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Proposition 23 and its impact on British Columbia

Produced by ISIS – A Research Centre, Sauder School of Business, UBC
Author: Neil Thomson, MBA, ISIS Research Centre, Sauder School of Business, UBC
Editors: Dr. Alison Shaw, Dr. Hisham Zerriffi, Ivan Watson

Issue

California's climate change legislation, the *Global Warming Solutions Act,* also referred to as AB 32, was signed into law in 2006. It establishes a timetable to reduce the state's greenhouse gas (GHG) emissions to 1990 levels by 2020 using both regulatory and market mechanisms. The Act has been controversial since passed; recently oil and coal companies and other activists have poured millions of dollars into a campaign to undermine it by supporting Proposition 23, a state-wide public ballot that—if passed—will require the suspension of AB 32 until state-wide unemployment drops to 5.5% for a full year. Given that unemployment in California has only been below 5.5.% for four consecutive quarters in the last 20 years[i], and was at 12.3% in August 2010[ii], the passage of Proposition 23 could delay California's progress on reducing GHG emissions well into the forseeable future. This would have significant negative implications for California's participation in the regional cap-and-trade system under the Western Climate Initiative (WCI), of which BC is a member and would be a grave set back for climate policy in the state, with possible ramifications in other jurisdictions throughout North America.

Background

The WCI cap-and-trade program is an important effort to develop regional rather than national action to reduce GHG emissions by 15% below 2005 levels by 2020. When fully implemented in 2015, it aims to cover nearly 90% of GHG emissions in WCI partner states and provinces, including those from electricity, industry, transportation, and residential and commercial fuel use. AB 32 is designed to provide the legal framework for California to meet its WCI partner obligations. As a jurisdiction, California is the 2nd largest emitter of GHGs in the US, behind Texas, and the 12th largest in the world,[iii] making it an extremely important player in mitigation efforts. As a comparison, Canada occupies 7th position in the world. California represents approximately 50%[iv] of the WCI partner's total GDP, and 40% of combined GHG emissions, suggesting that any delay in the implementation of AB 32 could have considerable environmental and economic impacts on BC and other WCI partners.

Organizers aiming to delay AB 32 have successfully gathered the minimum number of signatures required to have Proposition 23 added to November's ballot. The bulk of the money financing the Proposition 23 campaign has come from two Texas-based oil companies, Tesoro and Valero, and other out-of-state fuel interests.[v] Valero recently gave an additional $3 million to the effort. Major supporters on the anti-Proposition 23 side include clean tech companies and investors, and environmental organizations. Both sides of the campaign anticipate that total spending will exceed $100 million by election day.

Implications of the vote

Reducing California's GHG footprint to meet AB 32's goals will require approximately a 29% cut in emissions below currently projected state levels by 2020[vi]. Proponents of the bill, led by Governor Arnold Schwarzenegger, state that AB 32 will provide a roadmap of measureable steps for California to achieve its 2020 climate change goals, benefitting California in the following ways:

- Policymakers, in partnership with business, organized labour, and community stakeholders, can use the economic changes brought about by AB 32 to develop new and well-paying green jobs and use the opportunity to make quality jobs accessible to low-income communities;[vii]
- California has an abundance of renewable energy resources and combined with an appropriate and skilled workforce is well positioned to be at the forefront of the trend towards cleaner living in a low carbon economy;
- The California Air Resource Boards' two macro-economic general equilibrium models, the E-DRAM and BEAR models, both forecast small but positive impacts on California jobs, in comparison with business-as-usual forecasts; the main driver comes from households' lower expenditures on fuel and energy due to energy efficiency measures.[viii]
- AB 32 will stimulate billions of dollars in private and public investment for energy efficiency retrofits, new construction, and renewable energy generation,

presenting growth opportunities in traditional sectors and in new markets yet to be developed;

- California is likely to continue to import fossil fuels under business as usual strategies so increased domestic renewable energy production will increase energy security;
- Venture capital has proven to be the most efficient driver of job creation in the US, and since 2006, California has attracted dramatically more venture financing than all other states combined, largely driven by a growing cleantech sector incented by low-carbon-emissions policies. Research estimates that 2,700 direct jobs are created for every $100 million in venture investment, or about $37,000 per job on average[ix]. By contrast, US stimulus spending would save and/or create 3 to 4 million jobs by the end of 2010 at $235,000 per job; a figure six times more than venture capital;[x] and
- Significant growth is projected in renewable energy, electric vehicles, and green innovation, with export potential.

Conversely, opponents of Proposition 23, armed with a recent report from California's Legislative Analyst's Office, say that AB 32 could have the following negative effects on the economy:

- Green technologies will not flourish without a well-trained technical and blue-collar labour force, this may result in trading known well-paying jobs for new jobs of lesser quality;
- California will lose business to other regions with less stringent emissions requirements;
- Inducing higher energy costs that disproportionately affect working and low-income people will require expensive state intervention to help people transition to more energy-efficient housing and transportation; and
- In the context of the current economic downturn, these risks become magnified as conventional investment funds diminish, state budget deficits persist, and unemployment increases.

Regardless of whether the proponents or opponents of AB 32 are correct, the success of Prop 23 would have serious implications for BC. First, California is the economic engine for climate policy on the West Coast: without comprehensive climate legislation in California, the WCI system will lose momentum in driving transactions between companies and partner jurisdictions. Second, competitive issues will mean that BC's strong trade links with California[xi] ($38 billion in 2006) may adversely affect BC companies given that AB 32 drives both multi-region climate legislation and the ability to level competitiveness across jurisdictions. Finally, in light of a stalled US federal climate bill, California's position in the WCI is crucial in creating and leading other regional initiatives. Linkages with these initiatives make cap-and-trade much more environmentally and cost effective.

Conclusions

Suspension of AB 32 by Proposition 23 would stall key climate change mitigation programs in California and have a negative effect on other regions looking to limit GHG emissions, including British Columbia.[xii] As one of the only remaining US states participating in the WCI cap-and-trade system, California's passing of proposition 23 could represent the nail in the coffin for putting a price on carbon in the US for the foreseeable future. The WCI without California means a substantially smaller market for emissions trading with less impact on emissions reductions. A reduction of the anticipated size of the regional WCI carbon-trading market would very likely hamper ongoing emissions-reductions initiatives in BC that are in large part dependent on the geographically widespread establishment of an appropriate price for carbon emissions.

Further Reading

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