

June 10, 2015

Senate Environment and Natural Resources Committee
900 Court St. NE
Salem Oregon 97301

Good afternoon Chair Edwards and members of the Senate Environment and Natural Resources Committee,

The Climate Trust is a Portland-based NGO that for the past 18 years has been managing and investing a carbon fund on behalf of regulated utilities that comply with our Oregon Carbon Dioxide Standard passed in 1997. We are the oldest carbon entity in America and work with both the regulatory and voluntary carbon markets across the country.

The two major carbon-pricing mechanisms are cap-and-trade and carbon taxation. While both systems are designed to attach a price to the negative effects of carbon pollution and thereby incentivize emission reductions, the most basic difference between cap-and-trade and carbon taxation is in what is constrained: the emissions or the price. A well-designed cap-and-trade program provides (caps) a known quantity of emissions, and therefore a more predictable metric to assess GHG reduction outcomes. The experiences of other jurisdictions in our research--our [report](#) guides policy makers considering pricing carbon--suggest that cap-and-trade systems are easier to harmonize across multiple jurisdictions than a carbon tax. Examining other carbon mechanisms from around the world we concluded that emission reductions and positive economic impact are not mutually exclusive.

In the U.S. we have the benefit of two major carbon-pricing mechanisms currently underway. They are both using the cap-and-trade approach. The first is the:

Regional Greenhouse Gas Initiative (RGGI) system:

RGGI is a cooperative cap-and-trade effort among nine NE states to cap and reduce CO₂ emissions from the power sector.

In RGGI's first three years the program contributed \$1.6B in positive economic impact to the Northeast region and added 16,000 job-years to the participating states. RGGI's most recent auction of allowances or permits to pollute if you will, caused the program to surpass \$2B in cumulative auction proceeds, five years before the forecasted date of 2020.

Unfortunately for New Jersey, their governor Chris Christie pulled the state out of the program in 2011, and estimates suggest the state will suffer the loss of \$501.1M through 2020 as a result of this poor decision.

The second mechanism is California's Cap-and-Trade under AB32:

California's cap-and-trade program has been very successful from an economic perspective¹. The state added 491,000 jobs in the program's first year and a half. This is a 3.3% growth rate, which outpaces the 2.5% growth rate nationwide in the same period. CA's GDP also grew during the first two years of the program while capped emissions dropped by 4%. CA has added more jobs than any other state during the economic recovery. It has also attracted over \$21B in venture capital investment- more than all other states combined- while its core "clean economy" grew 10 times faster than any other sector in the state; such venture-funded innovation would not be seen under a carbon tax or a pure dividend plan in our opinion.

¹ Carbon Market California, <http://www.edf.org/media/california-cap-and-trade-program-drives-emissions-down-state-economy-grows>

Total cap-and-trade revenue in California has passed the \$1.6B mark; like RGGI this is a significantly higher number than expected at this point in the program. California estimates it will auction roughly 36% of all permits, which will generate a minimum of \$12 billion in revenue through 2020 for the state.

Regardless of whether a state has a carbon tax or a cap-and-trade mechanism, there is tremendous opportunity to leverage the revenues either from a tax or sale of allowances. To bypass such an opportunity severely inhibits the nurturing of a vital low carbon economy that will ultimately open up employment opportunities that may be lost by the imposition of a carbon mechanism, and hampers the aggressive carbon mitigation needed.

California mandates that all revenue raised from auctioned permits (allowances) must be spent on climate mitigation, which supports their serious efforts to manage their emissions. They invest a portion of cap-and-trade auction revenue in programs and projects that reduce greenhouse gas emissions and mitigate the direct health effects of climate change for the most impacted and disadvantaged communities. Investments fall into three broad categories; sustainable communities & clean transportation, energy efficiency & clean energy, and natural resources & water diversion. 25% of investment proceeds are to be invested to benefit 'disadvantaged communities' that bear the burden of pollution and exposure to environmental impacts.

A full dividend approach has seen to offer problems and targeted reinvestment of carbon revenues is highly recommended. A direct dividend fails to mitigate direct climate impacts, or provide long-term sustainability to underserved and under-represented communities. B.C. in Canada offers us some insights; because revenues (around \$1 billion per year) are used to offset other taxes rather than invested in environmental improvement projects, the carbon pricing mechanism there appears to be creating doubt as to the environmental benefit it represents. As a response to this issue, some environmental groups there have begun to advocate doing away with the revenue neutrality aspect of the scheme and using revenues directly for low carbon development.

To conclude, experiences from other operating carbon mechanisms prove that it is possible to institute pollution-reduction programs without compromising economic prosperity or social equity. Based on the California model, careful design of a targeted reinvestment plan to ensure a low carbon infrastructure is built and disadvantaged communities receive active investment and attention is instructive for us here.

We believe the most effective carbon pricing policy will be one that not only ensures the state meets its emission reduction targets which are codified in state statute; it will be a program which facilitates linkage to other programs in neighboring states, market mechanisms, and targeted investment into a low-carbon economy. House Bill 3470 asks the Department of Environmental Quality to design just such a mechanism to reach Oregon's existing climate goals, which could open the door for Oregon to join California and British Columbia in their cap-and-trade systems.

Thank you,

Sean Penrith
Executive Director
The Climate Trust