



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

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April 24, 2017

G. David Banks
Special Assistant to the President
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. Banks:

On behalf of the Industrial Energy Consumers of America (IECA), we extend a thank you to President Trump for his support of the manufacturing sector. We are a strong proponent of his endeavor to create jobs and economic growth. This letter is to provide the Administration with key perspectives on climate-related matters, including the Paris Climate Accord, from manufacturing companies that are energy-intensive 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.

I. EXECUTIVE SUMMARY

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.

Given the above concerns, IECA fails to see the benefit of the Paris Climate Accord. And, the long-term implications of the Paris Climate Accord, which includes greater future GHG reduction requirements, raises serious competitiveness and job implications for EITE industries.

II. INDUSTRIAL ENERGY CONSUMERS OF AMERICA

The Industrial Energy Consumers of America is a nonpartisan association of leading manufacturing companies with over \$1.0 trillion in annual sales, and with more than 1.6 million employees worldwide. 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.

III. HISTORY OF SUCCESSFUL GHG REDUCTIONS

For a variety of reasons, including a dedication to energy efficiency and energy cost reductions to improve global competitiveness, 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 (see figure 1). Even when compared to other sectors and over a shorter time frame such as 2005 to 2015, the manufacturing sector's direct and indirect GHG emissions reductions are superior (see figure 2).

The manufacturing sector is a remarkable success story in productivity and energy efficiency. The manufacturing sector is using essentially the same amount of energy as in 1970, some 47 years ago, and has increased output by 371 percent (see figure 3).

The U.S. manufacturing sector also compares well to other countries manufacturing sectors as illustrated in figure 4. For example, the U.S. industrial sector's carbon intensity, as expressed in CO₂ emissions per value added, is only one-fourth that of China's manufacturing sector. This means that producing more products in the U.S. versus China will substantially reduce global GHG emissions.

IV. IECA CLIMATE POLICY *(Climate policies vary by company. Therefore, the IECA climate policy reflects the views of the organization and not individual companies.)*

1. **The industrial sector has a track record which proves that it does not require mandates to reduce GHG emissions.**

The above cited data illustrates that the manufacturing sector is unique compared to all other sectors of the U.S. economy. The manufacturing sector already has an incentive to reduce energy consumption, it is called global competition. Global competition is relentless and requires EITE industries to reduce energy consumption to be globally competitive. If we are not globally competitive, we cease to exist.

2. **GHG reductions must be cost-effective.**

IECA supports cost-effective voluntary GHG reduction actions. For the manufacturing sector, GHG mandates increase costs, distort markets, and negatively impact global competitiveness and jobs.

3. **Industrial GHG leakage.**

The manufacturing sector is unique in that, if energy costs rise, whether due to GHG reduction mandates or market-related causation, the manufacturing sector 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.

4. Technology and adaptation is the solution.

IECA believes that technology and adaption are the real solution. Therefore, we encourage the federal government to create policies that encourage companies to invest in the development, use, and sale of advanced technology. When it is more economical to use new, less carbon-emitting technology options, the market will embrace it and deploy them.

5. Capital stock turnover.

Federal and state policy that result in new capital investment and economic development will reduce energy consumption. At the same time, it is important to recognize that the U.S. industrial sector has significant capital assets deployed, much of which has decades of useful life remaining. It is not practical to think that replacement of that equipment can be justified before the end of its useful life. If however, new federal and state policy was developed to encourage new capital investment there would be economic, environmental, and energy efficiency improvements. Without exception, new equipment and technology are always more energy efficient than older alternatives.

6. Carbon Pricing Policies (carbon tax, cap and trade, etc.) and other regulatory GHG reduction costs.

Adopting carbon pricing policies such as a carbon tax or cap and trade policy can create winners and losers, and are complex to implement. Since all costs related to carbon pricing policies are eventually passed onto us, the consumer, and because we compete globally, we oppose carbon pricing policies that disadvantage EITE industries. While some companies and industries tout their support for a carbon tax or some other form of carbon pricing, those entities are the ones who would typically profit from such regulatory regimes. Such policies also generally prove to be irresistible targets for policymakers to simply turn them into government revenue streams. This is what California has done.

The negative implications of carbon pricing policies, such as a carbon tax or cap and trade policy, is significant. If in the event that a carbon tax or a cap and trade policy is implemented, it is essential that any such regulatory regime contain a provision that provides for a level playing field with our global competitors who would not be impacted by such costs. This is especially important for the EITE industries. If not, even greater GHG leakage will be a certainty.

7. Climate science.

The success of our companies is based upon science, technology, and innovation. Scientific advancement and understanding are essential to improved quality of life and even greater environmental progress. For this reason we encourage the Administration to continue to improve the understanding of the science behind climate change. An unpoliticized understanding of the science of climate change is necessary to make informed public policy decisions.

V. 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 administration, 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 significant 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. Historically, 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 (see figure 5). 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 (see figure 6).

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
Senate Committee on Environment and Public Works
Senate Committee on Energy and Natural Resources
Senate Committee on Foreign Relations
House Committee on Energy and Commerce
House Committee on Ways and Means

APPENDIX

FIGURE 1

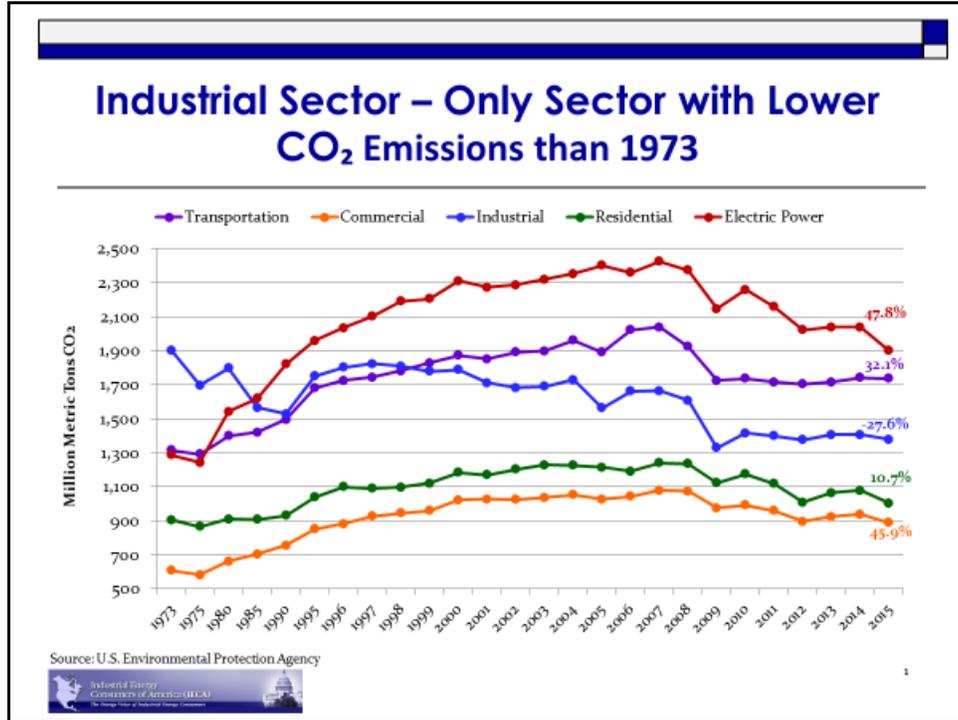


FIGURE 2

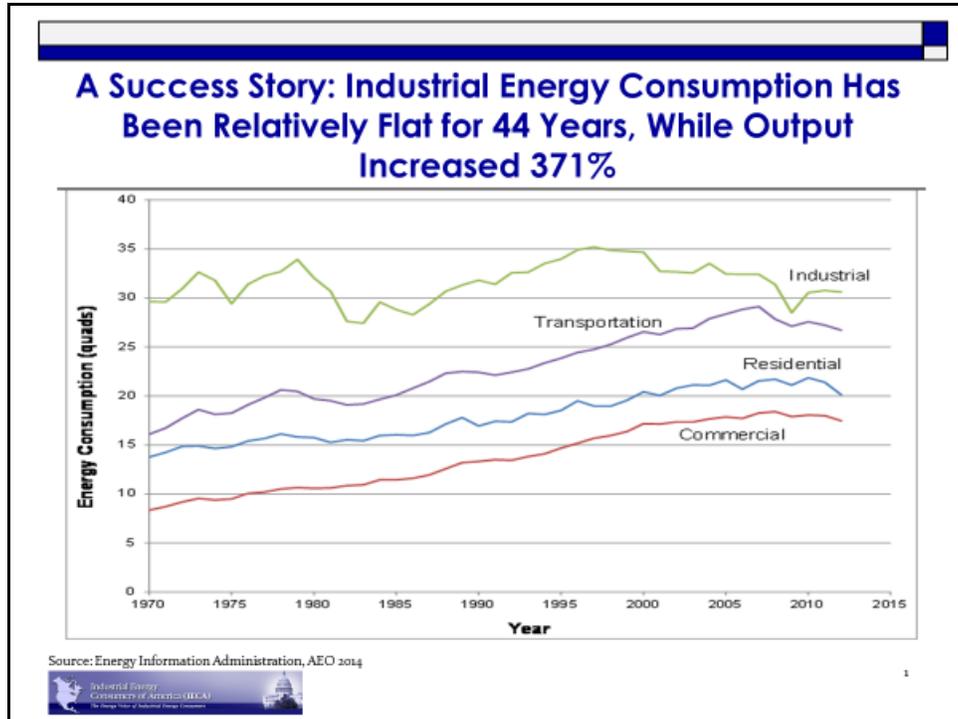


FIGURE 3

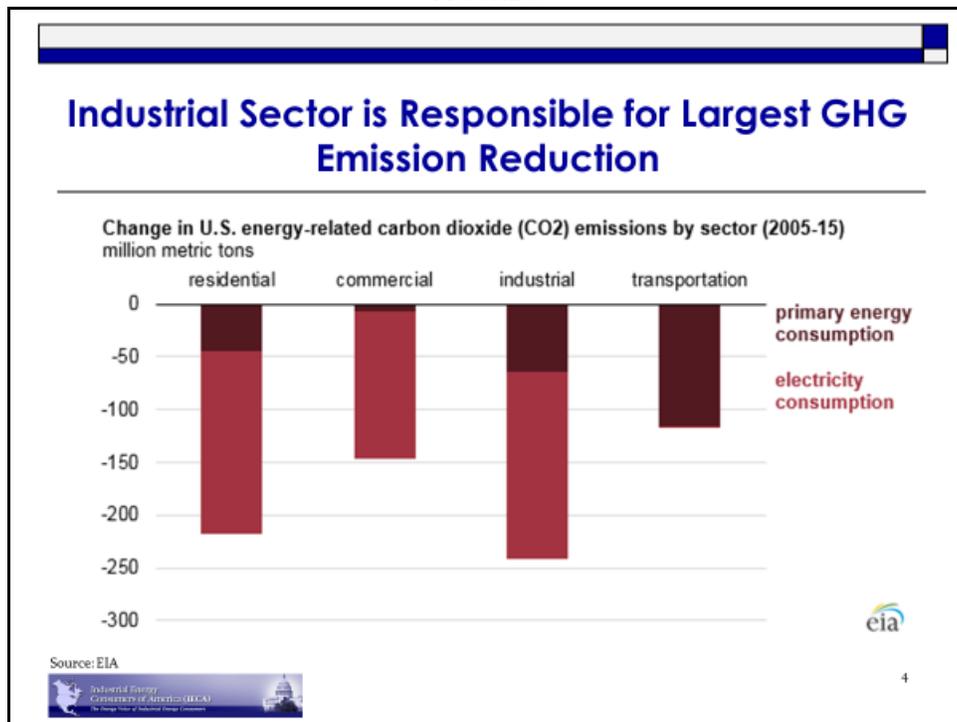


FIGURE 4

Global Industrial Sector Comparison CO₂/Value Added (2014)

Country	Manufacturing - Value Added (\$Billions)	Manufacturing Industries and Construction (Million tonnes of CO ₂)	Million Tonnes of CO ₂ /Manufacturing Value Added
Australia	93.5	42.9	0.46
Mexico	217.2	58.0	0.27
Canada	189.3 (2012)	66.8	0.35
Korea	388.0	77.5	0.20
Japan	850.9	228.0	0.27
Russia	242.5	180.8	0.75
India	301.8	533.4	1.77
EU	2,561.1	406.0	0.16
U.S.	2,068.1	448.0	0.22
China	2,857.0 (2013)	2,890.0	1.01

Source: International Energy Agency (IEA), The World Bank, <http://data.worldbank.org/indicator/NY.IND.MANF.CO>

FIGURE 5

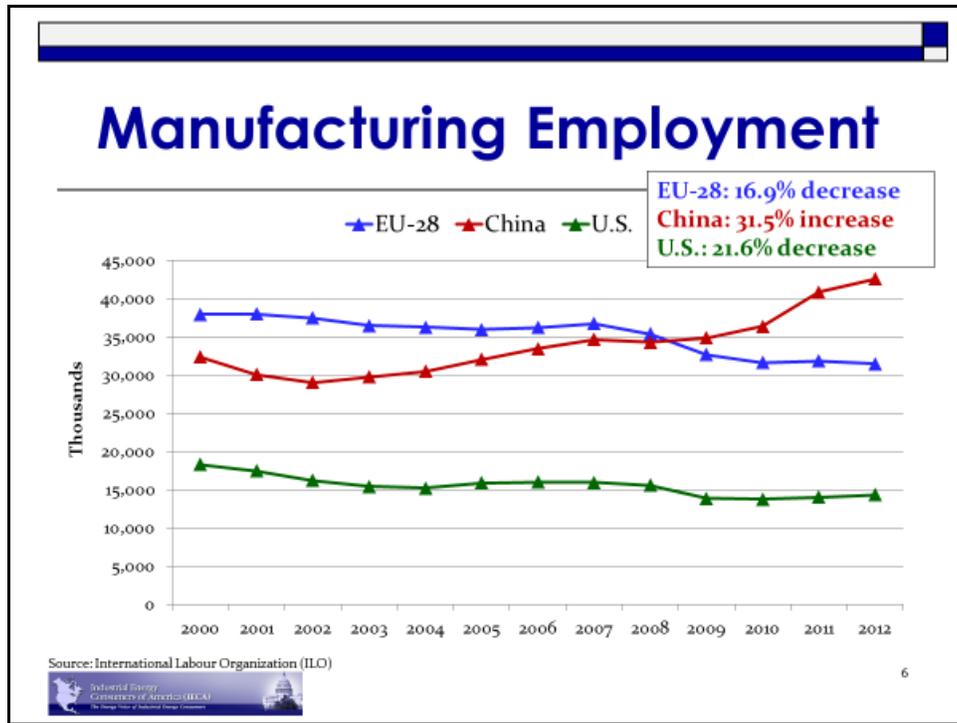


FIGURE 6

