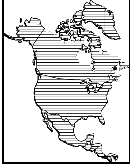

Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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May 15, 2017

The Honorable Donald J. Trump
President of the United States
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Re: 2015 United Nations Framework Convention on Climate Change COP 21 Paris Agreement

Dear Mr. President:

On behalf of the Industrial Energy Consumers of America (IECA), we thank you for your support of the manufacturing sector. We are a strong proponent of your endeavor to create jobs and economic growth. The purpose of this letter is to provide key perspectives on the Paris Climate Accord, from manufacturing companies that are energy-intensive and trade-exposed (EITE). EITE industries consume about 80 percent of the energy of the U.S. manufacturing sector. As a result, the competitiveness of EITE companies is largely dependent upon the price of natural gas, natural gas feedstock, electricity, coal, and crude oil.

Given the concerns listed below, IECA fails to see the benefit of the Paris Climate Accord. The long-term implications of the Paris Climate Accord, which includes greater future GHG reduction requirements, and raises the prospects for loss of competitiveness and jobs for EITE industries, due to GHG leakage. We disagree with comments by those who say that staying in the agreement will spur investment and American competitiveness, create jobs, and ensure access to global markets. This will certainly not be the case for the EITE industries. Global agreements that do not provide a level playing field for manufacturing, create greater uncertainty, and the Paris Climate Accord does not create a level playing field.

The manufacturing sector already has an incentive to reduce energy consumption and GHG emissions, it is called global competition. Global competition is relentless and requires EITE industries to reduce energy consumption to be competitive. If we are not globally competitive, we cease to exist.

I. INDUSTRIAL ENERGY CONSUMERS OF AMERICA

IECA is a nonpartisan association of leading manufacturing companies with over $1.0 trillion in annual sales, and with more than 1.6 million employees. IECA membership represents a diverse set of industries including: chemicals, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, glass, industrial gases, building products, automotive, brewing, independent oil refining, and cement.

II. REASONS THAT EITE INDUSTRIES ARE CONCERNED ABOUT GLOBAL CLIMATE AGREEMENTS

All costs of reducing GHG emissions, whether imposed on the electric generation sector or the oil and gas sectors, are eventually imposed upon us, the consumer. We are the ones who eventually bear the costs of government imposed GHG reduction schemes. At the same time, we are often already economically disadvantaged, as compared to global competitors who are subsidized or protected by their governments.

EITE industries are unique in that, if energy costs rise, whether due to GHG reduction mandates or market-related causation, EITEs will move their facilities, shifting GHG emissions and jobs offshore. This is called "industrial GHG leakage." Industrial GHG leakage accomplishes nothing in terms of global GHG emission reductions, because it simply shifts the GHG emissions to another country – and in fact, such leakage may lead to an ***increase*** in emissions of GHGs and criteria pollutants if manufacturing activity transitions to countries with less efficient manufacturing processes and less stringent environmental standards.

California, with the "AB32" statewide climate program, is a case in point. While it appears that the state is reducing GHG emissions, they are in fact simply shifting GHG emissions to other states or countries. California continues to consume just as much or more EITE products, such as steel, aluminum, chemicals, plastics, paper, and cement. But instead of manufacturing those products in California and benefitting from the jobs that such business would sustain, they import them.

To avoid the perverse and economically damaging consequences of leakage, we must ensure that any climate policy does not tilt the playing field toward our global competitors and place the U.S. at a competitive disadvantage.

III. HISTORY OF SUCCESSFUL GHG REDUCTIONS

For a variety of reasons, including a dedication to energy efficiency and energy cost reductions to improve global competitivness, today's U.S. manufacturing sector's GHG emissions are 26 percent below 1973 levels. The industrial sector is the only U.S. sector whose GHG emissions are below 1973 levels.

IV. PARIS CLIMATE ACCORD

IECA recognizes that the Paris Climate Accord under the United Nations Framework Convention on Climate Change does not directly mandate GHG reductions from the U.S. manufacturing sector, nor does it mandate reductions from our competitors in other countries. However, under the Obama Aministration, the U.S. committed in 2016 to reduce its GHG emissions 26 to 28 percent below 2005 levels by 2025, under a construct that requires participating nations to strengthen their commitments every five years. Furthermore, the U.S. commitment under the agreement is significantly more stringent than the commitments undertaken by some of our largest competitors in the global marketplace, many of whom, including China and India, essentially pledged to continue *increasing* their GHG emissions substantially for the foreseeable future.

Any U.S. commitment to reduce GHG emissions under an international construct should only have been undertaken through the process prescribed in Article II, Section 2, Clause 2 of the Constitution. IECA believes that U.S. participation in any global agreement to reduce GHG emissions, whether such agreements are binding or not, should be submitted to the U.S. Senate for a vote of ratification. Our forefathers made it clear that the checks and balances between the Executive Branch and Congress are essential.

IECA is wary of international climate agreements because the U.S. manufacturing sector competes globally, and because other countries do subsidize, and will continue to subsidize and provide advantages to their manufacturing sectors, regardless of any global climate agreements. And, importantly, because the U.S. government does not subsidize U.S. EITE industries, we can become non-competitive in the global marketplace. Global GHG reduction agreements may sound well-intentioned at the macro level, but at the micro level, where we reside, it can create signficant uncertainty, risk, and job loss. This raises the question of whether manufacturing GHG emissions should be excluded from any type of global climate agreement.

A major country with which the U.S. manufacturing sector competes with is China, who is well known for government intervention in support of subsidizing companies. China's pledge under the Paris Climate Accord would allow it to actually increase GHG emissions by 117 percent by 2030 before they start reducing. China stopped being a developing country manufacturing competitor of the U.S. more than a decade ago. If U.S. manufacturers were required to reduce GHG emissions while China's manufacturing sector was allowed to increase GHG emissions to 2030, it would put us in a perilous competitive disadvantage.

Furthermore, since about 2000, China's manufacturing sector grew from one of the smallest in the world to the largest, surpassing the U.S. Historcally, the U.S. was the largest. And, over that time frame, over 55,000 U.S. manufacturing facilities and millions of manufacturing jobs were lost, primarily to China. While China was increasing manufacturing jobs, the U.S. was losing them. Now, the U.S. manufacturing trade deficit with China is the largest by far of any country in the world, at $647 billion in 2016.

Climate change, energy, environment, and tax policy are often intertwined and complex. However, these are the areas of our expertise and we desire to work with the White House and Congress to ensure economic growth and jobs in the manufacturing sector. Please let us know how we may be of assistance.

Sincerely,

Paul N. Cicio
President

cc: The Honorable Rick Perry, U.S. Department of Energy
The Honorable Scott Pruitt, U.S. Environmental Protection Agency
The Honorable Wilbur Ross, U.S. Department of Commerce
The Honorable Rex Tillerson, U.S. Department of State