California's Cap-And-Trade System Proves Limits Of Market-Based Climate Action

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California is not making sufficient progress to meet the 2030 emissions goals. With current policies, it could take easily at least a couple more decades before the 2030 goals are met.

California has cast itself as a leader in the fight against climate change and global warming. The state set the stage for its transition to a low-carbon economy with the passage of AB32, the California Global Warming Solutions Act of 2006, which called for a reduction of greenhouse gas emissions to 1990 levels by 2020, and ultimately reducing them 80 percent below 1990 levels by 2050. AB32, signed by Governor Arnold Schwarzenegger (R), was carried out by various state agencies, and its implementation was funded by a fee collected from large sources of greenhouse gas emissions.

AB32 was the first program in the country to embark on a comprehensive approach to address the looming threats of global warming while keeping economic growth on a solid track. And it was, initially, a moderate success. Emissions fell for the first time below 1990 levels. In fact, the reduction of greenhouse gas emissions returned to 1990 levels four years ahead of schedule, while California's economy kept growing.

In 2016, Governor Jerry Brown (D) extended AB32 with the passage of SB32, which raised the goal for greenhouse gas emissions to 40 percent below 1990 levels by 2030.

California's greenhouse gas emissions reduction policies revolve around the promotion of zero-emissions electric vehicles, imposing limits on the carbon content of gasoline, and implementing a cap-and-trade mechanism for polluters.

Briefly, a cap-and-trade system is one where the government sets a cap on the maximum level of emissions and creates allowances in tune with that cap. Polluters obtain and surrender a permit for each unit of emissions. They can obtain permits from the government or through trading with other emitting firms. California's cap-and-trade program is the main component in the state's plan to reduce emissions and bolster a clean energy economy

The current Governor of California, Gavin Newsom (D), has also taken some bold measures to combat climate change and global warming by moving the economy further away from fossil fuels. These include ending the sale of new gas cars by 2035, phasing out harmful oil production by no later than 2045 statewide, and pushing forward a $15 billion climate package to tackle wildfire and drought challenges.

All in all, California has aligned itself with the emissions reduction targets set by the Intergovernmental Panel on Climate Change for limiting global warming to 1.5 degrees Celsius. It has committed itself to reducing emissions to 40 percent below 1990 levels by 2030 and going carbon neural by 2045.
California's efforts in leading the fight against the climate crisis is the result of bipartisan political support and overall public support. According to a 2019 study by the Public Policy Institute of California, majorities of Californians regard global warming a very serious threat and are in support of the state's renewable energy goals. A plurality of adults (48%) and likely voters (45%) also said that policies to combat global warming will lead to more jobs.

This is not to say of course that there hasn't been opposition to California's global warming policies. California Business Roundtable is one organization that has consistently raised objections to aggressive climate policies because of its concerns that such efforts were hurting companies. Many progressives, on the other hand, have been quite critical of the state's cap-and-trade system. They oppose it as being too business friendly, a stance probably vindicated by the mere fact alone that California Business Roundtable has offered enthusiastic support to this "market-based mechanism" for controlling emissions.

Originally passed as part of the Global Warming Solutions Act of 2006, the cap-and-trade program began operating in 2013 and was extended to 2030 with the passage of AB398 (2017), and on the basis of bipartisan support.

Yet, there are legitimate concerns with California's cap-and-trade program. The Sierra Club opposed the 2017 extension of the program by saying that it would not do enough to cut emissions on account of giving too much power to the oil industry. Indeed, some experts checked the math on cap-and-trade claims and said it doesn't add up. Analysis of state data by ProPublica showed that carbon emissions from California's oil and gas industry actually increased since the cap-and-trade mechanism was introduced.

California statewide greenhouse gas emissions did not go down at all in 2017 and actually rose slightly in 2018. From the period 2000 to 2018, emissions went down by 20.2 metric tons, reflecting a 5.4 percent decline.

Obviously, things are not going very well with California's emissions reduction strategies. There is more than enough of a meaningful trend in the emissions reduction figures to conclude that California is not making sufficient progress to meet the 2030 emissions goals. With current policies, it could take easily at least a couple more decades before the 2030 goals are met. As for the net zero target by 2045 or 2050, we could be looking well into the next century, according to a recent report.
It is therefore unsurprising that the backlash against the cap-and-trade program as a key strategy for combatting climate change and global warming has grown considerably over time, even prompting its re-evaluation by state authorities. However, in spite of various reports indicating that California isn't cutting greenhouse gas emissions fast enough to meet the 2030 target for reductions, the state's own review of the cap-and-trade-program declared recently that the mechanism is working and that California is on track to meet the 2030 emissions target.

Yet, experts and many environmentalists remain unconvinced that California's cap-and-trade program is a sufficient enough mechanism to deal with the growing threats of climate change and global warming. In fact, a few years ago, even Governor Newsom openly stated that he preferred a different approach—namely, carbon tax—to reducing greenhouse gas emission.

California's cap-and trade program is one of the largest in the world, following the cap-and-trade models of China and the European Union. And without a doubt, California has made progress in the fight to combat global warming by lowering emissions. To be exact, emissions per capita in California are 40 percent lower

than the US average. Only New York has lower emissions per capita, according to data compiled by researchers at the Political Economy Research Institute for a study on how California can make a complete transition to clean energy. But it's highly doubtful whether the cap-and-trade system can make further progress.
A cap-and-trade system is an approach that relies on market forces to reduce emissions at the lowest cost. But as a market-based mechanism, it has severe limitations. First, it is susceptible to powerful political forces, which is why the oil and gas industry prefers a cap-and-trade system over a well-designed regulation regime on its products. Second, cap-and-trade systems permit carbon offsets, which end up overstating emissions reductions. Simply put, there are too many free allowances and offsets under the cap-and-trade system. Third, as a market-based mechanism, a cap-and trade system favors overwhelmingly big business and works to the disadvantage of frontline communities. This is the primary reason why California's landmark cap-and-trade program has been under attack by environmental justice activists almost from day one.

In sum, while progress has been made in the state's efforts to reduce greenhouse gas emissions, its market-based environmental approach has major shortcomings. California's much-admired cap-and-trade program, which served as the template for Washington's Climate Commitment Act, does not constitute a transformative climate change policy by any stretch of the imagination, and an alternative plan to combat global warming is very much needed.

The study already mentioned by PERI researchers, titled "A Program for Economics Recovery and Clean Energy Transition in California," is a thorough plan for the building of a clean energy infrastructure in California which will secure 100 percent reductions in carbon emissions by 2045, while generating about 1 million net new jobs across the state. It is the sort of bold and aggressive plan that not only California but every state in the US needs in the age of global warming. It is also enforceable because it is more than cost-effective. Also highly encouraging is the fact that more than 20 unions, including fossil fuel unions, have already endorsed the plan for a clean energy transition in California.

The economic benefits of a clean energy transition have become indisputable. The fight for saving the planet is mainly political now.

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