

Joint Letter of Economic and Energy Experts to Mary Nichols on Maintaining Beneficial, Low-Carbon Transportation Policies in California

July 16, 2014

Mary Nichols
Chair, California Air Resources Board
1001 "I" St.
Sacramento, CA, 95814

Re: Maintaining Beneficial, Low-Carbon Transportation Policies in California

Dear Chair Nichols,

We commend your leadership in implementing the world's most comprehensive climate law and support your commitment to maintain transportation fuels as an integral part of the economy wide cap-and-trade program for carbon starting in 2015. Once transportation is brought within the program, California will be the first functioning economy-wide cap-and-trade program, providing a powerful boost for the national and international advancement of climate policy.

Separate from the national and international significance of including transportation fuels within California's cap-and-trade program, achieving the scheduled 2015 inclusion will create new opportunities for economic growth and innovation in California while also protecting the existing program design and performance. Accordingly, we strongly encourage the state to implement this next phase of the program on schedule.

By establishing a price for carbon reductions within the transportation sector, California will shift toward diversification of its transportation fuel mix through the creation of powerful economic signals to investors. Not only will diversification of transportation fuel supply reduce vulnerability to supply disruptions, a diverse fuel mix renders California more resilient to price spikes in the crude oil market that can erode statewide economic stability.¹ Further, as emerging alternative fuels achieve scale economies and become increasingly cost competitive with mainstream gasoline and diesel, overall consumer choice for affordable and less volatile fuels is increased. Finally, decreases in demand for gasoline and diesel, coupled with increases in demand and supply for alternatives, will likely cause gas and diesel prices to decline over time.

Notwithstanding the benefits of fuel diversification, delaying the inclusion of fuels in cap-and-trade, as some have recently requested, would have a significant downside risk of disruption both to ongoing innovation and emerging economic opportunities throughout California. For several years investors and business have been given the expectation that transportation fuels would be included in the next phase of the trading program beginning in 2015. Economic decisions have been made relying on this expectation and a change in course would punish the investors and early adopters that are the agents of innovation. Such a result would undermine stability and certainty which may affect the entire state economy and the ongoing success of the program.

California is at a crossroads of opportunity and innovation in the transportation fuels sector. The state's efforts have served as a global example of carbon policy while providing benefits to the state. It is time to support these developments by putting a price on carbon in the transportation sector.

¹ Transportation fuel price spikes have been associated with economic downturns; as policies smooth fuel costs variability, the entire economy could see ancillary benefits.

See Vedenov, Duffield and Wetzstein, Entry of Alternative Fuels in a Volatile U.S. Gasoline Market, *Journal of Agricultural and Resource Economics* 31(1): 1-13 (2006); Kneller and Young, Business Cycle Volatility, Uncertainty, and Long-Run Growth, *Manchester School, Special Issue*, 69:534-552.(2001); Sadorsky, Oil Price Shocks and Stock Market Activity, *Energy Economics* 21:449-469 (1999)

Sincerely,

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