objected to large portions of free allowances. EAAC recommended other alternatives that can keep the businesses in the state and reduce emissions.

By giving away 90% of the allowances for free in the first year with no guarantee of decline, there will be very little incentives for polluters to reduce emissions. Worse, polluters can gain windfall profits by passing the cost of emissions reduction onto consumers, even though they are receiving the allowances for free.

By watering down the most crucial part of the cap-and-trade program, low-income communities will continue to live in the most polluted areas, and will not gain the green jobs as envisioned by AB 32. Also, low-income households and small businesses may see an increased proportion of their revenues spent on their energy bills.

Greenlining supports EAAC's recommendation that twenty-percent of the allowances be allocated to businesses that will face inevitable shut-down. However, CARB must develop a methodology to assist these businesses in purchasing energy efficient technologies, and evaluate the amount of free allowances needed annually. This will allow CARB to make informed decisions about the necessity of free allowances in subsequent years.

### **Regulatory Agencies and Utilities Must Help Ratepayers Make Better Choices**

Energy prices may increase as a temporary result of implementing cap-and-trade because regulated entities will likely pass on their cost to increase energy efficiency to consumers. Under the current proposal, the electricity sector will receive auction-generated revenues to help shield ratepayers from hikes in energy prices. Greenlining supports this decision, and further recommends that low-income households be prioritized to receive rebates. This is consistent with AB 32's intent to recognize communities that are already disproportionately impacted by climate change, so that they don't bear any additional economic and environmental burden.

Utilities, CARB, and the California Public Utilities Commission (CPUC) should protect consumers by administering cash rebates rather than simple bill discounts to encourage energy conservation. Receiving the rebates and the bills separately will allow ratepayers to calculate how much they are spending, how much the rebates can offset the price increase, and how much money ratepayers can save by conserving energy.

Community outreach efforts should also be coupled with

rebates to help ratepayers make smart energy decisions. Since utilities have deployed smart meters, ratepayers need to know how to monitor their energy usage throughout the day. They also need to know when they should limit energy consumption, and when they can use more energy without incurring a large bill. CPUC Commissioner Nancy Ryan has led ongoing discussions on how utilities and community organizations can work cooperatively to assist in outreach in communities of color and low-income communities.

### **A Community Benefits Fund Must Be Created to Help Reduce the Impact of Climate Change, and Develop Green Workforce Programs**

CARB's proposal recommends that the Governor and the Legislature establish a Community Benefits Fund (CBF), but does not set a date or initiate funding. Greenlining recommends that CARB set aside at least 4% of allowances to be made available at auctions, and dedicate the revenue to the CBF. This will send a clear signal to the Governor and the Legislature to issue an executive order or pass a bill that will help underprivileged communities mitigate the impact of climate change.

Funds should be directed to the most disadvantaged communities for projects and programs in three main areas: reducing air pollution and climate change, improving community public health, and promoting clean-energy jobs. These projects and programs can include energy efficiency investments, smart growth land use planning, and workforce development.

Creating a CBF is crucial in helping California move toward a fair and clean economy. Communities of color and low-income households need adequate resources to build healthy communities. Since a significant number of workers from underserved communities hold jobs in high-polluting industries, these workers will need proper training to remain competitive in the new job market.

## Conclusion

The intent of AB 32 demands that consideration of communities of color, low-income households, and minority-owned businesses be at the forefront of the law's implementation. AB 32 calls for public and private investment in underserved communities to provide opportunities for small businesses, schools, affordable housing associations, and community organizations to participate and benefit from the economic and environmental opportunities associated with GHG emissions reduction.

In order for California to truly lead the nation in moving toward a healthy clean-energy economy, climate change policies need to adequately address the concerns of the most vulnerable communities. Moving beyond the cap-and-trade regulation, Greenlining invites CARB to become an active participant in holding dialogues and other outreach efforts to truly understand the needs of communities of color, low-income households, and minority-owned

businesses.

For Greenlining's complete comment on CARB's cap-and-trade program, please visit: [http://www.arb.ca.gov/lispub/commbccomdisp.php?list\\_name=capandtrade10&comment\\_num=243&virt\\_num=215](http://www.arb.ca.gov/lispub/commbccomdisp.php?list_name=capandtrade10&comment_num=243&virt_num=215).

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### FOR MORE INFORMATION:

Assembly Bill 32: Global Warming Solutions Act Overview  
<http://www.arb.ca.gov/cc/ab32/ab32.htm>

AB 32 Climate Change Scoping Plan, California Air Resources Board  
[http://www.arb.ca.gov/cc/cleanenergy/clean\\_fs2.htm](http://www.arb.ca.gov/cc/cleanenergy/clean_fs2.htm)

Cap and Trade 2010, California Air Resources Board  
<http://www.arb.ca.gov/regact/2010/capandtrade10/capandtrade10.htm>

Allocating Emissions Allowances Under a California Cap-and-Trade Program, Economic

and Allocation Advisory Committee (EAAC)  
[http://www.climatechange.ca.gov/eaac/documents/eaac\\_reports/2010-03-22\\_EAAC\\_Allocation\\_Report\\_Final.pdf](http://www.climatechange.ca.gov/eaac/documents/eaac_reports/2010-03-22_EAAC_Allocation_Report_Final.pdf)



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Our mission is to empower communities of color and other disadvantaged groups through multi-ethnic economic and leadership development, civil rights and anti-redlining activities.

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