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ICYMI: *Real Clear Markets*: Climate Change, and California's Failed Solution

(SACRAMENTO)—In today's *Real Clear Markets*, Carson Bruno, a fellow at Stanford University's Hoover Institution, explains how the cap-and-trade auction program's implementation has led to an illegal tax and a slush fund not being spent on programs measurably reducing greenhouse gas emissions.

***Real Clear Markets*: Climate Change, and California's Failed Solution**

AB 32, California's signature anti-climate change legislation, was praised by environmentalists across the world when it passed in 2006. But as it has been implemented, its hue has gone from green to grey. And so too has its future dimmed.

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The 2006 law instructed the California Air Resources Board (ARB) to implement a market platform to reduce emissions to 1990-levels by 2020. The law doesn't mandate the use of cap-and-trade, nor does it mandate that the capping permits be sold at an auction. Both of these decisions were based on ARB investigations of the best approach to take under AB 32's guidance.

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Under California law, a tax or a fee can only be implemented with a two-thirds vote. AB 32 passed by a bare majority. But yet, the auction revenues - currently amounting to \$7 billion - eerily reflect the definitions of both a tax and a fee. The auction permits are imposed by a government entity and the revenues are spent on government activities, i.e. the definition of tax; and the permit revenues are collected in exchange for a transaction, i.e. the definition of a fee.

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Finally, one of the most glaring issues with AB 32 is how the auction revenues are being spent. The Legislative Analyst's Office (LAO) estimates that auction revenues could total as much as \$45 billion by 2020. And the Governor and legislators are all too eager to spend it.

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But according to state law, these funds must reduce California's emission footprint; the problem, though, is that 1) the Governor and State Legislature have applied this stipulation very loosely and 2) there are no metrics in place to assess a program or project's effectiveness in reducing emissions.

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More broadly, the LAO has determined that "there is significant uncertainty regarding the degree to which each investment proposed for funding [will] achieve [greenhouse gas] reduction.

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Given its recent struggles... the legal uncertainty surrounding its implementation, whether its authority extends passed 2020, and what will be a growing cost to consumers, there is significant uncertainty whether AB 32 will live to see its deadline, let alone continue beyond 2020.

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