

## **CAP-AND-TRADE PROGRAM: LEGISLATIVE ANALYST SAYS CAP-AND-TRADE AUCTION NOT NECESSARY FOR EMISSION REDUCTIONS**

Responding to several questions posed by Assemblyman Henry Perea and Senator Michael Rubio, Legislative Analyst Mac Taylor this week told the Legislature that the auction of cap-and-trade allowances is not necessary for the state to achieve the emission-reduction standards set forth by AB 32 of 2006.

The legislative analyst found that there are three methods of developing a cap-and-trade program: providing businesses with all the available allowances needed to comply with the cap (known as 100 percent free allocation); auctioning all allowances (known as 100 percent auction); or auctioning some allowances while giving others away.

The California Air Resources Board (CARB) has adopted a cap-and-trade program utilizing the latter approach. Many businesses argue that the auctioning of allowances will greatly increase the cost of doing business in the state, and that this cost ultimately will be passed on to consumers. Others argue that the current design of cap-and-trade leaves businesses at risk of "leakage," or the possibility that they could be forced to leave the state if costs are too high.

In his [letter to lawmakers](#), Mr. Taylor wrote: "A key advantage of 100 percent free allocation is that it would offset significantly more of the marginal cost increase resulting from compliance with the program as compared to the ARB approach and reduce the potential for leakage while preserving the environmental integrity of the program."

In a press release, Assemblyman Perea said: "The fact that we can accomplish our environmental goals without forcing the sale of allowances is encouraging. We need to remember our ultimate goal here is to improve our air quality by encouraging industries to invest in clean technology, and I believe that can be done with 100 percent free allowance auctions."