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# United States Senate

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BANKING, HOUSING AND URBAN AFFAIRS
FOREIGN RELATIONS
ENERGY AND NATURAL RESOURCES
SMALL BUSINESS AND ENTREPRENEURSHIP
SPECIAL COMMITTEE ON AGING

January 21, 2009

Dear Colleague:

Last Thursday, I attended a briefing hosted by the United States Climate Action Partnership (USCAP) and heard about the group's new cap-and-trade blueprint. While I respect the companies and organizations that put this proposal together, I am very disappointed in their approach to reducing carbon emissions. It appears their blueprint promotes many of the same problematic provisions that have plagued cap-and-trade bills in the past.

If the United States truly wants to become more energy secure while improving the economy, we need real, market-based solutions, not another bill that takes taxpayer dollars and spends them on the programs supported by special interests. It is an unfortunate fact that many of the companies and organizations that have authored or supported cap-and-trade proposals would benefit financially from these proposals or would see programs that they support receive funding. The cap-and-trade bill that the Senate appropriately defeated last year and this USCAP proposal would give away for FREE significant emission allowances that have real monetary value instead of auctioning these allowances and sending the proceeds of those auctions back to American citizens who will bear the brunt of any cap-and-trade program. This approach is one of the major flaws with the European Union's cap-and-trade system, and I don't believe we should make the same mistake.

On the contrary, I believe that we should auction a vast majority—if not all—of the allowances and send 100 percent of those revenues back to consumers. The bill proposed by USCAP, like the legislation debated in the last Congress, would take the allowance value and spend it on new and existing government programs instead of returning that value to the American people. That is simply an inappropriate use of taxpayer dollars when the taxpayers will obviously experience higher energy bills and pay more for various consumer products as a direct result of this legislation.

I am also opposed to the inclusion of international and domestic offsets as proposed by various cap-and-trade proponents and last year's legislation. Such provisions compromise the strength of the market system and call into question the integrity of emission reductions. Offsets are created when projects or activities reduce emissions from a source not regulated under a cap-and-trade program (e.g., capturing methane from a landfill). The use of offset projects is another big problem with the EU system that we should avoid. There are serious questions about the integrity of many of these projects, and it is difficult to determine whether these projects would have occurred anyway, regardless of the project developers' incentive to make money off their reductions. A workable cap-and-trade system must be simple and direct. International and domestic offsets would complicate and diminish the effectiveness of such a program.

As the debate regarding cap-and-trade continues to unfold, and we learn more about some of the problems with the EU system while also trying to address our current financial crisis, it is

uncertain when the climate change issue will be debated in the Senate. When that time comes, however, I hope that we will consider an effective pricing system that will make us more energy secure, while turning the market into a powerful force for reducing our nation's greenhouse gas emissions.

Any effort to move legislation of this magnitude should be as pure as possible and give the market maximum flexibility to provide a solution for enhancing our energy security, helping to stabilize our economy, and curbing greenhouse gas emissions. This should not be an opportunity for new government spending. Last summer I wrote several letters to my colleagues expressing my firm belief that 100 percent of the revenue raised from auctioning credits should be returned to consumers and that to the maximum extent practical the allowances should be auctioned.

A simple, transparent cap-and-trade proposal, or another mechanism putting a price on carbon, such as a carbon tax, can be a useful tool for reducing our dependence on foreign oil and other carbon-based fuels. It has potential to make us more energy secure and bolster our economic security, but it must also be designed to protect American consumers by returning 100 percent of the revenue to carbon taxpayers and not increase the size of government.

Sincerely,

Bob Corker
United States Senator