



Industrial Energy Consumers of America

The Voice of the Industrial Energy Consumers

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MANUFACTURING COMPANY INPUT

“How State Policymakers Should Address EITE Industries to Prevent GHG Leakage under a Mass-Based and Rate-Based Approach, While Complying with the EPA’s Clean Power Plan”

There have been four countries, regions, or states that have organized, or tried to organize cap and trade programs. They are the EU ETS, California’s AB 32, Australia’s carbon pollution reduction scheme, and the American Clean Energy and Security Act of 2009 (H.R. 2454). While each differ, they all have one thing in common – they recognize that GHG leakage from the energy-intensive trade-exposed (EITE) manufacturing industries is not economically or environmentally desirable, and could significantly undermine U.S. efforts to reduce GHG emissions.

EITE industries consume 14.9 percent of the U.S. electricity. Because the manufacturing sector competes globally on the basis of cost, the industry has consistently placed a high priority on voluntary energy efficiency improvements that has resulted in significant direct and indirect reductions in GHG emissions. The U.S. manufacturing sector’s GHG emissions have decreased 3.4 percent since 1990. By way of contrast, GHG emissions have increased 2.0 percent for the residential sector, 6.5 percent for the commercial sector, 16.3 percent for the transportation sector, and 12.0 percent for the electric power sector since 1990.

If EITE industries experience higher electricity costs, they are motivated to move their production to other states or countries where costs are lower. When this happens, the GHG emissions also move with them, accomplishing nothing environmentally. This “leakage” effect creates significant negative economic impacts, because it also shifts jobs and investment to other states or countries. It may also increase imports of substitute products that most often are more carbon-intensive, which increases global GHG emissions.

If EITE industries move their facilities, the fixed costs that they are paying will be shifted to the remaining retail consumers of electricity, increasing electricity rates.

SUMMARY OF KEY POINTS TO PREVENT EITE LEAKAGE

Regardless of the approach taken by a state to comply with the EPA’s Clean Power Plan, it is important to establish policies that will provide protection for EITE industries from increased electricity costs in order to prevent leakage. The EITE industries affected were identified by NAICS codes in a federal interagency report entitled “The Effects of H.R. 2454 on International Competitiveness and Emission Leakage in Energy Intensive Trade-Exposed Industries.”¹ Primary

¹ “The Effects of H.R. 2454 on International Competitiveness and Emission Leakage in Energy-Intensive Trade-Exposed Industries,” EPA, December 2, 2009.

industrial sectors included: steel, aluminum, cement, chemicals, plastics, glass, food processing, refining, pulp and paper, and fertilizer. Protections can be provided to EITE industries through an allocation of free allowances, free emission rate credits (ERCs), or exemptions.

Examples

CPP Mass-Based Approach: If a clear cost of carbon is imbedded in rates, then the EITE can monetize the free allowances that were allocated to them at the then current market value to offset their incremental purchased power cost.

CPP Rate-Based Approach: In this case the cost of compliance or the ERC will need to be transparent. Commissions should require utilities to clearly document the costs and exempt EITE industries from the costs associated with ERC creation.

The policy to protect EITE industries from higher electricity costs should be provided on a transitional basis until offshore competitors are held to the same standard. For an example, see California's AB32 Leakage Analysis².

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with \$1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.4 million employees worldwide. It is an organization created to promote the interests of manufacturing companies through advocacy and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.

https://www3.epa.gov/climatechange/Downloads/EPAactivities/InteragencyReport_Competitiveness-EmissionLeakage.pdf.

² "Leakage Analysis," California Air Resources Board,
<http://www.arb.ca.gov/regact/2010/capandtrade10/capv4appk.pdf>.