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The mission of the Climate Protection Campaign is to create a positive future for our children and all life by inspiring action in response to the climate crisis. We advance practical, science-based solutions for significant greenhouse gas reductions.

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Dear Chairman Goulder and Members of the Economic and Allocation Advisory Committee,

This comment encourages the EAAC to propose per capita dividends as the preferred use of allowance value. The Cap and Dividend model (www.capanddividend.org) auctions permits to upstream companies, and returns the revenues to consumers as a per capita dividend. We illustrate how dividends are part of a scalable, ethical human rights framework, and how dividends could provide a political strategy to win support and defuse opposition for AB32 as a whole.

In our previous comments, we have expressed support for dividends as a form of "consumer compensation." It seems that some members of the EAAC differentiate between consumer compensation and dividends to the general public based on the purpose of the use of allowance value. Under this interpretation, the primary purpose of "consumer compensation" (possibly by allocating to middlemen such as utilities or business *on behalf of* consumers) is to reduce the carbon costs passed down to consumers. Our question regarding this approach is if you're going to compensate consumers, why not give them the money, rather than spending it for them? By contrast, the primary purpose of dividends is to provide income to people for the use of the shared commons.

The ethical, democratic, human rights aspect of "1 person – 1 emission right" is a powerful argument for dividends.

As the Ireland-based Foundation for the Economics of Sustainability notes, the design discussion during the creation of the EU's ETS was limited to which sectors of the economy should be covered by the scheme, how many permits should be given free and what should happen to the revenue from those permits that were sold. The deeper ethical question – who owns the rights for which the permits were being issued – was not discussed.

Similarly, it is often assumed that if permits are auctioned, the revenue belongs to the state, and the use of revenues is governed by legal restrictions (the "nexus"), practical considerations (budget deficit reduction), or government programs (Cap and Invest). The following quote puts the question in another light.

> "Who should own the revenue generated from the trade in permits? The answer is usually "governments," since it is governments that create permits through joint action in the first place, and it is governments that receive payments for permits sold. But from a commons point of view, it is undoubtedly humanity that holds the biosphere in trust: all citizens equally share in the trusteeship of a commonly-inherited patrimony. It follows from this line of thought that the revenue gained from issuing user rights belongs to all citizens: neither corporations not governments are, as a matter of course, entitled to appropriate the sky rent."
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> - Hermann E. Ott and Wolfgang Sachs, *Ethical Aspects of Emissions Trading*, Wuppertal Institute, Germany, September 2000.[1]

Per capita is gaining traction

A per capita framework for addressing climate change can be used in national and international climate negotiation, and it is gaining traction in Europe. Advocates such as Aubrey Meyer have been promoting a per capita framework since 1992, but the idea has taken almost 15 years to begin to take hold among policymakers. According to the European press, the idea of per-capita carbon emission limits was first introduced at the G-8 summit in Germany's Heiligendamm in June 2007 by Indian Prime Minister Manmohan Singh.[2] German Chancellor Angela Merkel mentioned the idea on trips to China and Japan during the summer of 2007.[3] German Green Parliamentarian Rebecca Harms was quoted in a European Parliament newsletter in the context of the run-up to the UN Climate Summit in Bali, saying, "In order to finally get the emerging economies on board we will have to make an offer that is acceptable to them. The principle of 'climate equity' with equal emissions per head for everybody should be a good starting point."[4]

[1] FEASTA, "The Great Emissions Rights Giveaway," 2007.
http://www.feasta.org/documents/energy/emissions2007.htm

[2] Spiegel Online. "The Isolation of America." August 31, 2007.
http://www.spiegel.de/international/germany/0,1518,503176,00.html

[3] Hardach, Sophie. "Germany's Merkel urges U.S. to support climate deal" Reuters. Aug 30, 2007.
http://www.reuters.com/article/politicsNews/idUST31600220070830
Rach, Claudia. "Merkel Proposes CO2 Plan to Help China Combat Climate Change,"
http://www.bloomberg.com/apps/news?pid=20601101&sid=amvJ4U7sTmbg&refer=japan
Wynn, Gerard. "Merkel revives emissions proposal to unite world" August 31, 2007.
http://www.alertnet.org/thenews/newsdesk/L31449186.htm

[4] European Parliament newsletter. "Bali: High stakes at UN climate talks" December 3, 2007.
http://www.europarl.europa.eu/news/public/story_page/064-14203-337-12-49-911-20071130STO14189-2007-03-12-2007/default_en.htm

Equity versus Claims for Special Treatment (Early Action, etc.)

The per-capita, consumer-focused equity approach can bypass the inevitable lobbyist claims for special treatment in the allocation of allowances. High-emitting entities can claim that they deserve free allowances because of their great potential to reduce their emissions. On the other hand, early actors can claim free allowances to compensate them for the investments they have already made.

For example, a high-emitting utility could make major emission reductions by getting rid of its coal during a compliance period. A low-emitting utility may have taken early action, received no compliance credit, and claim credit for early action. Even when an equitable framework is adopted, there will be groups that consider themselves exempt or in need to special treatment. Considering the extent of the transformation needed, it is reasonable for everyone to think this way. Groups requesting special treatment include coal miners, fossil fuel companies (or their shareholders), regulated electricity providers, nuclear power plants, companies that have engaged in "early action" by reducing their emissions ahead of the regulations, and innovative companies using new technologies before they are widespread. Compared to those industries, consumers and households lack advocates at these hearings and workshops. When consumers are mentioned, as during the Waxman-Markey discussions, the allowances are given to intermediaries such as utilities *on behalf of households, rather than directly to households*.

A Political Strategy to win Support and Defuse Opposition

Although the EAAC is not mandated to advise to lawmakers on political strategy, it may be appropriate to note the political implications of various allocation methods.

The Congressional Democratic leadership used a particular strategy to pass the Waxman-Markey bill in the House. First, they attempted to minimize projected costs to households (using the phrase "a postage stamp a day"). Second, they attempted to "buy" votes with the allowance value, with utilities as the prime beneficiary. (Utilities and other proponents claim the free allowances must be used on behalf of consumers, but we must then ask why weren't allowances (shares) distributed directly to households?) This strategy of minimizing costs and then buying off constituencies was successful in the House, but may fail in the Senate. Additionally, it seems to have galvanized the opposition, which has used the public's fear of potential costs as its main rallying point. In other words, this strategy may have won the battle, but could lose the war.

An alternative political strategy would be to first acknowledge some costs to consumers, but then to explicitly return rents back to the people. This approach, embodied in dividends or shares, may have resonance with voters, and may defuse the opposition to a carbon price. Just this week a 2010 gubernatorial candidate stated that if elected she would immediately place a moratorium on AB32 in the name of economic growth. That should serve as a warning to those who downplay the fear people have of additional economic costs and the potential for backlash.

Addressing privatization and environmental justice concerns

A per capita approach involving dividends can help address two sets of concerns about market mechanisms, market design, and the climate commons. The concerns are:

1) the commodification and privatization of nature, and
2) environmental injustice and hotspots.

The commodification concern is based on the feeling that nature's true, incalculable value is overlooked when it is turned into a tradable commodity. This criticism is that markets typically reflect only use value and exchange value, and since monetary valuation of the ecological services of the climate commons is difficult, the permits will represent less than the "true value" of a healthy climate.

The privatization concern relates to the environmental injustice concern by reflecting the fear that the commons will be enclosed and given to the wealthy (corporations), while the rest of the people, including those whose health and livelihoods are most closely tied to free access to the commons, receive nothing. Some environmental justice advocates may see the distribution of permits conferring rights to pollute the commons as problematic because it divides the population between the "haves," the owners of the permits, and the "have-nots," those lacking permits. Such a system would concentrate wealth for some, and pollution for others.

Environmental markets may result in pollution "hotspots" when some polluting facilities decide to purchase large quantities of permits rather than reduce emissions. Although this aspect of the market allows for lower cost emission reductions to proceed first, it also may result in shifting even more pollution into already polluted areas.

Setting aside purely ideological positions, we contend that market designs that explicitly incorporate **equal ownership of the commons** can address the above concerns. Environmental justice and hotspot concerns may be addressed by limiting offsets and restricting ownership and the accumulation or use of compliance permits within environmental justice zones.

Good readings on the concepts discussed above may be found in Peter Barnes' book *Who Owns the Sky?*, Aubrey Meyer's book *Contraction & Convergence*, and Lutz Wicke's book *Beyond Kyoto - A New Global Climate Certificate System*.[5]

Thank you for your consideration.

Sincerely,

Mike Sandler
Program Manager

[5] Barnes, Peter. *Who Owns the Sky?: Our Common Assets and the Future of Capitalism.* Island Press: Washington, DC, 2001.; Meyer, Aubrey. Contraction & Convergence: The Global Solution to Climate Change. Green Books, UK. Schumacher Briefing No. 5., 2000.; and Wicke, Lutz. *Beyond Kyoto - A New Global Climate Certificate System: Continuing Kyoto Commitments or a Global ´Cap and Trade´ Scheme for a Sustainable Climate Policy?* Springer, December 22, 2004.