

Climate Change and Clean Technology Blog

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California Air Resources Board Concludes that Implementing Greenhouse Gas Reductions Mandated by Law Will Benefit California's Economy

By Olivier Theard

The California Air Resources Board (ARB) recently released its *Updated Economic Analysis of California's Climate Change Scoping Plan*. The detailed report examines the economic impact to California of implementing the strategies set forth in the *Climate Change Scoping Plan* (released in December 2008). The *Scoping Plan* sets forth California's blueprint for reducing greenhouse gas emissions to 1990 levels by 2020, as mandated by California's landmark Global Warming Solutions Act of 2006 (AB 32). The *Scoping Plan* identified several strategies for reducing emissions, including promoting energy efficiency in virtually all economic sectors, cap and trade of emissions, and transportation-related measures aimed at reducing emissions from vehicles (including development of low-carbon fuels and land use development strategies). The *Economic Analysis* was designed to measure the effect on California's economy from implementing the *Scoping Plan*.

The *Economic Analysis* was prepared amidst one of the worst recessions in history. In addition to recent critiques regarding the science of climate change, another popular argument against climate change policy is that the radical changes needed to reduce emissions will cause further damage to an already beleaguered economy. The *Economic Analysis* does not ignore this argument, stating that it "takes into consideration the recent downturn in global economic activity," but still concludes that "this analysis confirms that successful implementation of these measures [in the *Scoping Plan*] will mean that we can achieve the goals of AB 32 without adversely affecting the growth of California's economy over the next decade, especially as the state recovers from the current economic downturn." However, the fact that the *Economic Analysis* was approved by a 16-member committee and an independent panel of "top economists, business and financial leaders," as stated by ARB, will probably do little to quell the debate over whether greenhouse reduction strategies are compatible with economic sustainability.

The *Economic Analysis* relies in part on energy forecasts prepared by the California Energy Commission, as well as various economic modeling programs that take into account how greenhouse gas reductions affect fuel expenditures, changes in investments and supply and demand for various types of fuels. The *Economic Analysis* also studies impacts to small businesses and job creation.

The following are the key conclusions:

1. Fuel expenditures will drop by 4.9% in 2020, with a total cost savings of \$3.8 billion in reduced gasoline and diesel consumption due to increased investment and use of energy efficiency and cleaner fuels;
2. The economy and personal income will grow at 2.4% per year, consistent with current patterns (demonstrating no ill effects from implementing the *Scoping Plan*);
3. Two million jobs will be created by 2020, also consistent with current patterns;
4. Failing to implement the *Scoping Plan* (i.e. limiting regulations on oil companies or utilities) will increase costs and shift the burden to consumers and small businesses.

The *Economic Analysis* also considered certain less tangible effects, such as the need to reduce dependence on fossil fuels, especially in light of the "continued volatility of world energy prices." By reducing dependence on fossil fuels, California can reduce its "vulnerability to future price spikes." As for small businesses, the *Economic Analysis* concludes that implementing the *Scoping Plan* is unlikely to have a negative impact, and that certain sectors will see an increase in employment and output as consumers shift to energy efficiency.

The ARB continues to invite comments and host public meetings related to its *Economic Analysis*. Affected industries are encouraged to attend. The next meeting is April 25, 2010.

The *Economic Analysis*, *Scoping Plan*, and information on upcoming public meetings can be found at the following link: www.arb.ca.gov/cc/scopingplan/economics-sp/economics-sp.htm.

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