



215 Pennsylvania Avenue, SE • Washington, D.C. 20003 • 202/546-4996 • www.citizen.org

March 17, 2010

Senator John Kerry
218 Russell Office Building
Washington DC 20510

Senator Joe Lieberman
706 Hart Office Building
Washington DC 20510

Senator Lindsey Graham
290 Russell Office Building
Washington DC 20510

Dear Senators,

As a national, nonprofit advocacy organization founded in 1971 to represent the interests of American consumers, we are writing you in regard to the role of offsets in reducing U.S. carbon emissions and the negative impacts of including offsets in the legislation you are preparing.

It has been alleged by companies that develop and trade carbon offsets that offset trading is crucial to climate legislation. We strongly disagree. To the contrary, we believe that offset trading prolongs U.S. dependence on foreign fuels, delays our development of clean domestic energy sources, shifts investment and jobs overseas, and fails to adequately protect consumers. We prefer the approach of the bipartisan Carbon Limits and Energy for America's Renewal Act (CLEAR Act), co-sponsored by Senators Maria Cantwell and Susan Collins, which avoids offset trading. Here's why.

Offset trading will shift U.S. investment and jobs overseas

With offset trading as authorized by the American Climate and Energy Security Act (ACES, or HR 2454), up to 1.5 billion tons a year of offsets could be purchased overseas. This means *billions of dollars annually will migrate from the United States to China and other countries, boosting businesses and jobs there rather than here.* In fact, the EPA estimates that ACES would raise \$1.4 TRILLION from electricity consumers to pay for international offsets through 2050.¹ The *New York Times* reported that one Chinese company—and the banks that brokered the deal—were paid \$500 million through the similar European offset program for an emissions control

¹ Email correspondence between Sen. Cantwell's office and EPA economist.

technology that cost the Chinese company only \$5 million.² If that much money is to be paid by American consumers, we believe it should be invested in revitalizing and transforming our energy infrastructure here in the United States.

Offset trading will prolong our dependence on foreign fuels

With offset trading, capped U.S. emitters will be able to continue burning fossil fuels at current levels, simply by buying offsets. This defeats two key purposes of climate legislation: reducing pollution within the U.S., and reducing our dependence on imported fuels.

Offset trading will delay our development of clean domestic energy sources

The point of pricing carbon is to drive investment in clean alternatives. The sooner and faster carbon prices rise, the sooner and faster we'll develop clean energy sources such as wind and solar.

According to the Environmental Protection Agency,³ international offsets will lower U.S. carbon prices considerably. By so doing, they will undercut the incentives to develop domestic renewable energy sources. That's the main reason the EPA's analysis of ACES showed that there'd actually be *less* increase in renewables with ACES than without it.⁴

Offset trading doesn't adequately protect consumers

In theory, offset trading could benefit consumers by keeping the price of carbon lower than it otherwise would be. But under the European Union Emission Trading System, utilities passed on to consumers billions of euros in higher costs, in spite of using offsets and getting free emission permits.

Even if offset trading did lead to lower prices for consumers, this would be false economy because it would undermine the price signal needed to spur investment in efficiency, conservation and clean alternatives.

The best way to protect consumers while combating climate change is to steadily raise the price of polluting while rebating at least 75% of the higher costs directly to households. This is the approach taken by the CLEAR Act, and it *guarantees* that no matter how high carbon prices rise, a majority of low- and middle-income Americans in all 50 states will come out financially ahead (that is, their rebates will exceed the higher prices they pay).

Emission reducing projects we support

² Keith Bradsher, "Outsize Profits, and Questions, in Effort to Cut Warming Gases," December 21, 2006, www.nytimes.com/2006/12/21/business/21pollute.html

³ EPA Analysis of H.R. 2454, 6/23/2009, p.3, http://energycommerce.house.gov/Press_111/20090623/hr2454_epaanalysis2.pdf

⁴ Ibid, p.27. See also *Wall St. Journal*, "EPA Sees Limited Renewable Energy Growth under Waxman-Markey," <http://blogs.wsj.com/environmentalcapital/2009/06/24/epa-sees-limited-renewable-energy-growth-under-waxman-markey/tab/article/>

Please bear in mind that *we support* emission reducing projects in non-capped sectors such as agriculture and forestry, *so long as such projects do not allow capped sectors to avoid their emission reduction obligations under the cap.* The CLEAR Act allows such projects to be funded from the 25% of carbon revenue that is not returned to consumers as dividends. When funded this way, these emission reducing projects will *add to*, rather than *subtract from*, emission reductions achieved by the cap. They will also achieve *more emission reductions per dollar* because there will be less of a mark-up above actual project costs.

We also support voluntary offset trading programs that add to, rather than diminish, emission reductions achieved by the cap.

We appreciate your interest in our views and look forward to working with you as climate legislation advances in the Senate.

Sincerely,

Tyson Slocum, Director

Public Citizen's Energy Program

Cc: Majority Leader Harry Reid
Speaker Nancy Pelosi
Minority Leader Mitch McConnell
Minority Leader John Boehner