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Thank you for accepting these comments on the April 4th Climate Conference for the US Senate Committee on Energy and Natural Resources. Community Clean Water Institute (CCWI) has worked on climate protection programs in Northern California since 2001. More information on CCWI's programs is online at [www.ccwi.org](http://www.ccwi.org).

*1. Who is regulated and where?*

**We encourage the government to issue Individual Emissions Entitlements (emissions rights) directly to the nation's citizenry.** Emissions are a human right, and allowances should be allocated to individuals. The cap should be based on emissions relating to consumption rather than production, though producers would purchase the rights on the open market.

The cap-and-trade should be designed as a template for cap and trade programs for use in US states, but also other countries including Canada, the EU, Australia, and equally importantly, China and India. The program should start from the basis of GHGs as a global human right, and provide GHG emissions credits to individuals. Individuals then sell their rights (permit/ allocation) to a broker (at their bank?), which can turn around and sell it on the market to regulated GHG emitters (utilities).

**Our primary recommendation is to make the initial allocation directly to citizens as Individual Emissions Entitlements. We encourage the government (or a Sky Trust formed by the government) to issue emissions rights directly to the nation's citizenry.**

Here is some of the reasoning behind a long term climate stabilization plan as envisioned by groups in Europe such as the Foundation for the Economics of Sustainability (FEASTA, based in Dublin Ireland). GHG emissions are a human right, since they are a byproduct of economic activity, and economic activity produces wealth. In a carbon-constrained world, GHG emission limits may define the limits of economic activity at least during a transition period away from fossil fuels and toward renewable energy sources and low-carbon economies. An equitable solution is to allocate GHG emissions rights among the population on a per capita basis, and letting them sell their emissions rights to brokers or banks, which would sell them on the open market to large scale power plants, utilities and other polluters (emitters). One long term goal of climate stabilization is to aim for a global carbon budget defined by an ecologically sustainable limit of global GHGs of 450 ppm CO<sub>2</sub> in the atmosphere. The Global Commons Institute of England has developed a framework for achieving this goal through a concept called Contraction and Convergence. The idea is that the end result is per capita equity in GHG emissions. We have to start where we are now, and move toward that goal. We can use a cap and trade system which allocates emissions to individuals to achieve that goal, thereby solving questions of environmental justice, social equity, and economic fairness.

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Although this is a different focus than the proposed cap and trade design, there are many good reasons to allocate emissions directly to people rather than to polluters.

Individual emissions entitlements would provide an income to people as the price of GHGs increase. It would return the “scarcity rent” to the citizens rather than to the polluting industries.

Allocation to individuals can accommodate both stationary sources and mobile sources (transportation), since the regulated industries would then participate in a market after the individual’s allocation enters the market.

The distribution to individuals acknowledges that climate protection deals with demand, not supply. Air quality management deals with stationary sources (smokestacks) whereas climate protection deals with electricity demand (light switches).

The short term U.S. GHG cap cannot achieve a cap of 450 ppm by itself, but could be designed to link up to other caps, such as RGGI and the European ETS. Per capita equity acknowledges the human rights aspect of GHGs and human development. After linking up to other global caps, countries can participate together in what is known as “contraction and convergence” whereby 1<sup>st</sup> world countries and 3<sup>rd</sup> world countries converge to per capita equity and then contract together.

“Upstream” versus “downstream” regulatory approaches.

Regulation should be as far upstream as possible. But the allocation should be downstream (to individual citizens). Then the market functions by having the upstream regulated industries purchase the downstream allowances.

The regulation should not be so far downstream to cover every single transaction, which would be too complicated. Instead, individuals could “cash” their allocation all at once, which simplifies the system.

A basis for this system is the Alaska Permanent Fund.

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- Is the objective of building a fair, simple, and rational greenhouse gas program best served by an economy-wide approach, or by limiting the program to a few sectors of the economy?

Answer: Economy-wide approach.

Emissions allowances should be allocated to individuals who “cash” them at banks or brokerages. Regulated firms must then purchase them on the open market. The scarcity rent is thereby returned to the citizens, who are the owners of the Commons.

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- What is the most effective place in the chain of activities to regulate greenhouse gas emissions, both from the perspective of administrative simplicity and program effectiveness?

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**2. *Should the costs of regulation be mitigated for any sector of the economy, through the allocation of allowances without cost? Or, should allowances be distributed by means of an auction? If allowances are allocated, what is the criteria for and method of such allocation?***

Answer: Definitely by auction. No free allocation, this will ruin the market.

The public trust doctrine holds that the people's property (for which the state is trustee) can't be given away without fair compensation

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Author Peter Barnes describes the Alaska Permanent Fund's approach: "In the 1970s, Alaska leased land on Prudhoe Bay to several oil companies. It then divided the proceeds into two parts: one part went to the state government, the other into a separate fund which would pay dividends to all Alaskans. Originally, the dividends paid to each Alaskan would depend on how long they had lived in the state. Old-timers would receive more than newcomers. By 8 to 1, the Supreme Court required Alaska to pay dividends on a one person, one share basis. (*Zobel v. Williams*, 457 U.S. 55, 1982.) When a state distributes benefits unequally, the distinctions it makes are subject to scrutiny under the Equal Protection Clause of the Fourteenth Amendment."

Free allocation to companies had bad results in Europe: According to FEASTA, in September 2005, the Energy Research Centre of the Netherlands (ECN) released a report "CO2 Price Dynamics: The Implications of EU Emissions Trading for the Price of Electricity" which analyzed the effect that the free allocation of emission allowances had had on the price of electricity in Belgium, France, Germany and the Netherlands. It found that, although the emissions allowances had been issued to companies without charge, the fact that they could be traded and were in short supply gave them a market value and that a significant part of this market value was being passed to the consumer through higher power prices. The electricity producers had increased their profits as a result. The report concluded that the free allocation of emission allowances was a highly questionable policy option for a variety of reasons and suggested that auctioning allowances might be better.

To minimize the costs of a trading program to the U.S. economy as a whole, the government could simply auction all greenhouse gas emission allowances.

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- How should these allowances or funds be administered?

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- What is the appropriate division between federal vs. regional, state, and local initiatives?

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The most activity should take place at the local level. The Federal government should provide funds for local initiatives. Emissions caps should be state level and federal.

The Federal Government could create a Sky Trust to administer the allocations and ensure the national cap is functioning.

Or there could be State Sky Trusts which would function at the State level. The Federal government would regulate the State Sky Trusts.

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*a. Consumer Protections*

**Key Questions:**

- What portion of the overall allocation pool should be reserved to assist consumers?

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As the price of GHGs increases the scarcity rent systematically assists consumers.

Most other programs of cap and trade will result in windfall profits to oil companies, and a small piece of scotch tape for consumers who are subject to price hikes. Small compensation is inadequate if the entire economy switches to an oil-scarce, low-carbon economy. The only way to adjust, and to let the market function, is to allocate to consumers, and make the regulated industries purchase them, and recycle the scarcity rent.



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- Should funds from the sale of permits or allowances be targeted primarily to low-income consumers, or should they be more widely distributed to benefit all consumers?

As seen with Hurricane Katrina, environmental justice will be at the heart of climate change's impacts, and the programs we implement to mitigate climate change must also implement environmental justice measures. A per capita equity emission allocation to individuals would theoretically provide proportionally more income to low-income people. I strongly support involving low-income communities in the design and development of cap and trade and emission allowance allocation.

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***3. Should a U.S. system be designed to eventually allow for trading with other greenhouse gas cap-and-trade systems being put in place around the world, such as the Canadian Large Final Emitter system or the European Union emissions trading system?***

- What sort of institutions or coordination would be required between linked systems?

The US GHG cap cannot achieve a cap of 450 ppm by itself, but could be designed to link up to other caps, such as RGGI and the European ETS. Per capita equity acknowledges the human rights aspect of GHGs and human development. After linking up to other global caps, countries can participate together in what is known as “contraction and convergence” whereby 1<sup>st</sup> world countries and 3<sup>rd</sup> world countries converge to per capita equity and then contract together.

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***4. If a key element of the proposed U.S. system is to “encourage comparable action by other nations that are major trading partners and key contributors to global emissions,” should the design concepts in the NCEP plan (i.e., to take some action and then make further steps contingent on a review of what these other nations do) be part of a mandatory market-based program? If so, how?***

The global comparable action should be part of a plan called Contraction and Convergence: The Global Commons Institute, based in the UK, introduced the 'Contraction and Convergence' framework in 1992. C&C proposes to set a goal of per capita equity in carbon emissions, and introduces a convergence period during which allocations progressively move to equality. The 1st World contracts, and the 3rd World converges toward the goal of per capita equity in carbon emissions. This recognizes that climate change is a global problem, and to truly solve it, the entire world will need to be involved. The US should take the first step by making state wide systems which can also function nationally.

Action should not be contingent on other countries actions. However, since Annex I countries (except the US and Australia) are working under the Kyoto Protocol, they have a headstart on the US. We should catch up, and also encourage them to do more.