

Environmental Regulation

Economic Considerations Key to Maximizing Benefits and Minimizing Costs

Summary

Background

Environmental protection is an integral component of doing business in today's world. Today, California has among the most stringent environmental laws in the country which, in most instances, go well beyond federal laws. The continued prosperity of the state's economy depends on leadership that uses these laws to protect the environment while leaving California's businesses the flexibility to implement innovative, cost-effective solutions to environmental issues. The state should be dedicated to restoring balance to environmental policy making, allowing for reasonable progress on environmental protection without undermining California's economic foundation.

Current

In recent years, new environmental laws and regulations have added significantly to the scope of California's regulatory environment, eroding the ability of businesses to compete with their national and international counterparts. For example, as part of the AB 32 Scoping Plan being implemented by the California Air Resources Board (ARB), new climate protection measures will have an impact on virtually every aspect of industry and commerce in the state. Energy policy, land use, home construction and design, water use, transportation and building materials are just a few of the areas that will be affected as AB 32 is implemented. It is inevitable, given the far-reaching nature of these regulations, that there will be a significant impact on California businesses if implementation proceeds without sufficient deference being given to the economy and the cumulative weight of California's existing regulatory environment.

For example, the recent adoption of the On-Road Diesel Truck Rule by ARB will cost the trucking industry billions of dollars in additional expenses associated with upgrades, retrofits and replacement of existing equipment. In a prime example of the cumulative weight that a weak economy and new regulations can impose upon a particular industry, the trucking sector was already in dire shape due to the ongoing recession and weak consumer confidence, resulting in less demand for transport of goods around the state. The truck rule came at a time when truckers badly needed relief and support from state government, but instead faced new mandates, costs and challenges to the survival of their businesses.

Impact on Business

Many new regulations already have been approved by state policymakers and will be implemented in stages over the next few years. On an individual basis, many environmental protection laws offer little environmental benefit while imposing significant additional costs on businesses. When these costs are viewed in isolation, as is typically the case in the policymaking process, they can be easily dismissed as insignificant relative to the greater good of environmental protection. However, it is important for the Legislature and regulators to consider the cumulative impacts of new and existing regulations in the context of California's economic recovery. California businesses cannot continue to absorb new costs and remain competitive or viable over the long term.

CalChamber Position

The current recession may be prolonged if California's business climate is further degraded by an environmental policymaking process that does not consider economic impacts. One solution would be establishing a comprehensive economic impact analysis committee in the Legislature or creating economic impact review panels in relevant regulatory agencies that analyze policies before they are passed or adopted. An economic impact committee would help policymakers confront the tough tradeoffs that surface during implementation, ensuring that the best, most cost-effective strategies for environmental protection become state policy.

Another approach that should be considered is the creation of an external peer review process that would ensure the regulatory agencies considering new environmental rules are accurately evaluating the economic impact. This would have the additional benefit of creating greater transparency and accountability in government, which benefits, not only the regulated community, but government as well by providing additional weight and credibility to regulatory actions. Legislation sponsored in 2009 by the California Chamber of Commerce, AB 1107 (Blakeslee;

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R-San Luis Obispo), would have provided for such reviews to occur without interfering with the rulemaking process and by requesting public input before the adoption of new rules. An economic peer review process would ensure that Californians and California policymakers have a more full understanding of the costs and benefits associated with a proposed regulatory rule so that they can better confront the natural tradeoffs that result.

Reasons for Position

- In a badly faltering economy, an increasing sensitivity to the state of California's business climate is essential.
- A more robust economy will ensure that the state has the revenues needed to protect the environment through existing and future programs.
- A healthy business climate will attract the investments needed to harness California's potential for innovation and technological development that will move the economy forward and enable the state to achieve its environmental goals.

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