Recommendations for carbon market design
Submitted November 20, 2007 by Mike Sandler, Climate Protection Campaign

1) Regulate fossil fuels *upstream*
   - Upstream is administratively easier and more comprehensive
   - Upstream can include transportation, a vital source of emissions
   - For electricity, upstream can avoid the debate between load-based and first-seller, and a future national system will likely be source-based (upstream).
   - For transportation fuels, fuels are already tracked at the Terminal Rack.
   - The price signal will provide feedback to most businesses, including reward for early action.
   - Only fossil fuel producers and importers would be required to hold permits, simplifying 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 reduces the likelihood of permit overallocation.
   - By contrast, grandfathering only benefits special interests seeking preferential treatment.

3) Per capita compensation to Californians
   - Equity should be a major priority of a fair cap and trade system. The system must reduce disproportionate impacts on disadvantaged communities. A carbon cap resulting in higher fuel and electricity prices disproportionately impacts low-income households. Per capita ‘dividends’ or ‘shares’ rebate consumers, and especially help low-income households.
   - 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 and still accomplishes the same goal: proportionate impacts as we reduce emissions
   - Can easily be adopted by other states or countries (it is scalable)
   - Per capita framework may engage developing countries after the Kyoto Protocol expires in 2013.
   Alternate ways to reimburse consumers are: expanding the earned income tax credit, an earmarked rebate, or set-asides for low-income communities.

4) A price floor (through a carbon fee)
   - The debate between carbon tax versus cap and trade can be resolved by using a carbon fee as a price floor in a cap and auction system.
   - The floor reduces low-end permit price volatility, which allows businesses to make longterm investments, and the cap continues to guarantee reduced emissions.