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Carbon Tax Next Target for California's Disadvantaged Communities

By *Carolyn Whetzel*

Advocates for California's disadvantaged communities are flexing their newly honed political muscle with a new goal in mind: replacing the state's landmark greenhouse gas trading program with a carbon tax.

It's a call that puts environmental justice advocates on a collision course with state regulators, powerful industry groups and even the governor, who all favor extending the state's existing cap and trade program. However, poor and minority communities say California's greenhouse gas trading program—which has been hailed as a national model—should be scrapped because it is not aggressive enough and allows industries to continue spewing toxic pollutants that harm their neighborhoods. In its place, environmental groups are calling for a carbon tax combined with a cap on greenhouse gas emissions.

"A tax on each ton of carbon dioxide emitted, combined with emissions caps, would be a simpler and more equitable way to price carbon," Brent Newell, general counsel at the Center for Race, Poverty and the Environment, told Bloomberg BNA.

State Favors Trading

The campaign to ditch cap and trade for a tax comes as the California Legislature is considering Gov. Jerry Brown's (D) fiscal year 2017 budget proposal. Brown wants to reauthorize the cap-and-trade program through 2030, which must be completed by June 1.

Meanwhile, the California Air Resources Board is set to vote in June on its 2030 Climate Change Scoping Plan. It would make cap and trade a key element of the board's preferred strategy to cut emissions 40 percent below 1990 levels by 2030, as required by law.

"Our own analysis shows that this is the lowest cost way of achieving our climate goals. It is working and has inspired climate action beyond California," Mary D. Nichols, CARB's chairman, said at recent conference on the state's climate policies.

While the greenhouse gas trading program was not designed to address local air pollution, Nichols conceded that "we need to do a more thorough job in assessing the public health and economic impacts of all our programs."

Despite the formidable opposition, environmental justice groups hope to build off of recent legislative victories to change the course of California's climate change programs. In the 2015-2016 legislative session, the coalition's lobbying efforts led to a bill requiring state regulators to prioritize direct regulation of facilities' emissions and to weigh the social costs of new greenhouse gas emissions reduction rules. Other key wins included bills that added two environmental justice

seats to CARB's governing board and increased the amount of emissions allowance revenues that must benefit disadvantaged communities.

Advocates See Opportunity

Effective leadership, turnover in the Legislature and new state policies have helped environmental justice groups gain political influence over the last 12 years, Joe Lyou president and chief executive officer of the Coalition for Clean Air, told Bloomberg BNA.

"The groups scored major victories in the last legislative session and they have the opportunity to do the same during this session," Lyou said.

Convincing the Legislature to pass a tax, which requires a two-thirds vote in each house, however, is a challenge even for groups with political clout, Lyou said.

The coalition also would have to out-lobby strong industry interests, like the Western States Petroleum Association and the California Manufacturers and Technology Association, which support reauthorizing cap and trade. Clean energy companies, the American Lung Association and the Environmental Defense Fund also want the trading program extended through 2030.

Trading Benefits Exported

Many environmental justice advocates and those living near industrial facilities view trading programs as an opportunity for emitters to avoid reducing local emissions. Instead, they want to see climate and air quality regulations better aligned to curb harmful emissions from the oil refineries and power plants near disadvantaged communities.

Mechanisms to keep costs down in California's trading program "allow polluters to use extremely cheap ways" to comply, Amy Vanderwarker, co-director of the California Environmental Justice Alliance told Bloomberg BNA.

"Polluters are paying for offset projects that reduce emissions elsewhere," she said. "Most of the benefits of the program are being exported."

Revenues from a carbon tax would replace money raised through cap-and-trade auctions that fund climate-related projects. The tax, along with strong caps, would reduce emissions, Vanderwarker said.

"We want to see a thorough analysis of a carbon tax and cap program," she said.

A preliminary comparison of two alternatives CARB prepared as part of its scoping plan update found declining caps, not a tax set at the social cost of carbon, would drive emissions reductions. Each industry sector would be able to reduce emissions at the level required year after year, the agency said. The plan would likely cost more than cap and trade and result in job losses, according to the assessment.

State law requires that 35 percent of the trading auction revenue benefit disadvantaged communities. Proceeds go to programs that reduce greenhouse gases as long as they improve the economy and public health.

Of the \$3.38 billion in auction proceeds appropriated to date, \$1.28 billion went to projects benefiting disadvantaged communities. Another \$2.2 billion in revenue is pending appropriation,

but the governor's proposed budget conditions spending a portion of the latest revenue on reauthorizing the trading program.

Programs Must Be Targeted

However, industry groups and economists say attempting to align programs to address local air quality as well as a global pollutant like carbon dioxide will result in half measures that achieve neither goal.

"If we try to address both of these important, but fundamentally different problems with one policy, we'll likely end up with a policy that does neither job well," according to Meredith Fowlie, an economist who studies market-based environmental regulations at the University of California, Berkeley.

"We should mount the best, most efficient policy response to climate change we can manage," she told Bloomberg BNA.

Unlike a traditional carbon tax, which allows industry to emit however much it wants, the environmental justice coalition's proposed tax would cap emissions at every single facility, James Bushnell, an energy and environmental economist at the University of California, Davis, told Bloomberg BNA.

"It would reduce the flexibility for individual compliance" that emissions trading provides, he said.

California's 2030 trading program goals are aggressive and any program going forward must include mechanisms to keep costs down, Cathy Reheis-Boyd, president of Western States Petroleum Association, told Bloomberg BNA. Cap and trade provides the mechanisms to protect businesses from competing out-of-state entities not regulated by the program.

"We have to do what makes the most sense," Reheis-Boyd said.

Lawmakers Open to Changes

Despite the concerns of regulators and industries, some lawmakers representing disadvantaged communities also want climate policies to improve local air pollution problems. And they like the revenue that the cap and trade auction generates for their districts.

The Legislature is considering a pair of bills, [A.B. 151](#) and [A.B. 378](#), to extend CARB's authority to use market-based measures to meet the 2030 climate goals.

While A.B. 151 would simply continue California's trading program, environmental justice advocates are rallying around A.B. 378, which doesn't commit to continuing cap and trade but would allow "a market-based compliance mechanism" as long it includes "a mix of direct regulations and incentives that hold emitters accountable for the social costs of their emissions." A.B. 378 enjoys the support of the Natural Resources Defense Council and Environmental Defense Fund.

"Everything is on the table right now," A.B. 378 sponsor Assemblymember Cristina Garcia (D) said when introducing the bill in February. "This is the first step."