CALIFORNIA: CLIMATE CHANGE LEADERSHIP WORTH FOLLOWING

Dorothy Rothrock writes about California's leadership on climate change, the challenges that lie ahead, and how a broad carbon market is the most cost-effective way to reach new emission reduction goals

California took another big step to demonstrate leadership in the effort to impact global climate change in 2015. Feeling confident that emission reduction targets for 2020 will be readily achieved, state leaders began the process of developing policies to reach ambitious new 2030 and 2050 goals (40% and 80% below 1990 levels, respectively). They are looking to the upcoming climate change gathering in Paris to highlight our success so far and encourage other countries to take up this challenge. The important work, however, will be when they come home and face the daunting challenge of imposing rules to reduce emissions far faster and greater than current regulations will accomplish by 2020.

One of the most important objectives of the California programme is to provide leadership to encourage others to follow with similarly ambitious policy. As has been acknowledged by Governor Brown, if others do not follow, all is for naught when it comes to addressing climate change. Therefore, it is worthwhile to examine the challenges and opportunities as California strives to achieve success as a global climate leader.

THE DIFFICULTY OF THE TASK

Reaching targets beyond 2020 will require a fundamental transformation in the way California produces and uses energy, with significant uncertainty as to the availability and cost of the technology necessary to allow for that transformation. Governor Brown has said that the post-2020 programme will be "far more stringent" and "far more difficult" than the current programme.

According to the state's Scoping Plan Update, achieving post-2020 emission reduction targets "will require that the pace of GHG emission reductions in California accelerate significantly. Emissions from 2020 to 2050 will need to decline several times faster than the rate needed to reach the 2020 emissions limit."[1] Even for the most well-designed programme, the challenge will be daunting.

THE SUCCESS TO DATE OF THE CURRENT PROGRAMME

The relative ease with which the current goal appears to be being met could provide policy-makers false assurance that the next steps will also be easy.

The increased challenge in meeting the 2050 goal lies not only in the relative difference in the scale and pace of the reductions, but also because of some transitory events which are contributing to the ability to meet the current goal. These include:

1. the deep recession, which has been perhaps the single largest contributor to emission reductions to date,
2. the court ordered freeze of the Low Carbon Fuel Standard, which delayed impacts from much more challenging compliance targets, and
3. the precipitous drop in crude oil (and gasoline) prices – that occurred concurrent with the inclusion of fuels in the cap and trade programme.

RELYING ON COMPLEMENTARY POLICIES

Ultimately, California policy-makers may be forced to choose between either meeting new challenging targets by letting markets decide the technology path, or steering the programme over the finish line by picking and choosing which emissions are reduced, how and when. Unfortunately, state policy-makers appear to have chosen the latter path for now. We don't believe policy-makers are equipped to design a series of "complementary measures" that will successfully determine the precise timing and "recipe" of emission reductions needed to meet this century-scale challenge. How, where and when innovation occurs is simply too difficult to predict.

A market-based approach, such as an improved and expanded version of the state's cap-and-trade system, is the policy alternative that provides the assurance of meeting a specific emissions reduction target while delivering this outcome at the lowest cost. A market-based approach can react quickly to evolving technologies and new approaches in a way that a regulatory approach or series of complementary policies simply cannot.

As California looks toward the meeting its longer term goals, it's more important than ever that the focus be on the most efficient and cost-effective approaches. A market-based approach would drive down emissions while minimising costs to the economy. Continuing the current path which relies heavily on complementary policies greatly increases the potential for the state's efforts to be both expensive and unsuccessful.

USING CLIMATE POLICY TO ADDRESS MULTIPLE OBJECTIVES

Many of the activities undertaken to achieve the 2020 target may result in various environmental co-benefits. It is important to acknowledge, measure and document these co-benefits, and where possible and consistent with the most cost effective GHG reduction solution, seek to maximise them. However, the state should not let a goal to achieve co-benefits drive the design of GHG reduction policies.

The current programme focuses too heavily on benefits and objectives unrelated to GHG reduction, and achieving these co-benefits is the aim of many of the more costly, and ineffective elements. To be successful in achieving its primary objective, the programme should reduce GHG emissions at lowest cost and not be designed to create desirable, though secondary, benefits. This is especially true when co-benefits can be achieved with separate, targeted policies.

DEMONSTRATE THAT WIDER CONSENSUS IS POSSIBLE

If regulations are imposed through heavy-handed political pressure rather than fact-based analysis, the policies may not be sustainable for a transformative long-term challenge like climate change. Moreover, jurisdictions we want to recruit to join the cause will likely not have the same progressive electorate or single party control of state government as California. These other jurisdictions will demand credible economic analysis to build consensus and to demonstrate that policies can reduce emissions at a reasonable cost.

California could bring along the regulated communities in other jurisdictions to obtain acceptance, if not support, for these policies through a robust process of stakeholder involvement and outreach. Rather than a "decide–announce-defend" approach, California's leadership in persuasion and compromise could overcome resistance and clear the path for broad participation in GHG reduction efforts.

RECOGNISE THE VALUE OF ALL EMISSION REDUCTIONS

To increase the potential for global climate change impacts, California must successfully encourage action by others. But California policy-makers have not consistently adopted positions that promote such action. On one hand, policy-makers acknowledge the global nature of the problem and the need for others to act. On the other hand, policy-makers seem intent on valuing only in-state emission reductions and minimising the role of out-of-state emission reductions in its cap-and-trade programme. The state must decide whether it is internationalist or isolationist when it comes to climate change.

A MARKET-BASED APPROACH WOULD DRIVE DOWN EMISSIONS WHILE MINIMISING COSTS TO THE ECONOMY

THE IMPORTANT WORK WILL BE WHEN THEY COME HOME FROM PARIS

One way the state could encourage and recognise such action (while at the same time reducing the cost of its programmes on its consumers and industry) is by expanding its use of offsets – both quantitatively and geographically. Recent actions to consider international sector-based offsets as early as the third compliance period is a positive signal. As Berkeley economist Severin Borenstein has said: "It's time to make our Global Warming Solutions Act about global solutions".[2]

The path we take in the next version of California climate policy will be closely watched around the world. CMTA hopes that state regulators embrace the policy approaches that will most likely result in effective leadership to reduce global GHG emissions.

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(1) Proposed First Update to the Climate Change Scoping Plan: Building on the Framework, February, 2014. Page 37 and Figure 6, page 38. (2) Severin Bornstein, Blog post 4/7/14, Energy Economics Exchange, University of California at Berkeley, Haas School of Business