



California Carbon Market Collaborative

Issue Summary 1: Unique features of cap-and-trade make it uniquely positioned to achieve state's climate targets

The 2022 Scoping Plan identified a need to increase California's 2030 climate target from 40% to 48% by 2030 in order to achieve the 2045 carbon neutrality target established by AB 1279. As described below, cap-and-trade possesses specific qualities that make it uniquely positioned among California's suite of climate policies to lead the achievement of the state's ambitious climate targets in a cost-conscious manner.

1. Emissions Certainty

- ✓ Cap-and-trade is unique among environmental policies in that it provides **emissions certainty** by imposing a cap on total allowable greenhouse gas (GHG) emissions from covered sectors.
- ✓ This cap **declines every year**, typically following a set path toward the final climate target.
- ✓ As one of the only policies that reduces uncertainty of emissions reductions, cap-and-trade **improves the likelihood of achieving** California's ambitious climate targets.

2. Cost-Effectiveness and Innovation

- ✓ Cap-and-trade achieves emissions reductions at the **lowest overall cost** compared to alternative policies.
- ✓ In California, the cost per ton of GHG emissions reduced is roughly **\$30 per ton**, which is significantly lower than the **\$190 per ton** social cost of carbon as estimated by EPA (2023).
- ✓ Cap-and-trade has a carbon price signal that motivates the market to identify the most **cost-effective emissions reduction strategies and drive innovation**—this mechanism accelerates emissions reductions by promoting investments in energy efficiency, renewable energy, and electrification, all while minimizing regulatory complexity
- ✓ Other types of environmental policies (like direct regulations, technology mandates, or government subsidies) **do not possess** the cost effectiveness and innovation incentivizing features of cap-and-trade.

3. Revenue Generation

- ✓ The sale of emission allowances at auction has generated roughly **\$28 billion in revenue** to date that is **reinvested into California** through legislative appropriations.
- ✓ This revenue is reinvested pursuant to legislative direction into a variety of projects that relate to **climate mitigation, transportation, and public health**.
- ✓ According to California Climate Investments, **over 500,000 projects** have received funding to date and **73% of the funding has benefitted disadvantaged** and low-income households, exceeding the 35% statutory minimum. (California Climate Investments, 2024)