

# Launching Ceremony of Shenzhen ETS and National Carbon Trading Forum



## **Mary D. Nichols, Chairman**

California Air Resources Board  
Shenzhen, China  
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Good Afternoon. It is a great pleasure to be here. I want to thank Shenzhen Party Secretary Wang Rong and Shenzhen Mayor Qin Xu for the gracious invitation to join you today. I am also very pleased to be here today with Minister Xie and other leaders from the National Development and Reform Commission. Minister Xie's leadership on climate change is well known throughout the world.

Congratulations to Shenzhen for taking this important step forward today. We are pleased to work with you in the effort to combat global climate change.

In his speech at Tsinghua University in April, Governor Brown noted, "We're in one world. We've got one big problem and we all have to work on it. And what's beautiful and exciting about climate change is no one group can solve the problem—not the United States, not California, not China—we all have to do it. This is a great unifier. This is an imperative where human beings could collaborate."

And that is exactly what your actions to launch an emissions trading program represent – part of the collaborative effort to cut greenhouse gas emissions, clean the air, and drive clean and efficient economic growth.

As you know, a great deal of the innovation and leadership in this effort is currently taking place at the subnational level. The actions of states, provinces, and cities are creating a foundation that national and international action can spring from. We are blazing the trail.

For decades, California has been an international leader in developing innovative programs to cut pollution and protect public health. And we've done it while growing into one of the largest economies on the planet. We understand and embrace the connection between strong environmental protection and strong economic growth. And by the action you are taking today, it's clear that you do too.

As a result of our vehicle standards, cars in California today are 99 percent cleaner than they were in the 1970's. Our skies are now clearer and our citizens are healthier.

Since 1960, we've also cut emissions of black carbon in California by more than 90 percent. We've done this largely by focusing on cleaning up our fuels – especially diesel fuel – and setting in place measures to clean up our systems for moving goods through our ports and trade corridors.

Our state's energy efficiency standards for buildings, appliances and electronics have saved consumers over \$66 billion dollars over the past several decades and displaced the need for dozens of new power plants. These savings have been reinvested in our state's economy.

And California's efforts to pioneer renewable energy will have our state meeting one-third of our entire electricity demand with renewable resources like wind, solar, and geothermal by 2020.

Our environmental policies have driven impressive growth in our clean technology industries. Between 1995 and 2010, clean technology jobs grew by 53 percent, significantly outpacing overall job growth in California. Our state also reaps a lion's share of the private investment in clean technology that is made in the United States. In 2011, investment exceeded 3.7 billion dollars, more than all of the total combined investment in the rest of the country.

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These programs and others like them have been successfully replicated in states, provinces and countries across the world. We've learned that our efforts to protect the environment and grow our economy cleaner and more efficiently can serve as effective models for others to follow.

In 2006, California adopted legislation to scale back statewide greenhouse gas emissions to 1990 levels by the year 2020. We often refer to our program as "AB32," named after the legislation that established it.

The approach we are taking to meet this target includes a range of programs and strategies – all designed to both cut pollution and accelerate technological innovation. Along with our emissions trading program, we have a set of targeted policies in place that are making our vehicles and fuels, homes and buildings, and our electricity supplies and industries cleaner and more efficient. In addition to cutting greenhouse gas emissions, these programs also slash other health-harming air pollutants like smog-forming emissions and particulate matter.

But we also know that 2020 is not an endpoint. To prevent the worst impacts of unchecked climate change, we must achieve deep and lasting reductions in greenhouse gas emissions over the long-term. And we need other cities, states, and nations to follow the lead of places like California and Shenzhen who are global leaders in taking real action to do so.

### **California ETS**

California launched its greenhouse gas emissions trading program in 2012. I am very pleased to report that it is running smoothly. We've had three auctions of allowances so far and are looking forward to linking with the Canadian province of Quebec in the next year.

Our program establishes an economy-wide price on carbon pollution and sends a clear market signal that investment in cleaner and more efficient ways of doing business will be rewarded. It covers the state's largest stationary sources of emissions including refineries, cement plants, electricity generators and other large industrial facilities. Starting in 2015 the program will include transportation fuels and natural gas under the cap.

California's emissions trading system was developed and designed over several years with extensive input from a range of academic, policy-design, and economic experts. We learned from the experiences of others, and evaluated a range of different design options.

We also worked very closely with the industries and businesses that are covered by the program. And, we encouraged – and continue to encourage – extensive public participation and input in our process. We've learned that involving a wide-range of stakeholders in the design and implementation of our programs will ultimately make them more successful.

The design of our program is based on several key factors.

### **Accurate Emissions Data**

Accurate and verified emissions reporting data is the foundation. Since 2008 California has required emissions reporting for all facilities in the state that emit over 10,000 tons of greenhouse gases a year. We have a rigorous system for reporting and verification, and strict penalties for non-compliance. This information is fundamental to program success as it ensures fairness in administration and the knowledge that greenhouse gas reductions are real.

### **Environmental Integrity**

The program establishes a hard cap on approximately eighty-five percent of total emissions statewide. Each year the cap declines, ensuring that we meet our 2020 emissions reduction target and are positioned to continue making deeper reductions going forward.

### **Cost-Effectiveness**

California's trading system contains a number of features that provide industries with the opportunity to seek out and implement the most cost-effective ways to reduce emissions. We have designed our allowance allocation system to incentivize more efficient and lower-carbon ways of doing business. We also allow industries to meet up to eight percent of their compliance obligation through offset projects which must be undertaken in accordance with state-approved protocols.

## **Minimize Leakage**

Our program is also designed to minimize leakage, which occurs if emission reductions in California are offset by increases in emissions outside our borders. Our goal is to allow California businesses and industries to remain competitive by finding the lowest-cost, most innovative ways to reduce emissions. But we have to ensure that we don't simply reduce emissions in California by driving economic activity, and the emissions, elsewhere.

## **Strong Market Oversight and Enforcement**

Strong oversight of the market and robust enforcement are critical elements for program success. Our system includes a variety of mechanisms to deter and detect any attempts to manipulate the market or avoid compliance. As with accurate emissions reporting information, these elements provide confidence to everyone with a stake in the program that it is functioning as designed.

We understand your program is similar to ours in many ways. For example, you have approximately the same number of covered facilities, and tough penalties for non-compliance. We will be watching with great interest and support as you undertake the effort being launched today. And we are eager to continue sharing our experiences with you, and learning from yours. This is exactly the sort of collaboration that will make all of us more successful.

Earlier this month Governor Brown met with President Xi Jinping in California. At their meeting, the Governor shared a recently released "Consensus Statement" signed by more than 500 global scientists. The consensus is clear: concerted global action to address climate change is urgently needed.

Like you, we understand the threat that climate change poses. We understand it is happening right now. And every day that passes without action we edge closer to an uncertain future. Our public health, our economy, and our security as individuals, states, countries – and, ultimately as an entire planet – are at stake.

But, like you, we also understand that we have the power to take action. We are doing it in California and you are doing it right here in Shenzhen.

Congratulations on this historic achievement. We look forward to continuing to work with you, to learn together by doing – and to show the rest of the world how fighting climate change can be done.

*Thank you.*