How to spend the revenues from an auction?

Revenues from an auction of emissions permits can be spent on public goods and consumer compensation.
Everyone agrees that revenues can be used for the administration and enforcement of the cap.
But not everyone agrees how the remainder should be divided between projects, research, and equity.
Here are some arguments for and against each.

Energy/Environment or Consumer Compensation

Pro (Energy/Environment)

Revenues are used to fund additional energy and environmental projects such as:

- Energy efficiency, solar incentives
- Public transit (trains, transit, infrastructure)
- Research and development for new technology
- **Helps achieve climate protection goals**
- **Only government can fund large infrastructure projects such as transit.**

Con (Energy/Environment)

- Large government expenditures should follow the normal budget and appropriations process.
- Transit can be funded by diverting highway funds.
- Solar can be funded by diverting oil subsidies.
- Trillions can be invested in green jobs and efficiency by ending the War in Iraq, and diverting military and homeland security expenditures.
- Carbon fees and “feebates” are an additional source of funding.
- Government has a mixed history of choosing technology winners (ethanol? the “Supercar?”), and the process is often co-opted by politically powerful lobbies such as ethanol, nuclear, or “clean coal.”
- Government purchasing can drive down prices of existing technologies, without the need to spend auction revenue.

Pro (Consumer Compensation)

Consumer compensation helps households deal with higher energy prices through a per capita dividend, rebate, or share.

- **Protects consumers**: Limiting carbon emissions will necessarily raise fossil fuel prices. These higher prices can be offset by distributing ‘dividends’ or ‘carbon shares.’
- **Addresses regressivity:** Failure to offset higher prices will harm the economy and low-income households particularly.
- **Avoids the “pork barrel”:** Returning money to consumers avoids funding pet projects, or questionable projects (nuclear, ethanol)
- **Makes carbon cap politically feasible:** A dividend could prevent a consumer backlash at high fuel and energy prices that would otherwise allow political opportunists to undermine the program.

Con (Consumer Compensation)

Q: What if people spend their Dividend on Hummers or vacations which increase emissions? Shouldn’t all revenues go toward reducing emissions?

A: Once a cap is in place, it doesn’t matter how people spend their money, because the cap means that the emissions target is still met.

Conclusion: Auction revenues should be used for consumer compensation. Investments in energy efficiency, transit, green jobs, R&D, renewable energy, and more may be funded by carbon fees and government budget priorities.

This factsheet is part of a series available at www.carbonshare.org.
For more information contact: (707) 529-4620 mike@carbonshare.org

Two Types of Consumer Compensation

Consumer compensation acts as a rebate for the higher fuel or energy prices which may result from a carbon cap. Equal per capita compensation addresses the regressive impacts of fuel price increases. Consumer compensation may be key to maintain political support for the 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.

What's the difference?

The Dividend and the Share can co-exist. The Dividend and Tax Rebate are easily administered by the State Franchise Tax Board, in coordination with the Air Resources Board. The Share is distributed by the State, and must be returned to the State by the upstream fossil fuel companies which use the Share as permits. Consumers can opt-in to the Share through a check box on their tax form. The Share provides financially savvy investors an avenue to participate in the carbon market.

Carbon Share

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

Benefits of both the Dividend and Carbon Share:

· Individuals are protected from severe price increases.
· Windfalls are returned to people, not polluters.
· The share or dividend helps low-income people, who typically emit less carbon.
· Per capita framework can be easily explained when other states create similar systems

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Carbon Share

Carbon Share is a type of allocation where greenhouse gas emissions permits under the cap are distributed to Californians annually on a per capita basis.

Carbon Share compensates consumers for the price increases they will face under an emissions cap.
Carbon Share utilizes a private exchange, but the end result is equivalent to an auction: companies must purchase the permits, and the revenues are used for public goods or citizen compensation.

Carbon Share is similar to a dividend sent to consumers after permits are auctioned to companies. The main difference is that the shares are denominated in CO2, and cashed in banks similar to exchanging foreign currency. Companies buy the permit on a private market, instead of a state-run auction.

Low-emitting individuals will come out ahead at the end of the year, but high-emitting individuals will pay more than they receive. Carbon Share has an enviornmental justice component. The per capita aspect helps low-income consumers, since they spend a greater portion of their income on fuel and electricity.

Carbon Share is based on the idea that the rights to use the atmosphere belongs to the people, not to emitters or the government.

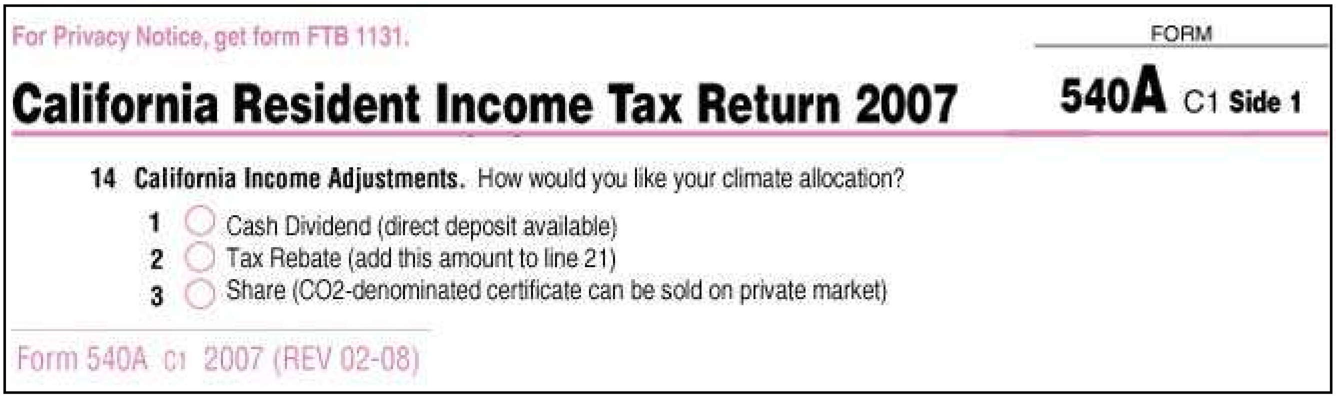
Carbon Share is one of several potential public trust allocation methods in designing a carbon market for California. It can work alongside an auction. Consumers may be given a choice on their tax form to receive their Carbon Entitlement as a Share or as a cash dividend. The Share would allow them to participate in the private carbon market.

For more information, check www.carbonshare.org.

Carbon Share is a project of the Climate Protection Campaign
(707) 529-4620 mike@climateprotectioncampaign.org www.carbonshare.org

How would you like your Climate Allocation: Dividend, Tax Credit, or Share?

California's cap on GHGs will create valuable emissions permits, but prices may rise. The resulting windfall belongs to all Californians, equally. An equal per capita rebate can be provided to consumers through a check box on your state tax form.



For Privacy Notice, get form FTB 1131.

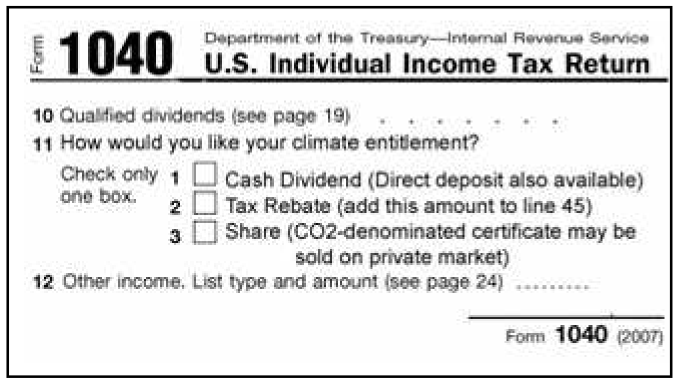
California Resident Income Tax Return 2007 FORM **540A** C1 **Side 1**

14 California Income Adjustments. How would you like your climate allocation?

1 ◯ Cash Dividend (direct deposit available)
2 ◯ Tax Rebate (add this amount to line 21)
3 ◯ Share (CO2-denominated certificate can be sold on private market)

Form 540A C1 2007 (REV 02-08)

This model could work at the Federal level too. Funds are held in a Trust, separate from the General Fund. The cash dividend compensates consumers from revenues from auctioning permits to upstream companies. The tax rebate is the easiest to administer. The Share may be sold to companies via banks or brokerages, and allows financially savvy individuals to participate in the carbon market directly.



Form **1040** Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return

10 Qualified dividends (see page 19) . . . .
11 How would you like your climate entitlement?
Check only one box.
1 ☐ Cash Dividend (Direct deposit also available)
2 ☐ Tax Rebate (add this amount to line 45)
3 ☐ Share (CO2-denominated certificate may be sold on private market)
12 Other income. List type and amount (see page 24) ....

Form **1040** (2007)

Your choice:

You receive: Cash Dividend/Tax Cut

Deposit the check in your bank account.

or

You receive: A Carbon Share

Deposit the share in your brokerage account to sell later on private market.

An Auction/Dividend and Carbon Share can co-exist, and parallel markets may benefit both. Either way, low-income and low-emitting consumers come out ahead. High emitters do not. Consumer compensation can make climate protection feasible and popular in California.

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