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## California Adopts Cap And Trade

By [CASSANDRA SWEET](#)

SAN FRANCISCO --California regulators late Thursday adopted the first large-scale cap-and-trade program in the U.S., in a move officials say will protect the environment without hurting the state's still-struggling economy.

In a 9-1 vote, the state Air Resources Board voted to adopt rules, scheduled to start in 2012, that place a limit on greenhouse-gas emissions for the state that will decline over time.

Power plants, refineries and other industrial facilities that emit carbon dioxide and can't cut their emissions by the required amount will be able to obtain pollution allowances from the state or buy them from other emitters with excess allowances.

Gov. Arnold Schwarzenegger said the cap-and-trade rules will help fight climate change and also boost California's clean-technology industry and overall economy.

"Billions of dollars are being poured into California in clean technology venture capital investment," Mr. Schwarzenegger said. "Of course, we have to be sensitive because it's an economic downturn, and this Air Resources Board knows they have to be sensitive. But we have to reach our goals by 2020."

Companies with facilities that emit carbon dioxide could also purchase carbon credits, or offsets, tied to emission-reduction projects, such as forests that are managed to contain carbon dioxide, to comply with required emission cuts.

Air Resources Board Chair Mary Nichols said there was still work to be done, including ensuring safeguards against manipulation of the market-based program and establishing a "community benefits fund" that would use some auction funds to help low-income families manage potential increases in energy prices.

She added that the board was mindful of proceeding with the rules without overburdening consumers, businesses or the economy. "We are being cautious and careful within the context of a very bold effort," Mrs. Nichols said.

The new rules come less than a week after the world's nations reached agreement on a package of climate initiatives last week at a United Nations-sponsored summit in Cancun, Mexico. And they come six weeks after a referendum in which Californians voted to keep the state's climate law intact. A federal proposal to limit U.S. greenhouse-gas emissions, however, has stalled in Congress amid political bickering.

Recent scientific studies have found that many of the earth's largest lakes have been warming more quickly than the air around them in the last 25 years, and that many glaciers around the world have been melting at an increasingly rapid pace, particularly in southern South America and Alaska.

California's Global Warming Solutions Act of 2006 requires the state to cut greenhouse gas emissions to 1990 levels by 2020. In addition to the proposed cap-and-trade program, the state has established an aggressive renewable-energy mandate and a requirement that the carbon content of the state's vehicle fuels be cut by 10% by 2020, as part of efforts to achieve the emissions-reduction goal.

Under the proposed cap-and-trade rules, the state would give away most allowances in the first few years of the

cap-and-trade program, then sell many allowances in auctions in later years. Industries that could prove the regulations were putting them at a significant competitive advantage to companies in other states could be eligible for additional free allowances. The proposed rules would establish a floor on the price of allowances sold at auction of \$10 per metric ton of carbon dioxide.

Environmental groups argued for greater auctioning of pollution allowances, while heavy industry groups pressed for more allowance giveaways.

"We don't need an auction," said Dorothy Rothrock, a spokeswoman for the California Manufacturers and Technology Association. "We think it's an extra burden on industries attempting to comply with this regulation."

But the Sierra Club said the provision would benefit companies that were unlikely to leave the state.

Other environmental groups lauded the cap-and-trade program.

"It's a step forward that will make our country more competitive and make California a leader in the clean technology industry," said Fred Krupp, president of the Environmental Defense Fund in New York.

Greenhouse-gas emitters could purchase carbon offsets--which are expected to trade at a discount to emission allowances--to comply with 8% of their annual emission obligations.

Carbon market participants said carbon offset prices have jumped in anticipation of California's adoption of the cap-and-trade rules.

Lenny Hochschild, a carbon broker with Evolution Markets, said offset prices have doubled from about \$4 a ton of carbon dioxide to \$8 a ton amid much higher volumes of trade in recent weeks.

Environmental groups and residents of California's forest regions have asked the ARB to exclude companies that clear-cut forests from participating in the offset program.

The ARB has said it will consider allowing carbon credits from a range of other types of projects, from forest protection projects in Mexico and other countries, to projects aimed at destroying ozone-depleting substances.

Some carbon market participants say the agency should act quickly to approve more types of projects to avoid a lack of supply of such credits to meet demand.

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