California's Cap-Trade Law Faces Fall Ballot Challenge

The energy industry and an antitax group are challenging California's plan to cap greenhouse-gas emissions, saying the effort would lead to job losses and raise energy prices if it goes into effect in 2012.

These groups are collecting signatures to put an anti-cap measure before voters in November; the proposition would postpone any carbon limit until the economy rebounds. Backers of the cap think the measure is almost certain to make the ballot, and they are raising money from technology companies to persuade voters to reject it. Both sides are already raising hundreds of thousands of dollars.

Enlarge Image



Close

Associated Press

Oil refiner Valero Energy gave $500,000 in March to a ballot campaign against California's cap-trade law.

Other states are also having second thoughts about similar cap-and-trade programs, largely because of the anticipated costs. Arizona, citing the recession, has backed out of the cap-and-trade part of an emissions program involving several Western states and Canadian provinces.

The Obama administration, though still pursuing a nationwide carbon limit, is signaling it would make any cap less stringent than originally expected.

Under a cap-and-trade program, such as one already in effect in Europe, a government limits the amount of greenhouse gases its economy may emit each year, and then it issues companies permits to emit a specific amount of gas. The companies can buy and sell permits in a market intended to spur investment in greener technologies.

California passed its law authorizing the cap-and-trade program in 2006. The ballot measure would bar the state from implementing the law until its jobless rate stabilized at or below 5.5% for a year, which supporters say would signal the return of a strong economy. The state's jobless rate topped 5.5% in October 2007 and now stands at 12.5%.

Supporters and opponents of the law disagree about its potential economic effects. The California Air Resources Board, the state clean-air agency administering the law, says the cap would help the economy. It would raise the price of a unit of energy, but reduce Californians' total energy bills through greater efficiency, the board says, freeing up money that would lead to more jobs.

But the board has scaled back its optimism. In a 2008 study, it projected the measure would produce a net gain of more than 100,000 California jobs. Economists widely criticized that study as too rosy. A second economic assessment, released by the board in March, projects a net gain of about 10,000 jobs.

A June 2009 study by a group of California small businesses, however, predicted the law could raise the average California household's annual housing, transportation, energy and food costs by about $3,900, or 15%. The study didn't factor in any energy savings from the law, calling savings projections too speculative.

California's Legislative Analyst's Office, which assesses public policy, has questioned both sides' projections. The state law "will result in the near term in California job losses," the office said in a March 4 report. Although the effects "may not prove to be particularly large relative to the overall economy," the office said, some businesses and households "would be seriously affected."

But the small-business-group study's estimate of the measure's costs "are overstated, perhaps significantly," the office said in a March 9 report.

The California Jobs Initiative, the group trying to overturn the greenhouse-gas law, has collected $966,000 in donations, according to preliminary filings with the California secretary of state's office. The biggest donors have been oil companies and the Howard Jarvis Taxpayers Association, a longtime antitax citizens' group that says the law would amount to an energy tax.

The California law "would have a severe detrimental effect on California's economy," said Bill Day, a spokesman for [Valero Energy](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=VLO) Corp., [VLO +0.47%](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=VLO?mod=inlineTicker) a San Antonio-based oil refiner that in March gave the ballot-initiative campaign $500,000, the campaign's biggest single contribution. Valero, which opposed the California greenhouse-gas mandate in 2006, says the recession makes the law even more problematic.

Anita Mangels, a spokeswoman for the California Jobs Initiative, wouldn't say how many signatures it had collected.

Steve Maviglio, a spokesman for Californians for Clean Energy and Jobs, the group fighting the referendum effort, said he had no doubt the measure would get the approximately 434,000 signatures it needed to be on the ballot.

Mr. Maviglio said he expected his group to report donations of about $1 million in its preliminary campaign-finance filing with the state, due later this month. [Google](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=GOOG) Inc. [GOOG +2.99%](http://online.wsj.com/public/quotes/main.html?type=djn&symbol=GOOG?mod=inlineTicker) has signed on as a supporter of the campaign to preserve the law, but hasn't contributed any money, a Google spokesman said.

Polling in California shows a majority of residents support government action to curb greenhouse-gas emissions, but that majority is slipping amid the weak economy. In a July 2009 poll by the Public Policy Institute of California, a nonpartisan think tank, 66% of Californians said they supported the state law curbing greenhouse-gas emissions, down from 73% in July 2008. In the 2009 poll, 46% of Californians said the state should wait to take action to curb greenhouse-gas emissions until the economy and state budget improved, up from 36% in the 2008 poll.

In Washington, the House passed cap-and-trade legislation last year, but the issue remains bottled up in the Senate and isn't expected to pass this year.

The Environmental Protection Agency is moving forward with plans to regulate greenhouse-gas emissions from factories and other facilities even if Congress doesn't act. But last week, the EPA announced that no limits would take effect before next January. The EPA also has signaled it would initially limit any federal carbon regulation to large facilities, shielding smaller businesses from the burden.