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*Senator Bob Wieckowski**

> The diplomats have done their job: the Paris Agreement points the world in the right direction, and with sophistication and clarity. It does not, however, ensure implementation, which necessarily remains the domain of politicians, businessmen, scientists, engineers, and civil society.
> Jeffrey Sachs, Director of the Earth Institute, Columbia University[1]

As one of four California state senators who attended the 2015 United Nations Paris Climate Conference, I remember the exuberance and excitement seeing representatives from 195 nations reach agreement on an accord to fight the threat of climate change. Signatories agreed on the goal of keeping global temperature rise below 2 degrees this century and to pursue efforts to limit the temperature increase even more to 1.5 degrees.[2] In the face of much criticism and doubt, the world united and proved the skeptics wrong. It was a very hopeful time – countries uniting on a global scale to take action against the biggest environmental threat facing humanity.

The hope I felt during those November days in Paris was matched by how proud I was to be a member of our state's delegation. Although our presence there represented but one state from one nation, California played an outsized role at the conference. For years we have created an extensive public policy framework to reduce greenhouse gas emissions (GHG).[3] As a

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1. Alister Doyle, *16 Quotes From World Leaders on the Paris Climate Agreement*, REUTERS (Dec. 12, 2015), https://perma.cc/N6D2-QTU2.

2. The Paris Agreement art. 2, Nov. 4, 2016.

3. Cal. Air & Res. Bd., *Cap-and-Trade Program*, https://perma.cc/7UEQ-PDME.

result, California is a recognized global leader in the fight against climate change. Representatives from foreign nations regularly come to the state Capitol to learn more about our policies.

California's leadership is under a brighter spotlight after the election of President Donald Trump, who famously referred to climate change as a hoax.[4] His decision to pull the United States out of the Paris climate agreement is a blow to U.S. leadership on the world stage and a public relations disaster. It heightens the attention on California and the steps our state is taking to reduce GHG emissions.

This was the backdrop and context this spring as California began the public policy debate on how to extend its signature climate change policy – Cap and Trade. The state's current Cap and Trade program expires on Dec. 31, 2020.[5] Ultimately, the bill I introduced, Senate Bill 775, while lauded in many publications – and from many sectors – for setting a new path on Cap and Trade, was not approved. Instead, Governor Jerry Brown successfully advocated for continuing the current Cap and Trade program with some changes to appease opponents. The Legislature voted with bipartisan support in both houses and passed the Governor's package of bills to extend the program to 2030.[6]

Cap and Trade is a key part of the suite of policies California has put in place to reduce GHG pollution. It places a price on carbon pollution and sets a cap on it that declines over time. Companies regulated under the program can choose to purchase allowances or reduce their pollution. Although the current version does not expire for another three years, uncertainty over the program's future reduced Cap and Trade auction revenue as the carbon market wondered whether the system would be extended. This resulted in less revenue for the state to invest in clean transportation, energy efficiency and a host of other programs.[7]

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4. Donald J. Trump (@realDonaldTrump), TWITTER (Nov. 6, 2012, 11:15 AM), https://perma.cc/WLK6-FQZK.

5. California Global Warming Solutions Act of 2006, A.B. 32 (Cal. 2006), https://perma.cc/7227-4TK3.

6. California Global Warming Solutions Act of 2006, A.B. 398 (Cal. 2017), https://perma.cc/K2JY-3XDE; California Global Warming Solutions Act of 2006, A.B. 617 (Cal. 2017), https://perma.cc/8QF2-7TWW.

7. Legislative Analyst's Office, M*eager Cap & Trade Auction Revenues* (2017), https://perma.cc/ R6SR-EZP8 ("The Governor's budget assumes $1 billion in auction revenue in 2016-17 and $1.5 billion in 2017-18. In our view, the administration's revenue assumptions are plausible, but there is substantial uncertainty. Figure 11 shows the volatility in quarterly auction revenue over the last couple of years since fuel suppliers were required to obtain allowances. Notably, there was a substantial decrease in revenue collected at the May and August 2016 auctions. Several factors likely

The Legislature decided 2017 was the year to extend the program beyond 2020 because of anemic auction results, uncertainty about the future, and legal questions surrounding Cap and Trade.

As chair of the state Senate's Environmental Quality Committee, and with the support of Senate President Pro Tem Kevin de León, I introduced SB775. Developed in consultation with Stanford University's Danny Cullenward and Michael Wara, two internationally recognized experts on the design of carbon pricing mechanisms to reduce GHG emissions, SB 775 charted an ambitious path for reducing emissions post 2020.

SB 775 proposed dramatic changes to Cap and Trade. It called for a clean break from the existing system starting on January 1, 2021. Allowances obtained under the existing system would not transfer to the SB 775 system. This would prevent an oversupply of free allowances. All allowances in the post-2020 era would be purchased in the auctions.

SB 775 was designed to meet the substantial environmental, legal, economic and political challenges involved with extending a viable system. To achieve the state's goal of reducing GHG emissions to forty percent below their 1990 levels by 2030, the bill set a higher price on carbon, eliminated free allowances to companies, and designated funds for climate change research and infrastructure. To avoid legal challenges regarding voter-approved tax and fee increases, it required a super-majority vote of support. To reduce the adverse effects of rising energy costs, it provided a climate dividend by proposing to rebate all California residents a large share of the Cap and Trade auction proceeds. It also called for a border adjustment tax to level the playing field among companies in California and those located in jurisdictions with more lax carbon regulations. This would prevent California companies from being at a competitive disadvantage due to Cap and Trade.

Politically, SB 775 appealed to environmentalists, including a growing number of environmental justice organizations, clean energy advocates, municipalities, academics, policy wonks and climate journalists.

Experts agree that achieving the state's 2030 GHG emissions reduction goals, approved in 2016,[8] will be much more difficult than the 2020 goals.

contribute to this volatility, including (1) an oversupply of allowances because emissions are below the cap, (2) uncertainty related to the ongoing court case challenging the legality of state auctioned allowances, and (3) uncertainty about ARB's legal authority to continue cap and trade beyond 2020. Results from the next two auctions will be available by June and provide some additional revenue clarity before the Legislature adopts a budget for 2017-18. However, estimates of 2017-18 revenue will continue to be subject to substantial uncertainty.").

8. Michael Wara & Danny Cullenward, *Understanding SB 775: Realistic Path to Achieving California's Climate Goals*, LEGAL PLANET (May 15, 2017),

SB 775 included a price collar, a rising floor and ceiling on the price of carbon to make it more expensive to pollute and to reduce the volatility. It set the price floor at $20/ton in 2021. In 2023, and every year thereafter, it was to increase by $5. The ceiling was set at $30/ton in 2021, increasing $10 per year.

SB 775's gradual increases are in line with what Nobel Prize-winning and World Bank economists estimate is needed to meet the goals of the Paris Climate Accord.[9] The price collar would create a steady, predictable cost of carbon that would stabilize the market and provide policymakers with a better estimate of upcoming revenue to be invested on Cap and Trade funded programs.

To lessen or eliminate the adverse impact of higher carbon prices on Californians, SB 775 included a quarterly climate dividend to be paid to all residents. While a final amount was never specified, the majority of Cap and Trade revenue under SB 775 would have been returned to every Californian. This was a clear point of departure from the existing version. The concept of a climate dividend has wide popular appeal among environmental justice advocates on the left and Republicans such as James Baker III, George Schultz and others in the Climate Leadership Council on the right. One block of SB 775 supporters strongly in favor of a climate dividend is the universal basic income (UBI) movement. UBI supporters want a system that gives people enough money to meet their basic needs, providing everyone with an income floor.[10] While the dividend included in SB 775 would not have been large enough to provide a full safety net for families, UBI proponents envision climate dividends as a first step that could be expanded in the future or combined with other programs to provide a higher income floor.

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https://perma.cc/DM6B-39AL ("After 2020, the 17 MMtCO2e a year in new reductions will have to come from improvements in the power sector that will be harder to achieve, as well as significant reductions in the transportation and industrial sectors.").

9. CARBON PRICING LEADERSHIP COAL., *Report of the High-Level Commission on Carbon Pricing* (May 29, 2017), https://perma.cc/W7UV-2ZNQ ("Countries may choose different instruments to implement their climate policies, depending on national and local circumstances and on the support they receive. Based on industry and policy experience, and the literature reviewed, duly considering the respective strengths and limitations of these information sources, this Commission concludes that the explicit carbon-price level consistent with achieving the Paris temperature target is at least US$40–80/tCO2 by 2020 and US$50–100/tCO2 by 2030, provided a supportive policy environment is in place.").

10. UNIVERSAL INCOME PROJECT, *About the Universal Income Project* (2016), https://perma.cc/TV9N-Z6R6.

Samuel DuBois Cook Center on Social Equity at Duke University's analysis of SB 775 concluded that a sizable dividend raised through the auctioning of pollution allowances would protect the purchasing power of the majority of California households.[11]

Dr. Mark Paul and Dr. Anders Fremstad's analysis found that SB 775's policy design could mitigate the regressivity associated with higher prices on GHG pollution for low-income consumers.[12] Though low-income people consume fewer fossil fuels than high-income households, they pay a higher percentage of their income.[13] Under SB 775, the climate dividend would make Cap and Trade more progressive. A strong dividend would protect the incomes of eighty-five percent of households in the bottom half of the income distribution, thus easing the transition to a clean-energy economy for the most vulnerable part of the state's population.[14]

In the wake of the federal government's apparent abdication of leadership on climate issues, SB 775 would have enhanced California's research efforts with a specific devoted fund to study climate change's effects on our state and new technologies to reduce our dependency on fossil fuels. The California Climate and Clean Energy Fund would have taken advantage of California's top universities, laboratories and research centers by investing hundreds of millions of dollars to create clean energy, boost our economy and increase jobs. This research could have led to breakthrough advances that allow for more rapid reductions in GHG emissions.

The Climate Infrastructure Fund was to be a source for helping California invest in building a state more resilient to the challenges posed by sea level rise, extended fire seasons, extreme weather, floods and other events caused by climate change. Each region of our state faces different challenges and having a specific fund to enable us to create climate adaptation projects is critical to the health and safety of all California residents.

California has demonstrated that we can simulaneously build a strong economy and protect our environment. But, we must be cognizant of the effects our policies have on private enterprise. That is why SB 775 included a border adjustment tax. It ensured equal treatment of GHG-intensive products sold in the state irrespective of where they were manufactured, thus maintaining continued economic competitiveness for California manufacturers under Cap and Trade.

11. Anders Fremstad & Mark Paul, *Economic Impact of the California Global Warming Solutions Act* (SB-775) *on* CA *Households* (2017),https://perma.cc/58H2-WDMH.

12. *Id.*

13. *Id.*

14. *Id.*

Rather than giving industry more free allowances to pollute, under a border adjustment tax we would assure parity between instate and out-of-state manufacturers, reduce legal risks and auction all allowances to more accurately price carbon and raise more revenue that could be re-invested into Cap and Trade programs and provide more equity for lower-income families.

This approach puts companies on equal footing and includes a safety measure allowing the state's Air Resources Board to revert back to its practice of free allowances if a legally binding decision blocked implementing the border adjustment tax.

The Paris Climate Accord pointed the world in the right direction in 2015. California set its GHG reduction goal one year later. SB 775 began the process described by Jeffrey Sachs' quote above of ensuring the implementation of an ambitious, bold approach by engaging politicians, scientists, engineers and civil society. Policy makers around the world can look at its design and benefit from the thinking that went into its unique, but comprehensive approach. SB 775 can, and should, serve as a model for others to follow.