Individual Emissions Entitlements & Cap and Trade in California:

“Individual Emissions Entitlements” are the greenhouse gas emissions permits which are allocated annually to California citizens on a per capita basis. California's carbon cap is divided by the number of California citizens, and the carbon entitlement is sent by mail.

How it works:
1) Individuals receive the entitlements in the mail.
2) They cash them at banks or brokerages.
3) The bank or broker sells the entitlement on the open market to fuel importers and to companies producing coal, oil or gas within the state.
4) Fossil fuel importers and producers purchase the entitlements and surrender them to the government agency in charge, which checks that the number handed over matches the carbon content of the fuel the producers and importers have sold during that year.

Then, the next year, the agency decreases the number of entitlements issued according to the agreed statewide carbon cap. The agency re-distributes Individual Emissions Entitlements to California citizens and the process repeats.

Notes:

As the cap tightens, the value of the entitlements increases. This provides a cushion against price spikes to citizens, and directs “windfall profits” to consumers, not polluters. The per capita equity basis for allocating entitlements can later apply to regional, nationwide, or global programs. The financial markets can create derivatives and futures to manage risk in the carbon market.

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