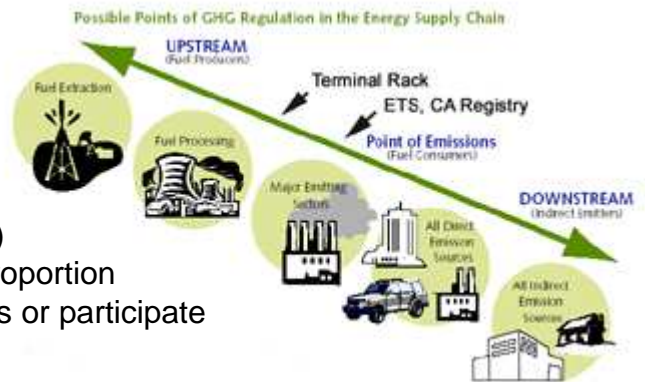


Recommendations for carbon market design

Submitted May 1, 2007 by Mike Sandler, Climate Protection Campaign

1) Regulate fossil fuels *upstream* at the Terminal Rack

- Upstream is administratively easier.
- AB32 calls for a market that is comprehensive.
- The Terminal Rack includes transportation fuels: 50% of CA emissions.
- Fuels are already tracked at the Terminal Rack.
- Permits would be required to be held only by fossil fuel producers and importers. Other (downstream) businesses would still receive the price signal in proportion to their fuel use, but would not need to hold permits or participate in complex reporting and compliance.



2) Auction 100% of the permits

- New York, Massachusetts, Vermont, and others are auctioning 100%.
- Revenues from auctioning may be used for public goods investments for further emission reductions, to fund administration and enforcement of the cap, and for per capita rebates or dividends.
- Previous cap and trade systems such as RECLAIM and the ETS have shown the problems with a giveaway. Auctioning avoids windfall profits and preferential treatment, and rewards early action.
- Every business is treated equally, and the correct number of permits are allocated.
- By contrast, grandfathering only benefits special interests seeking preferential treatment.



3) Per capita compensation to Californians

- If limiting carbon emissions raises fossil fuel prices, consumers can be partly shielded from impacts by distributing per capita 'dividends' or 'shares.'
- Mitigating higher prices will help consumers and low-income households particularly.
- A per capita approach is based on the principle that the sky is a commons we all share.

A per capita rebate/dividend/share:

- Reimburses consumers for increased prices
- Helps low-income communities and environmental justice concerns
- Avoids complicated or subjective set-asides (for low-income or special groups) and still accomplishes the same goal: proportionate impacts as we reduce emissions
- Can easily be adopted by other states or countries
- Per capita framework may engage developing countries after the Kyoto Protocol expires in 2013.

