

## AMERICAN MATERIALS MANUFACTURING ALLIANCE

October 28, 2009

The Honorable Barbara Boxer, Chair  
Senate Committee on Environment and Public Works  
410 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Boxer:

The American Materials Manufacturing Alliance consists of the Aluminum Association, the American Chemistry Council, the American Forest and Paper Association and the American Iron and Steel Institute, all of which represent “energy-intensive, trade-exposed” industries (EITEs) as defined in S. 1733. Together we generate more than \$1 trillion in economic output and employ millions of Americans. Unless the Senate makes major changes to improve the emission allowance provisions and address energy cost impacts, energy intensive industries will be at a significant competitive disadvantage in the global marketplace, which will trigger major job loss and emission migration to unregulated economies.

We believe a basic principle of climate policy is that it should not undermine the competitive position of US manufacturers in the global marketplace. To that end, we believe climate policy should identify all costs imposed on US manufacturers and provide mechanisms to offset those costs until competing countries have commensurate greenhouse gas reduction policies; or until new manufacturing technologies have been discovered and deployed.

### **Provisions of S. 1733 Put Our Competitiveness at Risk**

The work of Senators Specter and Klobuchar to increase the allowance pool in the first two years and to create a supplemental reserve are important first steps. However, due to a severe last-minute reduction in allowances allocated to EITEs and the steeply declining cap required by the 20% emissions reduction target in 2020, the allowances provisions as currently drafted are grossly inadequate. This sudden change in allowance allocations will indeed undermine the competitive position of US manufacturers in the global marketplace (see attached).

A second shortcoming of S. 1733 is that it does not deal with the probability of greatly increased energy costs. As energy-intensive industries, we are by definition more sensitive to energy cost increases than other sectors of the economy. There are model and study results in circulation that report both relatively stable energy costs going forward as well as large energy cost increases. Additional provisions need to be

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added to climate legislation to deal with these uncertainties and should be structured to address large increases in the cost of energy if, and only if, it occurs. Fuels that also serve as raw materials in the manufacturing process will face especially severe cost impacts.

In addition, Sections 181 and 182 of S. 1733 create incentives to switch from higher carbon fuels such as coal and oil to lower carbon fuels such as natural gas and biomass. In order to comply with any emissions cap, industries will likely choose to incorporate these lower carbon fuels. Extra incentives are not needed to drive these industries to natural gas and biomass.

#### **Clean Air Act Preemption Needed**

H.R. 2454 included specific exemptions that would preclude EPA from regulating GHG emissions under the Clean Air Act. This bill [S. 1733] does not include those provisions. We do not believe it is your intent to create a dual compliance structure for US industry, however, without specific language preventing regulation under the Clean Air Act, such a regulatory system would exist.

#### **Carbon Price Certainty Facilitates Investment**

The balance of policy elements in a climate program should be reasonable and calculated to prevent significant upward price pressure on both carbon permits and energy prices. S. 1733 adds new provisions to contain emissions allowance costs and control market speculation, but does not go far enough to establish price certainty for carbon allowances. Price certainty is important for manufacturers to make long-term investment decisions. A price collar with a minimum and maximum allowable price would provide the certainty needed to control prices and achieve emission reductions.

S. 1733 in its current form fails to adequately maintain the competitiveness of EITs. We encourage you and your congressional colleagues to continue to work toward climate legislation that achieves the core purpose of reducing GHG emissions while not negatively affecting the competitiveness of US manufacturers and robust growth in the United States economy.

Sincerely,

Aluminum Association  
American Chemistry Council  
American Forest and Paper Association  
American Iron and Steel Association

cc: Members of the Senate

## Comparison of Allowance Allocation for EITEs

