

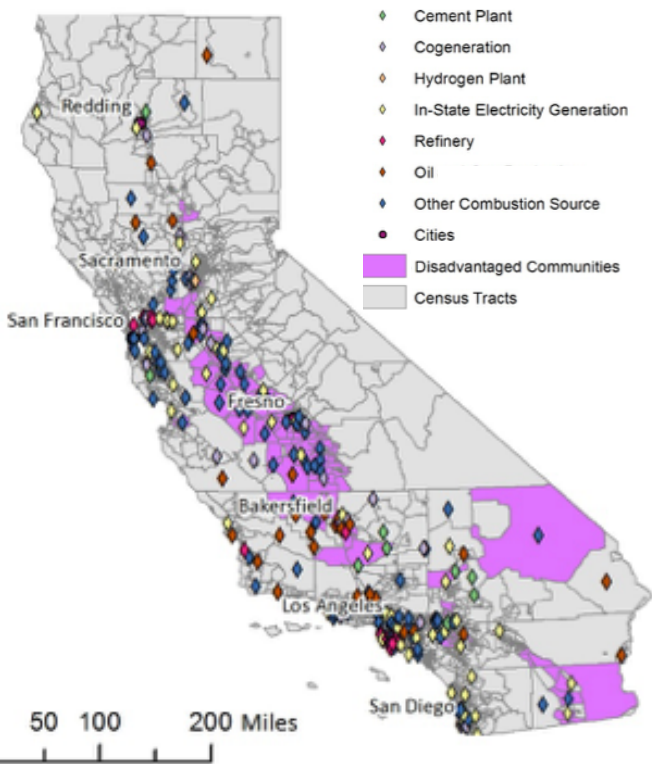
# Environmental Justice Issues in California's Cap and Trade System

California is a climate leader, but in order to maintain this leadership, we must address the core environmental justice and equity issues within our current programs. New policies like SB 32 and AB 197, coupled with our existing regulatory mechanisms created through AB 32, SB 350, SB 375 and others, are cornerstones of California's climate policies, and must be maintained and expanded.

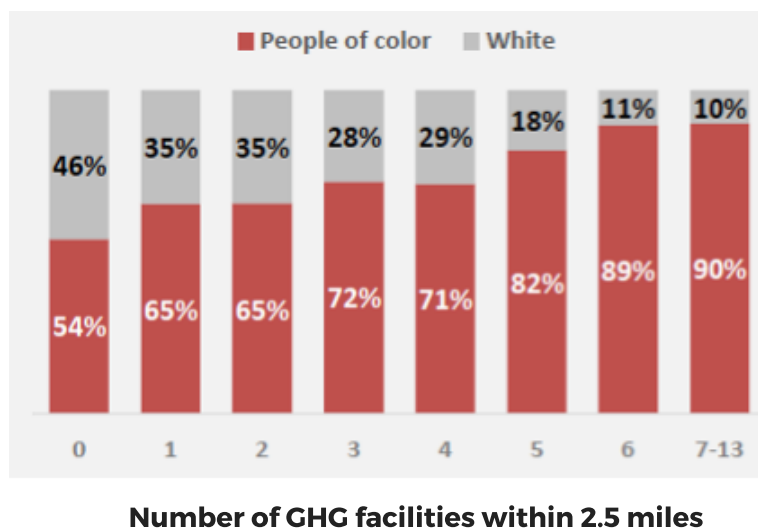
**Cap and trade denies direct air quality benefits to environmental justice communities and is exporting climate benefits out of state.** It is not achieving local emissions reductions, not maximizing public health benefits, and exporting clean air benefits to other states by utilizing out of state offsets.



**Our largest climate polluters are disproportionately located in low-income communities and communities of color.** According to a recent analysis by CalEPA, **more than half (57%) of the greenhouse gas emitters covered under cap and trade are located in or within one-half mile of a disadvantaged community. This includes 15 out of the 20 refineries in the state. [1]**



Another report released in Fall 2016 showed that **the higher the number of larger numbers of GHG emitting facilities in an area, the higher the percentage of people of color. [2]**



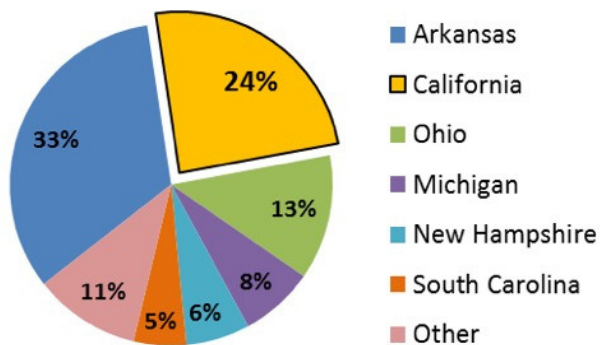
[1] Office of Environmental Health Hazard Assessment. "Tracking and Evaluation of Benefits and Impacts of Greenhouse Gas Limits in Disadvantaged Communities." January 2017.

[2] Manuel Pastor, Rachel Morello-Frosch, Jim Sadd, et al. "A Preliminary Environmental Equity Assessment of California's Cap-and-Trade Program." September 2016.

**These large emitters don't just release carbon dioxide; they release a range of pollutants that harm health and quality of life in EJ communities.** These include criteria air pollutants and air toxics (ozone, particulate matter, sulfur dioxide, nitrogen dioxide, carbon monoxide, and lead), all of which are known to have negative health impacts. This correlation was especially notable for refineries, hydrogen plants and cement plants. Facilities that emit higher levels of GHGs tend to have higher emissions of air toxics and criteria air pollutants, according to the CalEPA study. The CalEPA report concludes:

**“Reductions in GHG emissions from large GHG-emitting facilities are likely to result in lower emissions and exposures to other pollutants in nearby communities.”**

Origin of Offset Credits



**California's cap and trade program has corporate loopholes that export climate benefits out of state.**

In cap and trade, free allowances and offsets give polluters opportunities to avoid localized emission reductions. Polluters use cheap compliance mechanisms like offsets to meet their obligations under cap and trade. California loses greenhouse gas reduction, air quality and revenue benefits. The top four companies that account for 44% of offsets usage are Chevron, Calpine, Tesoro, and Southern California Edison.

Over-reliance on mechanisms like offsets and the prevalence of free allowance also prevents California from seeing in-state GHG reductions. According to Manuel Pastor, et al:

**“While overall, GHG emissions in California have continued to drop from a peak in 2001, we find that, on average, many industry sectors covered under cap-and-trade report increases in localized in-state GHG emissions since the program came into effect in 2013.”**

**The price under cap and trade is too volatile and too low to incentivize changes at businesses and push California towards a decarbonized economy.**

The most recent auctions sold just 16.5% of the total available allowances at \$13.57 per ton, resulting in only \$8.2 million in revenue.

There are too many cost containment measures in the current cap and trade system and the price floor is too low. As a result, the price fluctuates widely, and we lose potential climate revenues for the state.

**CARBON PRICE**

\$/Tonne CO<sub>2</sub>e



Price of California Carbon Allowance Futures over time from ICE End of Day Reports. Daily trading volume units are 1000 allowance futures.

**Source: California Carbon Dashboard**