



# Centralized Banking Mechanisms in Current US Policy Proposals

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**IEA/IETA/EPRI  
GHG Emissions  
Trading Workshop  
Paris, France  
September 22<sup>nd</sup>, 200b**

# The Need for A Carbon Fed

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- Cost Containment
- Market Oversight
- Unbiased Analysis

# Guiding Principles of the CMEB

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- Maintain environmental integrity
- Avoid unexpectedly high cost to the economy
- Focus on sustained price departures rather than short term volatility
- Maximize the use of market-based mechanisms
- Provide effective incentives for long-term investments

# Structure of the CMEB

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- Modeled after the Federal Reserve
- 7 Members, appointed by the President, confirmed by the Senate
- 14 year full-time terms
- Geographic diversity
- Professional diversity
- Political diversity

# Duties of the CMEB

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- Collecting information and analyzing it
- Reporting results of the analysis to Congress and the public
- Responding to threats of significant harm to the economy

# Collecting

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- At first, this is the primary responsibility of the board, along with reporting
- In later years, still necessary for implementing cost-relief measures
- Information would include:
  - Allowance availability
  - Pricing
  - Macro- and micro- economic effects
  - Achievement of environmental objectives

# Reporting

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- Quarterly public reporting to the President and Congress
- Prepared independently, taking in to consideration views of relevant federal agencies
- Reports would include:
  - Status of national market
  - National and regional economic effects
  - Response to the market by industrial sector and consumers
  - Corrective measures taken to relieve excess costs
  - Adjustments necessary to meet emissions cap in future years.

# Responding

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- First two years: limited to collecting and reporting
- After two years: Has authority to implement market-based cost relief measures.
- Market-based measures could include:
  - Adjusting limits on the use of offsets
  - Adjusting limits on the ability to bank and borrow
  - In an extreme case, auction new allowances



# Responding

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- Relief measures only to employed:
  - Incrementally
  - To extent necessary to relieve significant economic harm
  - Only for the duration of the current calendar year
  - Accompanied by a plan for repayment of allowances
- Board may not:
  - Engage in investigative or enforcement activities
  - Interfere with the allowance allocation process
  - Alter the overall emissions cap

# Criticism

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- Less certainty for business planning than a “safety valve” approach
- Board could be too powerful and could arbitrarily influence the market
- Borrowing is not economically feasible and could imperil the cap in early years

# Support

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- More flexible and dynamic than other cost containment proposals
- Provided for a more true, fluid market
- Able to react to more than just an elevated allowance price
- Allowed for a greater chance of meeting environmental goals

# Emission Allowance Market Transparency Act

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- Introduced by Senator Feinstein
- Motivated by Enron and rolling blackouts in California
- One of a series of proposals from Senator Feinstein relating to any new or lightly regulated market

# Emission Allowance Market Transparency Act

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- Directed EPA to oversee the carbon market
- Established what would be considered unlawful conduct
- Allowed EPA to limit transactions if it makes a finding of excessive speculation within the market

# Lieberman–Warner Climate Security Act Provisions

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- Established Carbon Market Working Group
  - EPA Administrator
  - Chairman of the Federal Energy Regulatory Commission
  - Chairman of the Commodities Futures Trading Commission
  - Chairman of the Securities and Exchange Commission
  - Secretary of the Treasury Department.
- The working group would establish the regulatory framework for the market and recommend necessary regulations that ensure enforcement of core market oversight principles.
- The President would then be charged with implementing the recommendations

For more information

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