

The Senate Select Committee on California-Mexico Cooperation convened its first meeting on May 2, 2012, to discuss the opportunity of a groundbreaking partnership in the carbon emissions cap and trade market.

Experts, with backgrounds in technology, finance, business and government, presented established data and offer projected scenarios for a successful joint program that could serve as an international model of cooperation.

This hearing seeks to further explore the benefits, challenges and opportunities that cooperate between California and Mexico can present.

### Background

Cap and trade is a market-based policy tool for protecting human health and the environment by controlling large amounts of emissions from a group of sources. A cap and trade program first sets an aggressive cap, or maximum limit, on emissions. Sources covered by the program then receive authorizations to emit in the form of emissions allowances, with the total amount of allowances limited by the cap. Each source can design its own compliance strategy to meet the overall reduction requirement, including the sale or purchase of allowances, installation of pollution controls, and implementation of efficiency measures, among other options. Individual control requirements are not specified under a cap and trade program, but each emission source must surrender allowances equal to its actual emissions in order to comply. Sources must also completely and accurately measure and report all emissions in a timely manner to guarantee that the overall cap is achieved.

In other words, cap and trade is a market-based regulatory system that tries to reduce emissions by setting an overall limit (cap) and then lets companies buy and sell (trade) pollution permits, or allowances, among themselves. Since the passage of H.R. 2454 out of the U.S. House, the Senate's own version of the bill stalled and eventually was considered dead in March 2010. In the absence of federal action, the focus turned to the states, particularly California.

In 2006 California passed the most ambitious energy reform in the country with the passage of the California Global Warming Solutions Act of 2006 (Chapter 488, Statutes of 2006). In December 2010, the California Air Resources Board (CARB) adopted the nation's most comprehensive rules to curb emissions of carbon dioxide and other heat-trapping gases.

Mexico's close relationship with California and its sizable potential for emissions reduction presents an opportunity for collaboration with California to the benefit of both parties.