

Environment and Public Works Committee Hearing
October 29, 2009
Follow-Up Questions for Written Submission

Questions for Cicio

Questions from:

Senator Sheldon Whitehouse

1) As you know, there is broad support in the labor community – whom your member companies employ – for a domestic cap on carbon emissions, specifically for its potential to grow domestic jobs and provide long-term job security. In your testimony and during questions with Committee Members, you argued that establishing a domestic cap on carbon emissions would lead to manufacturing job losses in the United States. Given this discrepancy, can you please provide the following information related to recent manufacturing job losses and creation:

- a. In the last 10 years, without a domestic cap on carbon emissions in place, how many jobs have your member companies moved from the U.S. to foreign countries?
- b. In the last 10 years, how many jobs have your member companies created or lost in the U.S.?
- c. In the last 10 years, how many jobs have your member companies created or lost in foreign countries?

Answer:

The manufacturing sector competes globally and if our domestic energy costs go up for any reason and our competitors in foreign countries do not experience that same cost increases – we lose competitiveness – and lose jobs. Saying it another way, when our costs are not low enough, we do not get the customer's order for steel, paper, cement, aluminum or fertilizer products - the foreign company does and it creates jobs for them.

According to the National Association of Manufacturers (NAM), in general, US companies are at about a 17 percent cost disadvantage to foreign companies. It is much greater for some countries like China. The US Treasury is quoted as saying the Chinese manipulation of their currency gives their manufacturers a 40 percent cost advantage.

No one questions that S.1733 will not increase energy costs – it will. In fact, the entire theory behind placing a value on carbon assumes it will increase the price of energy and make shifts in the market.

IECA's testimony indicates that the manufacturing sector has lost 5.41 million jobs over the last ten years or so. While some of those jobs may have been lost to improved production processes, there is wide spread agreement that the failure to be competitive with foreign companies created most job losses.

As to your specific request about how many jobs IECA member companies have lost or moved offshore, IECA does not have such data. In fact, if we did, it would not be helpful in addressing your question

because IECA companies represent a small portion of the 350,000 manufacturing facilities and would not be representative of these industries at large.

Senator George V. Voinovich

1) Mr. Cicio - Your testimony says that natural gas and electricity prices will rise quickly. Could you please explain why that will happen?

Many in the electric power sector calculate that their industry will be short over 400 million metric tons of CO₂e as the program starts in 2012. The 400 million ton short fall is based upon the lower EPA GDP growth numbers for the US economy to 2030. Using last year's higher EPA GDP forecast would result in about an 800 million ton CO₂e shortfall. Between now and 2012 is insufficient time for the power sector to decrease carbon emissions thru the use of carbon capture and sequestration, nuclear, domestic or international carbon offsets, energy efficiency or renewable energy. Their only alternative is to use natural gas.

There is about 500,000 MW of existing natural gas fired power capacity available today and most of it is used for peaking power. This means the capacity is in place, no capital is needed to ramp up significant natural gas demand to meet their emission requirements.

For perspective, if the electric power sector uses natural gas to displace coal to achieve 100% compliance, it would consume the equivalent amount of natural gas of about 4.6 TCF or roughly a 70 percent increase above 2008 power industry consumption. The largest increase in domestic production was only a 3% increase from 2006 to 2007. Clearly, the ability to rapidly increase production of natural gas to meet even a small portion of this potential demand does not exist. Furthermore, because natural gas fired power generation sets the marginal price of electricity in a growing portion of the US, as natural gas prices go up, so will the price of electricity to every homeowner, farmer and manufacturer.

2) Mr. Cicio – Please explain why you feel that this bill's energy intensive trade exposed provisions will not protect the competitiveness of these industries. Also, your testimony says that the border adjustments provision will not work to prevent unfair competition from countries that do not have similar GHG reductions commitments. Please explain why.

S.1733 includes provisions that provide declining allowances for the energy intensive and trade exposed manufacturing sectors. While helpful, this will not preserve the competitiveness of these companies and will not allow for growth. These industries will be fully exposed to higher natural gas, electricity and transportation costs that could be substantial. Major questions exist as to how many companies and industries will be eligible for free allowances, and how many allowances they will need. Such considerations make clear that American companies will face new costs – likely significant new costs – in the short term.

While this provision partially addresses the needs of the energy intensive and trade exposed manufacturing facilities which comprise about 7000 facilities, they do nothing to protect the competitiveness of some 350,000 other manufacturing facilities. As energy costs goes up, almost all of

these other manufacturers will become less profitable and susceptible to competition from imports and further job losses. Almost any product produced in the US can be produced offshore and imported.

Climate legislation should not be constructed such that border tariffs and adjustments are required to prevent imports of energy intensive product from countries that do not have similar GHG reduction costs. S.1733, because of higher energy and compliance costs imposes such measures upon the manufacturing sector. Given the costs of S.1733, it will be necessary that a border adjustment provision be included and they need to be in place at the beginning of the compliance period. However, IECA wants Congress to know that border adjustments at large, are not acceptable policy, will not work effectively (will not stop imports of energy intensive products) and will cause reciprocity by our trading partners and distort trade. This is not inconsequential. This issue, by itself, is reason not to use cap and trade that impose costs on the manufacturing sector.

A simple example of why border adjustments will not be effective is illustrated with aluminum, a very electricity intensive product. A Chinese producer of aluminum, when confronted with the threat of paying a border adjustment carbon fee will simply start producing the products that “uses” the bulk aluminum. Instead of importing the aluminum ingots, it will import aluminum auto wheels, aluminum auto fenders or aircraft parts. For glass, instead of bulk glass the foreign company imports glass bottles. The same applies to all of the energy intensive industries.

3) Mr. Cicio – In an earlier panel, I asked the panelists the following questions, and I’d like for you to answer them as well: “Would you please discuss the degree to which our new clean energy projects are being hampered by the time and cost posed by environmental regulations? Is there some common sense time frame that we should be expecting from environmental impact reviews? Is there something Congress should do to speed up these types of reviews? If China can accomplish these types of projects faster and cheaper now, how can we expect the U.S. to compete under a climate regime – particularly if China doesn’t agree to emissions reductions as well?”

Many IECA member companies have experiences of attempting to do energy efficiency projects that must deal with Clean Air Act permits. The additional costs and time consumption to get thru the CAA permit process is reported to be substantial and has prevented projects from moving forward. Since China does not have such stringent and inflexible air permits, the cost and time to complete a project is significantly less.

Answer: