

A Carbon Market for Public Trust and the Environment

When California implements a statewide carbon cap, as envisioned in AB 32, it will create billions of dollars in new property rights: permits to emit carbon dioxide into the atmosphere. The question is, if we are going to have a carbon market, will the state give those valuable permits for free to fossil fuel companies, or will it use the value of the atmosphere for the common good?

Principles for capping carbon in California:

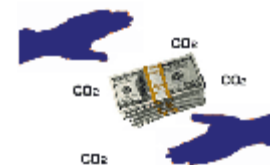
- The atmosphere is a gift to all of us
- If the atmosphere has economic value, that value belongs to everyone
- Industry should pay to use the atmosphere, and revenues should be used to reduce emissions and compensate citizens for its use



Should the permits enrich the fossil fuel industry? Or be auctioned and used for the common good?

In 2007, the California Climate Action Team's Market Advisory Committee will recommend whether to:

- Give carbon emission permits for free to the fossil fuel industry (a \$2.5 billion a year giveaway),
- or-**
- Auction (sell) permits to fossil fuel companies, and use those revenues for the common good?



Billions of dollars of *our* money depend on this decision.

The Climate Protection Campaign invites you to join us in advocating for auctioning (selling) 100% of carbon permits in California.



3 keys to a public trust carbon market:

1) Regulate as far *upstream* as possible.

Carbon in = carbon out. It's much easier to limit carbon as it enters the economy than as it leaves. Permits should be required to be held only by fossil fuel producers and importers. All other businesses and citizens would not need to hold permits.



2) Auction 100% of the permits.

New York, Vermont, and Massachusetts are auctioning 100%. An auction captures the economic value of the atmosphere for the public. It avoids windfall profits and preferential treatment, and rewards early action. Every business is treated equally.



3) Compensate citizens for higher energy prices.

Limiting carbon emissions will necessarily raise fossil fuel prices. These higher prices can be offset by distributing 'citizen dividends' or 'carbon shares.' Failure to offset higher prices will harm the economy and low-income households particularly.



3 types of public trust allocation:

1) Public Goods Auction	2) Auction With Dividends	3) Carbon Share
<p>The state sells emission permits to the highest bidders, then uses the proceeds for public goods such as energy efficiency, renewable energy and public transit.</p>	<p>Similar to Public Goods Auction, except that part of the auction proceeds are recycled to citizens on a per capita basis.</p> <p>This compensates consumers for higher fuel prices. Because dividends are equal, carbon conservers come out ahead, while carbon guzzlers come out behind.</p>	<p>The state distributes a carbon share to each citizen. Citizens cash the share at a bank or brokerage. The bank or broker sells the share on the carbon market.</p> <p>Similar to Auction With Dividends, Carbon Share compensates citizens equally and builds long-term popular support for limiting carbon emissions.</p>

Allocation: Public Trust or Private Gain?

Public Trust

vs. Private Gain

	Public Goods Auction	Auction with Dividends	Carbon Share	Giveaway
Who gets emissions rights	Government	Government or trust on behalf of citizens	Citizens	Fossil fuel importers and producers
How are rights allocated, and revenues used	Auction to companies, revenues used for public goods, energy efficiency, R&D, transit, etc.	Auction to companies, revenues used for per capita dividends	Free to citizens per capita, then sold at market price to companies	Given to historic emitters for free, no public revenue, emitters earn windfall profits
Serves Common Good?	Yes, assuming government spends money wisely	Yes	Yes	No

Analysis: Each of the 'public trust' options has benefits. Public goods can help all Californians. Dividends reimburse citizens for higher fuel prices. Carbon Share has the same economic benefit as dividends, but involves the financial services industry, providing an alternative to government-run auctions.

Recommendation: Auction (sell) 100% of carbon emission permits. Use revenues for public goods and per capita compensation.

For more information, contact:

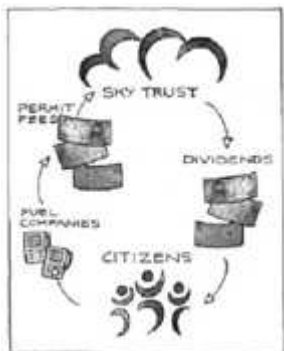
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Two types of citizen per capita compensation

Citizen per capita compensation acts as a rebate for the higher fuel or energy prices which may result from the carbon cap. Per capita alleviates the regressive impacts of fuel price increases. Compensation may be key to maintaining political support for the carbon cap over time.

Auction/Dividend

In Auction with Dividends, the State auctions emission rights to the highest bidder, then uses the proceeds to provide cash dividends to citizens on a per capita basis.



Carbon Share

In Carbon Share, emissions permits are allocated directly to California citizens on a per capita basis. Citizens cash the share at a bank or brokerage. The bank or broker sells the share to carbon importers and producers on the open market.



What's the difference?

Government runs the auction.
Brokers may represent companies, but most commercial banks are not involved.
Dividends can be wired directly to bank accounts.

Government regulates a private market.
Financial services industry is involved.
Citizens can choose to withhold their share, or "play the market."
Citizens may feel greater sense of ownership but require financial acumen.

Benefits of both the Dividend and Carbon Share:

- State citizens would have a stake in climate protection
- The share or dividend offsets higher energy prices residents may pay
- The share or dividend helps low-income people, who typically emit less carbon.
- If Auction/Dividend and Carbon Share are both adopted, companies would have two sources for permits: the government auction and a private market
- Per capita framework can be easily explained when other states create similar systems

Auction (sell) permits, then include per capita compensation:

The Climate Protection Campaign recommends that the State auctions (sells) 100% of carbon emission permits. Use revenues for public goods and per capita compensation. Consider the Dividend, Carbon Share and other forms of citizen per capita compensation in the design of a California carbon market.

Carbon Share is a project of the Climate Protection Campaign
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