

July 7, 2010

Dear Senators Kerry and Lieberman:

As members of the American Materials Manufacturing Alliance (AMMA), a coalition of energy-intensive, trade-exposed industries (EITEs), we write today with considerable concerns about the recent U.S. Environmental Protection Agency (EPA) analysis of the American Power Act (APA). AMMA is concerned that the analysis relies on a previous interagency analyses of other climate change legislation that had used significantly flawed assumptions. The unfortunate result is that the EPA analysis of the APA is incomplete and draws faulty conclusions.

Together, through direct and indirect employment, the EITE industries are responsible for millions of U.S. jobs. Recognizing the importance of our industries to the nation's economy, as well as the global competitiveness impacts that climate legislation poses, AMMA is particularly disappointed that the EPA analysis of the APA does not contain a detailed breakdown of how the bill will affect our industries. Without such information, Senators will not be able to appreciate the APA's impact on U.S. manufacturing industries critical to America's economic recovery and job creation. The Senate needs more detailed analysis to make informed decisions about this far-reaching legislation.

The U.S. manufacturing sector has been negatively affected by international competition and the recent economic downturn. Since December 2007, our industries have lost more than 2.1 million jobs. As a result, the U.S. manufacturing sector remains vulnerable to any cost increases that occur as a consequence of climate legislation. This vulnerability is even more pronounced for energy-intensive, trade-exposed industries. Global competition from industries located in countries without commensurate climate standards will prevent America's EITE manufacturers from passing the additional costs of climate change legislation on to consumers. Manufacturing facilities in these sectors will be forced to bear additional climate policy-related costs, putting them at a competitive disadvantage and resulting in plant closures, U.S. job losses, plant relocations to countries with less restrictive or no carbon standards and the export of greenhouse gas (GHG) emissions – known as 'carbon leakage.' This will not only be economically damaging, but will also undermine the environmental goals of proposed climate legislation.

AMMA is also concerned that EPA's analysis relies heavily on a 2009 interagency study of House-passed climate legislation that was based on a number of faulty assumptions. (*The Effects of H.R. 2454 on International Competitiveness and Emissions Leakage in Energy-Intensive, Trade-Exposed Industries, also known as the "Interagency Analysis"*). In December 2009, AMMA detailed to the Senate the flawed assumptions included in that interagency report, including:

- 1. The December 2009 interagency analysis ignored the disproportionate impact on coal-fired utilities of the House-passed climate legislation.** The utility sector uses a variety of sources to generate electricity—coal, natural gas, wind, solar. These sources vary in terms of their carbon content and emissions, and therefore would be affected differently by the proposed legislation. The House-passed legislation, as well as the APA, would place a disproportionate burden on coal-fired utilities, which are often those from which EITE

facilities purchase electricity. Analysis from these utilities has demonstrated that they will have to purchase allowances just to meet their direct emissions obligations. There will be no allowances left over to use to offset the cost of replacing coal capacity with natural gas or wind (including the cost of new transmission infrastructure for wind and solar). Instead, all of these substantial costs will be passed on to EITEs in the form of much higher energy prices.

The 2009 interagency analysis EPA relied upon for its analysis of the APA makes the incorrect assumption that each utility produces the same amount of emissions and would be evenly impacted by the cap-and-trade legislation. It incorrectly assumes no disparity among the various types of utilities, and no negative impact on their energy-intensive industrial customers. This flawed assumption in the interagency report once again calls into question the validity of that report's conclusions, and must be corrected and clarified for Senators.

- 2. The 2009 interagency analysis also assumed that EITE industries will be able to reduce their energy intensity 20-45percent by 2020.** This was a key assumption leading to the report's incorrect conclusion the EITE allowances are sufficient. Because EITEs have reduced energy use substantially from 1990-2007 and most are on "the flat part of the curve," their ability to make additional major energy efficiency improvements is limited, absent the development of new breakthrough technologies. (Steel energy intensity and greenhouse gas emissions as of 2008 were down 33percent from 1990 levels, chemicals absolute emissions are down 23percent vs. 1990 levels; aluminum CO₂ equivalent emissions are down 50percent from 1990 levels; the paper's energy intensity is down 11percent from 1990-2006; and the cement industry's energy efficiency has improved by 38percent since 1972.)

Until entirely new technologies are available and fully deployed, only incremental improvements in energy efficiency will be possible in the near term. Ignoring this reality is a major error among the interagency study's assumptions, yet it too was reflected in the recent EPA analysis. As a result, the recent EPA analysis of the APA is insufficient to model the likely impact of the proposed legislation on the EITE manufacturing sectors.

It is also important to note that the American Power Act provides 1.648 billion fewer emissions allowances to the EITE sectors over the course of the program than the House-passed climate legislation. This disparity is yet another reason that the interagency analysis of the adequacy of the EITE allowance program in the House-passed climate bill cannot provide a sound basis for assessing the adequacy of EITE allowance program in the APA.

Between 1990 and 2008, the industrial sector was the only sector of the U.S. economy in which greenhouse gas emissions fell. By contrast, during the same time period, GHG emissions increased in the commercial, electricity, residential, transportation, and agricultural sectors. In fact, driven largely by energy efficiency improvements, U.S. industrial GHG emissions fell 5.9 percent between 1990 and 2008. Meanwhile, commercial GHG emissions went up 36.9 percent, electricity increased 30 percent, residential increased 27.3 percent, transportation increased 21.6 percent and agriculture increased 11.3 percent. (Source: U.S. Energy Information Administration, *Emissions of GHGs in the U.S.*, 2008).

AMMA favors legislation that will allow us to both help lead the nation's economic recovery and to continue to reduce GHG emissions. We look forward to working with the Congress to craft climate legislation that will achieve those objectives. We strongly recommend that EPA conduct a new analysis of the APA that addresses the shortcomings in the 2009 interagency report.

Sincerely,

Aluminum Association
American Chemistry Council
American Forest & Paper Association
American Iron and Steel Institute
Portland Cement Association
The Fertilizer Institute