



Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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January 22, 2008

The Honorable Barbara Boxer
Chairman
Committee on Environment
and Public Works
U.S. Senate
Washington, DC 20510

The Honorable James M. Inhofe
Ranking Member
Committee on Environment
and Public Works
U.S. Senate
Washington, DC 20510

The Honorable Max Baucus
Chairman
Committee on Finance
U.S. Senate
Washington, DC 20510

The Honorable Charles E. Grassley
Ranking Member
Committee on Finance
U.S. Senate
Washington, DC 20510

The Industrial Energy Consumers of America (IECA), whose membership competes globally and are from the energy intensive industrial sector, have significant concerns about provisions in S. 2191 America's Climate Security Act of 2007 and S. 1766 the Low Carbon Economy Act of 2007 that claims to provide a mechanism to require importing countries like China to meet U.S. greenhouse gas reduction requirements and simultaneously provide a level playing field for domestic industries who will find themselves non-competitive by high U.S. compliance costs. The provision will do neither. We encourage the Congress to hold hearings on both issues and seek alternative policies that do not export manufacturing jobs and increase greenhouse gas emissions in other countries. The industrial sector has already lost 3.1 million jobs or 18% since 2000.

IECA is a 501 (C) (6) national non-profit non-partisan cross-industry trade association whose membership is exclusively from the industrial sector. IECA membership represents a diverse set of industries including: plastics, cement, paper, food processing, aluminum, chemicals, fertilizer, brick, insulation, steel, glass, industrial gases, pharmaceutical, construction products, rubber, automotive products and brewing.

The Senate is on record through S. Res. 98, the July 21, 1997 Byrd Hagel Resolution that disparity of treatment in greenhouse gas reductions between the U.S. and developing countries "could result in serious harm to the United States economy, including significant job loss, trade disadvantage, increased energy and consumer costs, or any combination thereof". This is the heart of the issue.

U.S. climate policy must assure a level playing field between U.S. produced energy intensive products and those that are imported. Major energy intensive industrial product categories include: steel, aluminum, chemicals (includes fertilizer), plastics, glass, paper and cement. U.S. economic expansion over the last decade increased demand for these products but much of this growth has been supplied by imports. In fact, energy intensive products of the industrial sector has been under siege from imports. According to the U.S. Census Bureau, net imports in 1996 rose from \$133.8 billion to \$642.9 billion in 2006, an increase of over 380%.

High energy prices that forced plant closures, improvements in energy efficiency and relentless global competition who are often subsidized or owned by foreign governments has resulted in significant carbon dioxide reductions by the industrial sector. The U.S. industrial sector direct carbon dioxide emissions in 2005 are 3.4% below 1990 levels while emissions from the residential are +8.4%; commercial +2.7%; transportation +24.7%; and electricity +31.7%.

There are several major reasons why S. 2191 will not provide global reach or a level playing field. First, all costs of U.S. carbon abatement applied to coal, oil and natural gas (and the higher costs of non-hydro renewable energy) will immediately be passed on to the industrial consumer through higher energy costs starting in 2012 while our foreign competition will not be required to take any action till 2020, eight years later and only if the President seeks carbon allowances from them. Eight years is an eternity for companies who compete globally. We have already lost 3.1 million manufacturing jobs in just six short years!

While higher energy costs as a result of the caps are forced upon U.S. manufacturers would be highly prescribed and enforceable starting in 2012, burdensome requirements on our foreign competitors importing into the U.S. are highly uncertain. Will the President seek carbon allowances from importers? Will importing countries simply subsidize the carbon allowances just as they do with energy today? What requirements, if any, will survive lengthy multilateral and bilateral international negotiations? Will the program achieve the necessary GATT exception to be deemed GATT compliant?

The provision will also result in a significant increase in ghg emissions from importers because there is no obligation on foreign competitors if their ghg emissions from national production of a given energy intensive product post 2020, remains below their average emissions from that product's national production for the period 2012-2014. This incentivizes them to expand capacity and keep their old polluting facilities to raise their ghg baseline by 2014, just the opposite of what we want.

The U.S. industrial sector must be assured of a level playing field with imports. If not, more high paying manufacturing jobs will be lost; global greenhouse gas emissions will rise as production of more manufactured products are moved to other countries who are less energy efficient than U.S. industry; imports will continue to

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surge increasing the trade deficit and balance of payments; and the U.S. industrial sector will be penalized for the tremendous investment and success in reducing energy consumption and carbon dioxide emissions.

The membership of IECA look forward to working with you to reduce greenhouse gas emissions without loss of competitiveness and jobs.

Sincerely,



Paul N. Cicio
President

cc: U.S. Senate
The Honorable Carlos M. Gutierrez, Secretary, U.S. Dept. of Commerce
The Honorable Condoleezza Rice, Secretary, U.S. Dept. of State
The Honorable Stephen L. Johnson, Administrator, U.S. EPA
The Honorable Samuel W. Bodman, Secretary, U.S. Dept. of Energy
The Honorable James L. Connaughton, Chairman, CEQ