United States Senate

WASHINGTON, DC 20510

December 10, 2009

President Barack Obama
The White House
1600 Pennsylvania Ave, NW
Washington, DC 20500

Dear Mr. President:

Over the past month, we have been working together to develop consensus on a comprehensive pollution reduction and energy independence plan. Support is building to simultaneously create jobs, protect our national security interests and improve our environment. As you depart for Copenhagen, we wanted to provide an assessment of where we see the debate heading in the United States Senate.

From the longest serving member in the history of Congress, Senator Robert Byrd, to James Murdoch, a senior officer of News Corporation, to General Anthony Zinni, former U.S. CENTCOM Commander, Americans are uniting to say that now is the time to address climate change and secure our energy independence. We are heeding these voices and intend to combine the very best ideas from the public and private sectors and from across the ideological spectrum to achieve the structurally simplest, most economically responsible and environmentally effective result possible.

Our discussions have led us to develop a basic framework for climate action, which is attached for your consideration. We look forward to working with you in the coming months to enact comprehensive pollution reduction and energy independence legislation.

Sincerely,

John Kerry
United States Senator

Joseph I. Lieberman
United States Senator

Lindsey O. Graham
United States Senator

Framework for Climate Action and Energy Independence in the U.S. Senate

Carbon pollution is altering the earth's climate. The impacts have already been seen and felt throughout our country and around the world. Monday's endangerment finding by the Environmental Protection Agency (EPA) underscores the importance of Congressional action to address greenhouse gas emissions before the EPA moves unilaterally.

This document outlines the principles and guidelines that will shape our ongoing efforts to develop comprehensive climate change and energy independence legislation. It is a starting point, inviting our colleagues' constructive input.

Our efforts seek to build upon the significant work already completed in Congress. Earlier this year, the Senate Energy and Natural Resources Committee passed bipartisan legislation that will instruct our efforts to promote and achieve energy security. Important work to reduce carbon emissions has taken place in the Senate Environment and Public Works Committee, which additionally informs us. We also anticipate consideration of issues related to climate change by the Senate Finance, Commerce, and Agriculture Committees.

It is critical to emphasize that this framework is a work in progress. We will continue to engage with our constituents, colleagues in the Senate, and stakeholders outside Washington in our effort to build a consensus that will lead to the passage of comprehensive climate and energy legislation. The only way to succeed is through ongoing engagement and an honest effort to put all ideas on the table.

Better jobs, cleaner air. Our legislation will contain comprehensive pollution reduction targets that are both environmentally significant and achievable. It is our belief that a market-based system, rather than a labyrinth of command-and-control regulations, will allow us to reduce pollution economically and avoid the worst impacts of global climate change. It will also provide significant transition assistance to companies and consumers without using taxpayer dollars or driving up the national debt. We believe a near term pollution reduction target in the range of 17 percent below 2005 emissions levels is achievable and reasonable, as is a long term target of approximately 80 percent below 2005 levels. Finally, we believe a robust investment in the development and deployment of clean energy technologies will ensure that as pollution reduction targets become more rigorous, companies will be better equipped to meet their obligations in a cost effective manner.

Many business leaders have endorsed this approach. Just last week, David Cote, the CEO of Honeywell, as well as other business leaders, persuasively argued that setting a price on carbon would create demand for clean energy technologies and provide a tremendous opportunity for economic growth and job creation in America. He said: "There will be no jobs created without demand. This legislation would stimulate the demand for energy efficiency products and services and low carbon sources of energy. China and India are stimulating their domestic demand for these products and technologies much more aggressively than we are and will take the global competitiveness lead unless we act. Cap and trade enables businesses to use the market to most effectively and efficiently develop that 21st century global competitiveness." Mr. Cote's words have been echoed by other American business leaders including Jim Rogers, CEO of Duke Energy, who has said, "the sooner we pass climate change legislation – the better off our

economy, and the world's environment – will be. If we go about it the right way, we can not only avoid unnecessary economic harm and dislocation, but we can also ignite a lower carbon, green revolution and more rapidly put this recession in our rear view mirror."

Securing energy independence. We find ourselves more dependent on foreign oil today than any other time in our nation's history, and that is unacceptable. Every day, we spend nearly $1 billion to sustain our addiction to foreign energy sources – and we ship Americans' hard earned dollars overseas, some of which finds its way to extremist or terrorist organizations. Presidents and politicians have bemoaned this fact for decades; and now is the moment when we can – and must – break that habit. By spurring the development and deployment of new clean energy technologies and increasing our supply of domestically produced oil and natural gas on land and offshore, our legislation will ensure America's energy security. We will do so in a way that sends money back to the states that opt to drill and also provides new federal government revenues to advance climate mitigation goals. We will also encourage investments in energy efficiency because we believe that consuming less power will help keep energy bills down and simultaneously extend the life of our domestic energy resources. Finally, maintaining the ability to refine petroleum products in the United States is a national security priority. It is our belief that we can preserve our refining capacity without sacrificing our environmental goals. If energy independence is to be a priority, we must keep the entire energy cycle right here at home.

Creating regulatory predictability. By failing to legislate, Congress is ceding the policy reins to the EPA and ignoring our responsibility to our constituents. We are working with our colleagues, the Administration and outside stakeholders to strike a sensible balance and determine the appropriate way to provide regulatory predictability. We agree that providing the business community as much certainty as possible is essential to attract investment, create jobs and generate the confidence necessary to reach our goals. The absence of national greenhouse gas emissions standards has invited a patchwork of inconsistent state and regional regulations. Since it is not reasonable to expect businesses to comply with fifty different standards, it is imperative that a federal pollution control system be meaningful and be set by federally elected officials.

Protecting consumers. It is critical to provide transitional assistance to households and businesses to ease the shift to a low-carbon economy. We will provide support to help companies meet their compliance obligations and avoid driving up prices for energy consumers. We will include special protections for low- and middle-income Americans, who spend a disproportionately large amount of their income on energy. We are considering a number of mechanisms, including a price collar and strategic reserve, to moderate the price of carbon and prevent extreme market volatility while maintaining the environmental integrity of the pollution reduction program. Additionally, we support energy efficiency programs to help reduce energy bills long into the future.

Encouraging nuclear power. Additional nuclear power is an essential component of our strategy to reduce greenhouse gas emissions. We strongly support incentives for renewable energy sources such as wind and solar, but successful legislation must also recognize the important role for clean nuclear power in our low-emissions future. America has lost its nuclear technology manufacturing base, and we must rebuild it in order to compete in the global

marketplace. Our legislation will encourage the construction of new nuclear power plants and provide funding to train the next generation of nuclear workers. We will make it easier to finance the construction of new nuclear power plants and improve the efficiency of the licensing process for traditional as well as small modular reactors, while fully respecting safety and environmental concerns. In addition, we support the research and development of new, safe ways to minimize nuclear waste. We are working with our colleagues to create incentives for low-carbon power sources, including nuclear, that will complement the Energy and Natural Resource Committee's work to incentivize renewable electricity.

Ensuring a future for coal. Our country has plentiful, accessible coal resources and infrastructure. It is a key component of our current fuel mix. As Senator Byrd pointed out in a recent op-ed, "No deliberate effort to do away with the coal industry could ever succeed in Washington because there is no available alternative energy supply that could immediately supplant the use of coal for base load power generation in America." He also acknowledged that, "to deny the mounting science of climate change is to stick our heads in the sand and say 'deal me out'... The truth is that some form of climate legislation will likely become public policy because most American voters want a healthier environment." We agree with both statements. However, due to current regulatory uncertainty, it is increasingly challenging to site new coal facilities, and utilities are switching to other fuel sources. Earlier this month, an electric utility in North Carolina announced its plans to take 11 existing coal facilities out of operation. Coal's future as part of the energy mix is inseparable from the passage of comprehensive climate change and energy legislation. We will commit significant resources to the rapid development and deployment of clean coal technology, and dedicated support for early deployment of carbon capture and sequestration.

Reviving American manufacturing by creating jobs. Manufacturing is the backbone of our nation's economy, and we refuse to believe that the days of American leadership are behind us. Despite some initial success stories, such as North Dakota's 30 percent growth in clean energy jobs in the last decade, the United States is falling behind. Successful climate legislation will not send existing jobs overseas. Rather, pricing carbon will drive innovation – creating new opportunities for those who develop clean energy technologies, as well as those who build, install, and maintain them. We plan to provide significant assistance to manufacturers to avoid carbon leakage and ensure the continued competitiveness of American-made goods. Our legislation will also provide financial incentives to both large and small manufacturers to improve the efficiency of their processes, which will mean even more new jobs. In addition to employing thousands in the building trades, our envisioned development of nuclear and wind power will also mean jobs and growth for our steel industry. It is time to regain our leadership and create the jobs of the future here in America.

Creating wealth for domestic agriculture and forestry. While emissions from agriculture will not be regulated, climate legislation will provide farmers with new opportunities to benefit from reducing their carbon emissions. Offset projects and other incentives will enable farmers to develop new income streams, as environmentally-friendly farming practices dramatically increase in value once a price is placed on carbon. According to USDA Secretary Vilsack, "the economic opportunities for farmers and ranchers can potentially outpace, perhaps significantly, the costs from climate legislation." In addition, a new USDA study released last week shows that

this can be accomplished without an appreciable rise in food prices. While we are still discussing the details of the offset program with our colleagues, we have reached agreement that we will include significant amounts of real, monitored and verified domestic and international offsets and other incentives in our system in order to contain costs and create opportunities for farmers, ranchers and forest owners to benefit from climate change legislation.

Regulating the carbon market. We will support vigilant carbon market oversight, real-time transparency, adequate settlement requirements to control risk in the market and strong quality controls to ensure maximum effectiveness and clarity. We will not stand for market abuse or manipulation, and we believe it is essential that any comprehensive emissions reduction strategy include provisions to ensure openness and accountability within the carbon market.

Climate change is a global problem that requires a global solution. Ultimately, climate change must be addressed through a strong international agreement that includes real, measurable, reportable, verifiable and enforceable actions by all nations. American leadership is essential, but action by the developing world is necessary to maximize the benefits of our effort. To this end, we acknowledge the role the United States can play to help provide long-term financing to assist developing countries adapt to climate change, generate energy cleanly and reduce emissions from deforestation. Additional private climate finance provided through international offsets has the added benefit of reducing costs for American consumers. As we work collectively with other countries to reduce global emissions, we agree with nine of our colleagues who wrote earlier this month: "enhanced technology cooperation will benefit the United States but must be coupled with strong protections for intellectual property rights." Finally, we will include strong measures that are compatible with our obligations under the World Trade Organization to prevent our economic competitors from exploiting the American market if they shirk their responsibility to minimize carbon pollution.

Building consensus. We intend to continue to engage our Senate colleagues in the weeks ahead to develop sensible, effective climate change legislation that will create jobs, ensure our energy independence, restore America to a position of leadership in the clean energy economy and reduce pollution. We are inspired by the years of work that have already been done and we hope both to build on those efforts and to devise new, innovative ideas for resolving some of the issues that have long blocked the passage of a climate change bill in the Senate. Every perspective is valuable and we invite all of our colleagues, stakeholders and constituents to join us in this effort to find consensus. Together, we can and will pass climate change and energy independence legislation this Congress.