

## Why Cap-and-Trade is the Right Policy for Reducing GHG Emissions

In the wake of a disappointing outcome of the Copenhagen climate talks, and a sense that US Federal comprehensive climate legislation has entered a state of stagnation, it is important to refocus on the key attributes that climate change and energy legislation should contain to achieve real reductions in greenhouse gas (GHG) emissions. We believe that a market-based approach, such as a cap-and-trade system, *must* be at the center of any proposed regulatory framework. Here is why:

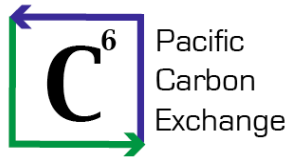
- *GHG Emissions Reductions* – This is, of course, the principle reason for instituting any policy response in lieu of regulating CO<sub>2</sub> and other GHG emissions. Whether through cap-and-trade, carbon tariffs, or straight industry regulation, the goal is the reduction of GHG emissions in the United States. Cap-and-trade is the only market-based solution that is directly tied to emissions reductions through the progressively lower cap on allowed emissions that is a critical function of a cap-and-trade system.
- *Investment* – Only through a market-based system, like cap-and-trade, can you create adequate market incentive, in the form of a clear emissions price signal, to shift investment away from artificially cheap fossil-fuel consumption and toward energy-efficiency, clean energy research and development, and the building of renewable energy generation capacity. Business as usual will always favor cheap oil, gas and coal, especially when the price of GHG emissions is artificially left out of the cost equation.
- *Innovation* – America has always dominated global competition through the engine of our innovation economy. With a clear price signal, America could once again focus critical, limited investment resources and developing the Googles, Apples, IBMs of tomorrow in clean technology, energy efficiency, and green energy sectors. Clean & greentech will be the computing wave of the 21<sup>st</sup> Century. America is dangerously close to ceding leadership in this technological era to China and the EU. Cap-and-trade is the only policy response that would directly shift investment toward building US technology leadership in Clean & Greentech. John Doerr of the preeminent venture group Kleiner-Perkins, has said that cap-and trade legislations “will unleash the greatest wave of investment capital seen since the dawn of computing.”



- *Green Jobs, Clean Jobs, Jobs, Jobs, Jobs!* – With investment and innovation come jobs, jobs, jobs. The United States is mired in one of the worst job markets in its history, with no clear end in sight. Even with a slow emergence out of recession, the lagging worry of most US economists is where will the new jobs come from in America? Cap-and-trade is actually a jobs creating engine. By creating massive new investment in the Clean & Greentech sector, millions of jobs will be created in industries spanning solar, wind, nuclear, biofuels, new materials, building energy efficiency technologies, green construction, green services, technology, consulting, engineering, accounting and many more.

- *Energy Independence & National Security* – According to the US Dept. of Energy, the United States imports 72% of our annual fossil fuel consumption every year from countries often hostile to our national interests. Without significant investment in clean energy development and renewable energy generation, our dependence on foreign sources for the fuel of our economy will only become more and more dangerously pronounced. The huge investment in Clean and Greentech created by a cap-and-trade system is a direct response to addressing this increasingly urgent and serious problem.

- *This is Not a Tax* – Many people have taken to renaming cap-and-trade to cap-and-tax. This could not be further from the truth. Cap-and-trade is a market, incentive-based system that rewards emitters for investing in GHG emissions reductions technologies by allowing them to more quickly monetize those investments in an open, global market for carbon emissions. It is our belief that a carbon tax, on the contrary, will offer no way to lower costs or leverage capital, and in fact will be a cost passed down directly or indirectly to American consumers. A carbon tax solution is also not directly tied to any systematic approach to lowering emissions caps for polluting companies, unlike cap-and-trade system. Finally, a carbon tax, like all taxes, can be easily appealed and the likelihood of political support for any new tax in this deleterious economic environment is very low indeed. It is estimated that as much as \$500 billion in investment between 2010 and 2030 will be required to keep global temperatures from rising above the Copenhagen negotiated level of 2 degrees centigrade. It is doubtful the American taxpayer would be willing to single-handedly foot that bill.



- *Government Must Lead* – That means the US Government. Without creating the policy and price signal necessary for the private sector to refocus investment capital toward development of clean technology and energy efficiency within their own operations and supply chains, the status quo will prevail and business as usual will solidify carbon intensive energy sources as companies return to competing globally against other players using cheap, carbon-intensive fossil fuels to power their growth. Government must set policy that levels the playing field, enabling American business to plan for a more carbon-neutral future. There are plenty of precedents to point toward rapid, historical technology development sparked by the establishment of clear US government policy – the Apollo moon program and the establishment of NASA being one terrific example. Comprehensive climate legislation and the establishment of a cap-and-trade program is just such an opportunity. Without this vitally important US policy initiative, the “vast wave of investment capital” that John Doerr describes simply will not happen at the scale and pace that will be necessary to stave off global climate change and the terrible harm that will mean to future generations.

For More Information about the Pacific Carbon Exchange or carbon credit markets in California and beyond, please contact Aaron Singer at [aaron@pcarbx.com](mailto:aaron@pcarbx.com) or Brett Goldstein at [brett@pcarbx.com](mailto:brett@pcarbx.com).