

# California adopts extensive 'cap-and-trade' plan

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(AP) -- California formally adopted the nation's most comprehensive so-called "cap-and-trade" system Thursday, an experiment by the world's eighth-largest economy that is designed to provide financial incentives for polluters to reduce greenhouse gas emissions.

State officials said they hoped other states and Washington, D.C., would follow suit, calling the plan a "capstone" among the suite of tools California can use to reduce the pollution linked to climate change and cut dependence on foreign oil.

"For half a century every American president has been calling for America to move away from our dependence on foreign oil and become energy independent," said Mary Nichols, chairman of the California Air Resources Board.

"The reason we have not succeeded in addressing our addiction to petroleum is because we did not have the right set of policy tools," Nichols said. "Now we do. Cap-and-trade provides a reward for doing the right thing."

The board voted unanimously to approve the final draft of its plan, a key part of the state's landmark 2006 global warming law, AB 32, which seeks to reduce the emissions to 1990 levels by 2020.

Some businesses regulated under the program argue it will increase the price of electricity for consumers and hurt [job creation](#) by raising the

cost of doing business in the state. But the program's supporters expect cap-and-trade to spur [economic recovery](#) and innovation, by pushing business to invest in clean technologies.

While implementation of some parts of the program will begin in 2012, compliance for power plants and other of the worst polluting facilities actually starts in 2013, with others joining in 2015. In total, the plan will cover 85 percent of California's emissions.

Former Gov. [Arnold Schwarzenegger](#), who frequently promoted the law, called Thursday's vote a "major milestone" in the fight against climate change.

"I have always believed that we can create a world where economic growth, [energy independence](#) and environmental protection are all achieved," Schwarzenegger said

In general, the program will require pollution producers like refineries and cement manufacturers to buy permits, called allowances, from the state. Each permit allows for a specified amount of greenhouse gases each year, with the amount declining over time.

Companies that cut emissions and have extra allowances can then sell the permits in a marketplace; greenhouse gas emitters could purchase those allowances if they failed to cut emissions.

[Polluters](#) that reduce emissions could turn a profit if the market price for extra allowances rises above the initial cost of the permit.

A company can also meet up to 8 percent of its emissions reduction obligations by purchasing carbon "offsets," or investments in forestry or other projects that reduce greenhouse gases.

The program, modeled on similar programs in Europe, is also designed to be able to link up with plans in other states and elsewhere to increase the size of its market for carbon allowance trading.

"Although other states and some Canadian provinces such as Quebec and British Columbia hope to link their caps to California's, a big factor in the state's success will be whether or not they have to go it alone," said Jan Mazurek, director of strategy and operations for the Nicholas Institute for Environmental Policy Solutions at Duke University.

"Small markets mean fewer trading opportunities - and so potentially higher costs," Mazurek said.

To help companies prepare, 90 percent of the allowances would be free in the first years, providing time for equipment upgrades.

A letter sent by the California Chamber of Commerce and a host of other business groups called the 10 percent in allowances an "arbitrary 10 percent haircut." The letter said that California can't fight global [climate change](#) on its own.

"We are very concerned about the negative impacts the policy may have on the state's economy, jobs picture and energy costs," said Catherine Reheis-Boyd, president of the Western State Petroleum Association, in a statement. "This policy, if adopted, will amount to a new tax on refiners and other energy intensive industries that could total billions of dollars over several years."

Any electricity price increases would have to be approved by the state.

The cap-and-trade plan has seen a number of changes and overcome significant hurdles since it was first adopted with fanfare in Sacramento last year.

Work was briefly halted by a judge after environmental justice groups sued, arguing the market-based approach of cap-and-trade would allow polluters to buy the right to pollute more by purchasing more allowances. This, they argued, would affect mostly low-income neighborhoods located near governed facilities.

The California Supreme Court in September allowed work to continue on the regulations.

In response to these concerns, the board on Thursday also approved a new "adaptive management plan," under which the air quality of neighborhoods near [power plants](#) and other regulated facilities will be monitored to see if any more pollution results from cap-and-trade. If increases are found to be a result of cap-and-trade, the board said it would respond.

Environmental groups that have lobbied for years for a national cap-and-trade program lauded California's regulation.

"California is proof that common sense climate action is still possible on a large scale in the United States even though Washington, D.C., remains gridlocked," said Fred Krupp, president of Environmental Defense Fund.

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