

November 3, 2009

Dr. Lawrence Goulder
Chair, Economic and Allocation Advisory Committee
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Dr. Goulder and Members of the EAAC:

The EAAC is engaged in the important process of providing the Air Resource Board (ARB) with guidance regarding the key decisions it faces in implementing policies to achieve AB 32's greenhouse gas (GHG) emission targets. We appreciate the care and diligence the EAAC has exercised in considering these issues and the valuable service its members are contributing in these efforts.

To assist the EAAC in its deliberations, we are hereby submitting for the Committee's consideration a white paper we have written, "Addressing Environmental Justice Concerns in the Design of California's Climate Policy." We believe this paper provides a valuable perspective on environmental justice issues, particularly in light of written comments the EAAC has received from both EAAC members and stakeholders regarding how ARB should address goals identified in AB 32 related to ancillary benefits, and disproportionate and localized impacts.

As the paper details, we have serious reservations with a number of the proposals that have been offered previously. We recommend what we believe to be a set of measures for addressing both the development of a cost-effective cap-and-trade system and the development of environmentally effective and economically cost-effective means of addressing legitimate environmental justice concerns. It is neither wise nor necessary to constrain the cap-and-trade system and thereby drive up costs in order to achieve the other, legitimate environmental justice goals of AB 32. Through proper design, the State can have both – an effective, least-cost cap-and-trade system for addressing State-wide greenhouse gas emissions, and a set of effective and sensible regulations to address concerns about localized impacts, particularly on disadvantaged communities.

Some have proposed modifications to the cap-and-trade system aimed at achieving reductions in criteria and toxic emissions in adversely affected regions, including restrictions on GHG allowance trading or surcharges on GHG emissions in particular geographic zones. We recommend that the EAAC not to endorse such proposals. Not only would they raise the cost of achieving AB 32's GHG targets (and raise household energy costs for those in disadvantaged communities targeted by the environmental justice provisions), but they would have highly unpredictable and uncertain effects on local air quality. Instead, we recommend that the most effective way to address goals related to ancillary air quality impacts is through measures implemented within the existing criteria and toxic pollutant regulatory system, rather than attempting to achieve these goals indirectly through climate policy.

Other proposals from various parties would seek to restrict the use of GHG offset credits in an effort to capture for California the ancillary benefits of GHG emission reductions, such as reductions in criteria and toxic emissions. As with proposals to impose zonal restrictions and requirements on the cap-and-trade system, restrictions on offset use would raise the costs of achieving AB 32's GHG targets for the entire state, including the disadvantaged communities that are the proposed beneficiaries of keeping potential ancillary benefits in-state. Moreover, such restrictions would fail to address legitimate concerns regarding offset quality. To address these concerns, we recommend that the EAAC support offset credit standards and criteria that are appropriate and sufficiently stringent to assure that offset credits reflect real, permanent, quantifiable, verifiable, enforceable and additional reductions, rather than geographic limitations that do nothing to ensure offset credit integrity.

Finally, some proposals have been made to direct GHG allowance auction revenues toward programs targeting communities that are currently disproportionately affected by poor air quality. The economic consequences of initial allocation decisions can depend upon the details of the particular uses of auction revenues, as can the achievement of some of the often-conflicting policy goals embedded in AB 32. Use of allowance value to support programs targeting adversely affected communities could be consistent with achieving certain of AB 32's goals related to disproportionate and localized impacts, particularly if this were to eliminate any movement to pursue costly and inappropriate modifications of the cap-and-trade system.

We appreciate the opportunity to submit our paper and comments to the EAAC, and will be pleased to answer any questions you may have.

Sincerely,

Todd Schatzki
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Robert N. Stavins
Harvard University