

TESTIMONY OF

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PRESIDENT**

**INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE &
AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)**

on the subject of

**“CLIMATE CHANGE AND ENERGY SECURITY:
PERSPECTIVES FROM THE AUTOMOBILE INDUSTRY”**

before the

**SUBCOMMITTEE ON ENERGY AND AIR QUALITY
COMMITTEE ON ENERGY AND COMMERCE**

UNITED STATES HOUSE OF REPRESENTATIVES

March 14, 2007

Mr. Chairman, my name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). Accompanying me today is the UAW's Legislative Director, Alan Reuther. The UAW represents over one million active and retired workers across the country. Many of these UAW members work or receive retirement benefits from auto manufacturers and parts companies. The UAW appreciates the opportunity to testify before this Subcommittee on the subject of climate change and energy security.

The UAW shares the growing national concern about climate change. Scientific studies have confirmed that human use of fossil fuels is contributing to global warming. These studies underscore the major environmental challenges posed by global warming, including rising sea levels, changes in climate patterns and threats to coastal areas. To avoid these dangers, the growth in greenhouse gas emissions must be reduced, and ultimately reversed.

The UAW is also concerned about the national security implications of our nation's dependence on foreign oil. Currently, 28 percent of the world's oil is produced in the Persian Gulf. Although less than 11 percent of the oil used by the U.S. comes from this volatile region, disruptions in this oil supply can still create serious problems for our economy. As a result, in recent years our nation has become entangled in deadly, costly conflicts in the Middle East. In our judgment, the long range economic and national security interests of the U.S. would better be served by implementing policies to reduce our dependence on foreign oil.

The UAW believes that climate change and energy security are serious problems that need to be addressed by Congress and the Bush administration. We urge Congress to pursue initiatives that will deal with these issues in an integrated and balanced manner that protects jobs and benefits for American workers and retirees.

Need for Economy-Wide Policies to Address Global Warming

It is important to recognize, at the outset, that the problem of global warming cannot be solved through measures, such as the Corporate Average Fuel Economy (CAFE) program, that focus exclusively on the auto industry. Light duty vehicles (passenger cars and light trucks) account for approximately 16 percent of greenhouse gas emissions in the United States. The CAFE program affects new vehicles sold each year, which represent about 7 percent of the total vehicle stock on the road. It takes about 14 years for the U.S. vehicle fleet to completely turn over. Thus, it is apparent that any changes in the CAFE program would only have a very modest impact in the short term in reducing greenhouse gas emissions.

To address the problem of global warming in a meaningful way, the UAW believes we need a broad, comprehensive policy. In our judgment, this policy should require all sectors of the economy to come to the table and help to reduce our nation's greenhouse gas emissions. This includes all mobile sources, not just light duty vehicles. It also includes stationary sources, such as power plants and factories. And, of course, it includes our fossil fuels such as coal, oil and natural gas. Each sector should be required to contribute to the reduction of greenhouse gases in a proportionate manner. No sector should enjoy a free ride. No sector should be required to bear a disproportionate burden, or to shoulder costs that would have a devastating impact on its operations or employment.

Specifically, the UAW strongly supports the establishment of an economy-wide mandatory tradable-permits program that will gradually slow the growth of, and eventually reduce, greenhouse gas emissions in the United States. We believe this type of "cap-and-trade" program should be done on an "upstream" basis in order to minimize regulation and to ensure that all sectors of the economy participate in a proportionate manner. We also believe this program should include a "safety valve" cost cap to ensure that no sector is hit with unacceptable burdens that would have a negative impact on economic growth and jobs. In addition, this program should include measures to ensure that our businesses and workers are not placed at an unfair competitive disadvantage with U.S. trading partners and developing countries.

The UAW believes that this type of "cap-and-trade" program can make a major contribution to reducing greenhouse gas emissions. It would ensure that such reductions are accomplished in an economically efficient manner. Because of the ripple effect of higher oil prices throughout the economy, it would also help to reduce oil consumption and our dependence on foreign oil.

Auto Sector Policies to Address Climate Change and Energy Security

The UAW recognizes that the auto sector has an important role to play in addressing the energy security and climate change issues. In addition to emitting about 16 percent of greenhouse gases, light duty vehicles account for about 42 percent of oil consumption in the United States.

In considering auto sector policies to address these issues, the UAW believes Congress should keep in mind several key principles. First, to be effective, any policies must address the fuels that go into vehicles, as well as the efficiency of the vehicles themselves. The promotion of alternative fuels can make an enormous contribution to reducing greenhouse gas emissions and our dependence on foreign oil.

Second, any auto sector policies should recognize that it is much more expensive to achieve reductions in greenhouse gas emissions from light duty vehicles than from other sectors. In our judgment, the best way to address this disparity would be to integrate any auto sector policy with economy-wide efforts to reduce greenhouse gas emissions. At a minimum, the federal government should provide assistance to the auto industry to offset this much higher compliance cost.

Third, and most importantly, the UAW believes that any auto policies requiring improvements in vehicle efficiency should include measures to help level the playing field in the automotive industry, and to provide struggling manufacturers with the resources needed for retooling efforts. To meet more stringent vehicle efficiency standards, the auto companies will have to incur significant additional engineering and retooling costs. However, they do not have a level playing field in terms of their ability to shoulder these retooling costs. The recent profit/loss situations of GM, Ford and DCX are very different than Toyota and Honda. In addition, because they have been operating for a long period of time and have many retirees, GM, Ford and DCX have very substantial retiree health care legacy costs. In contrast, Toyota and Honda have few retirees from their operations in this country, and the health care costs from their Japanese facilities are heavily subsidized through a national health care system.

Without measures to level the playing field and help struggling auto manufacturers, the UAW would be deeply concerned about the **economic feasibility** of any proposals to mandate significantly higher vehicle efficiency standards. In light of the extremely serious financial conditions of GM, Ford and DCX, and the disparate burdens they face in retiree health care legacy costs compared to their competitors, the UAW believes that the imposition of stringent increases in the CAFE standards could lead to calamitous results. This could include the closing of additional facilities and the loss of tens of thousands of additional automotive jobs in this country. It could also include the loss of health coverage for 500,000 retired workers and their families.

In the past two years, we have already seen these companies post shattering losses. In response, they have announced unprecedented plans to downsize their operations, involving the closing of numerous automotive facilities and buy-out programs that could result in the loss of almost 90,000 jobs. Meanwhile, speculation continues about further industry restructuring that could lead to more plant closings and job loss.

The difficulties in the U.S. automotive industry extend beyond GM, Ford and DCX. Overall, the industry has lost over 310,000 jobs since the last employment peak in February, 2000. These losses have occurred in both the auto parts and the assembly sectors. A number of parts companies have filed for bankruptcy. In addition to the enormous loss of jobs in the auto parts sector, there has been

tremendous downward pressure on the wages and benefits for the workers that remain.

Thus, to prevent a serious worsening of the situation in the auto industry, the UAW urges Congress to make sure that any auto sector policies include measures to help struggling auto manufacturers and to level the playing field in the industry. In our judgment, any assistance should be tied to investments in domestic production that will generate jobs for American workers and help the overall U.S. economy. It should also be structured in a manner that recognizes and helps to address the fundamental imbalance in the auto industry related to retiree health care legacy costs.

A). Auto Carbon Burden Cap

The UAW urges Congress to explore the feasibility of establishing an additional carbon control policy that would require reductions in the carbon emissions of light duty vehicles sold in the United States, as well as reductions in the carbon intensity of the fuels that go into these vehicles. This two-pronged approach could make a direct, major contribution to reducing greenhouse gas emissions. At the same time, it also would contribute enormously to a reduction in oil consumption.

Under this approach, auto manufacturers would have a strong incentive to improve the efficiency of their vehicles. But there also would be a strong incentive to increase the availability and use of alternative fuels. This approach could be integrated with the economy-wide cap-and-trade program, thereby increasing the overall efficiency of efforts to reduce greenhouse gases and oil consumption. It would also avoid the gaming and other complications that have arisen in connection with the CAFE program. Significantly, this approach could also help generate the revenues needed to provide assistance to struggling auto manufacturers and to level the playing field in the auto industry.

Obviously, there are many details that would have to be worked out in order to establish this type of carbon burden system for the auto sector. The UAW is prepared to work with this Subcommittee in fashioning this system.

B). Tax Incentives

The federal government currently provides tax credits to consumers who purchase certain advanced technology (hybrid, diesel, fuel cell) vehicles. These incentives are designed to encourage consumers to purchase more fuel-efficient vehicles. However, the tax credits are available regardless of where the vehicles and their key components are built. They are not tied to domestic production. Unfortunately, many advanced technology vehicles currently are assembled in other nations. Even worse, virtually all of the key components (hybrid electric motors; diesel engines) for these vehicles are built overseas, including the key

components for vehicles assembled in this country, as well as those assembled in other countries. As these advanced technology vehicles gain a larger share of the market, this means we are replacing vehicles with higher domestic content with vehicles that have much lower domestic content. As a result, the consumer tax credits effectively subsidize the movement of automotive jobs overseas. For this reason, we believe it would be a major mistake for the federal government to rely solely on these consumer tax credits to encourage the expansion of advanced technology vehicles. Certainly, these tax credits should not be expanded by increasing the amounts or lifting the cap on the number of qualifying vehicles.

Instead of this flawed approach, the UAW urges Congress to use tax or other incentives to encourage **domestic production** of advanced technology vehicles and their key components. As was demonstrated by a November, 2004 study conducted by the Office for the Study of Automotive Transportation (OSAT) of the University of Michigan Transportation Research Institute, and commissioned by the bipartisan National Commission on Energy Policy, this type of approach would help to maintain and create tens of thousands of automotive jobs in this country. At the same time, it would help to accelerate the introduction of these advanced technology vehicles, and thereby reduce global warming emissions and our dependence on foreign oil. Moreover, in light of the highly competitive nature of the U.S. auto market, any savings realized by the auto manufacturers and parts companies would inevitably be translated into cost reductions for consumers, and thereby encourage sales of these more efficient vehicles. Significantly, the OSAT study indicated that the increased tax revenues for federal, state and local governments generated from the jobs created for American workers would more than pay for the costs of such manufacturer incentives.

The UAW was pleased that this type of proposal for a manufacturer's tax credit to encourage domestic production of advanced technology vehicles and their key components was included in a number of bipartisan bills that were introduced in the last Congress. We urge this Subcommittee to include this proposal in any climate change or energy security legislation that is developed in this Congress. This proposal would be consistent with the auto carbon burden cap discussed above.

C). Alternative Fuels Initiatives

There are a range of other initiatives that Congress could pursue to promote the use of alternative fuels in motor vehicles. These initiatives could make an enormous contribution to reducing greenhouse gas emissions and our reliance on foreign oil.

Obviously, there is a need to promote the production of vehicles that are capable of running on alternative fuels. The technology required to make vehicles flex

fuel capable is relatively inexpensive - about \$150 per vehicle. GM, Ford and DCX have already voluntarily committed to making 50 percent of their fleets flex fuel capable by 2012. The UAW would support legislation mandating that certain percentages of all vehicles sold in the U.S. by each automaker must be flex-fuel capable by specified dates. Meanwhile, to avoid any counterproductive disincentive, the CAFE credit for flex fuel vehicles should be extended and expanded to cover bio-diesel.

To expand the use of alternative fuels, there also is a need to overcome technical hurdles facing cellulosic ethanol and bottlenecks in distribution networks. Thus, the UAW supports the continuation of existing incentives for the production of bio-fuels. We also support additional incentives or mandates relating to the conversion of existing filling stations so they have the capability to distribute alternative fuels.

The UAW welcomes the Bush administration's proposal to increase the renewable fuels mandate. We also believe that the fuels carbon cap that was recently proposed by Governor Schwarzenegger represents a thoughtful approach that is worth examining on a federal level. Indeed, this proposal is consistent with the auto carbon burden cap described above.

D). CAFE

The UAW believes that changes in the CAFE program are the least desirable option for addressing the problems of climate change and energy security. The CAFE program does nothing about the fuels that go into vehicles. It would not be integrated with any broader economy-wide cap-and-trade program to limit greenhouse gas emissions. Historically, the CAFE program has been subject to gaming by the auto companies. And it does not generate any revenue that could be used to assist struggling auto manufacturers to do the retooling needed to meet stiffer efficiency requirements.

The Bush administration has proposed a number of changes in the CAFE program. In particular, it has requested the authority to establish an attribute-based CAFE system for passenger cars, similar to the system that the National Highway Traffic Safety Administration (NHTSA) has already implemented for light trucks. In addition, the administration has proposed that auto manufacturers be permitted to trade CAFE credits.

The UAW recognizes that moving to an attribute-based CAFE system for passenger cars similar to the system for light trucks would have the benefit of eliminating the discriminatory impact of the current passenger car CAFE rules against full line producers. We would strongly applaud this development. The UAW has long complained that the structure of the current passenger car CAFE rules does not take account of differences in the product mix of the various auto manufacturers. As a result, it imposes a heavier, unfair burden on companies

that have a product mix more oriented towards larger passenger cars. Moving to an attribute-based CAFE system for passenger cars would correct this problem, and require all companies to make similar efforts to improve fuel economy across their entire line of vehicles.

However, as the UAW indicated in our testimony on May 3, 2006 before the House Energy & Commerce Committee, moving to an attribute-based CAFE system for passenger cars would also have the major down side of enabling auto manufacturers to offshore all of their small car production. Under the existing passenger car CAFE program, the combination of the fleet wide averaging and the two-fleet (domestic and foreign) rules ensures that full line auto manufacturers must maintain small car production in North America. This is because the production of smaller, more fuel efficient vehicles is needed to offset the production of larger, less fuel efficient vehicles.

As a matter of national energy policy, the UAW believes it is vital that the U.S. retain domestic production of smaller, more fuel efficient passenger cars. As we have all witnessed, sharp increases in gas prices can lead to shifts in consumer demand towards smaller, more fuel efficient vehicles. Unless we retain domestic production of such vehicles, consumers interested in this segment of the market could be forced to purchase foreign-made vehicles.

Over 17,000 American workers are currently employed in five U.S. assembly plants that produce small passenger cars. This includes GM, Ford, DCX, and NUMMI plants in Lordstown (Ohio), Spring Hill (Tennessee), Wayne (Michigan), Belvidere (Illinois), and Fremont (California). Almost 50,000 American workers produce parts for these vehicles. The jobs of these workers would be directly threatened by any CAFE proposals that undermine fleet wide averaging and/or the two-fleet rule for passenger cars. The loss of these jobs would inevitably have a negative ripple effect on the rest of the economy.

Some commentators have tried to dismiss concerns about the loss of small car production by arguing that the companies will simply substitute large car or light truck production at these facilities, leaving the overall production and employment levels unchanged. This ignores the harsh reality that there currently is significant over capacity in the auto industry. The real world impact is that certain companies would take advantage of any shift to an attribute-based CAFE system for passenger cars to further downsize their operations by closing their small car facilities. The net result is that tens of thousands of automotive jobs would be lost, without any compensating replacements with large vehicle production and jobs. Because of the high multiplier effect of auto industry employment, this also would lead to a net loss of hundreds of thousands of jobs in the overall economy.

As the UAW testified last year, there is an easy way to obtain the benefits of moving to an attribute-based CAFE system for passenger cars, while avoiding

the down side of losing our small car production and jobs. Specifically, the UAW urges Congress to impose an "anti-backsliding" requirement on any new CAFE rules that NHTSA would be authorized to promulgate for passenger cars. This requirement should specify that both the domestic and foreign passenger car fleets for each auto manufacturer would still have to meet or exceed the CAFE standard under the current system (i.e., the 27.5 flat MPG fleet wide standard). This "anti-backsliding" benchmark should be increased in line with the overall fuel economy improvements required under any attribute-based passenger car CAFE system.

The adoption of this type of "anti-backsliding" requirement would prevent companies from offshoring all of their small car production and jobs. This would protect the jobs of tens of thousands of American workers, and guarantee that we would continue to maintain domestic production capacity for smaller, more fuel efficient vehicles.

This type of "anti-backsliding" requirement also would ensure that the auto manufacturers cannot subvert the objective of any new CAFE system by "up-sizing" many of their vehicles, resulting in worse overall fuel economy. It would guarantee that the companies will actually improve fuel economy across the entire range of their passenger cars, and that consumers and our nation will indeed receive the benefits of more fuel efficient vehicles.

The imposition of this type of "anti-backsliding" requirement would not be burdensome for the auto manufacturers. It could be structured in a manner that still allows the companies to obtain the benefits of moving to a CAFE system that takes into account product mix differences between the companies. If the companies are genuinely taking steps to improve fuel economy across their entire range of passenger vehicles, and if they do not shift small car production overseas, they should easily be able to meet this requirement.

Thus, the UAW would support legislation authorizing NHTSA to establish an attribute-based CAFE system for passenger cars, **provided this is coupled with an "anti-backsliding" requirement that protects small car production and jobs in this country.** If this type of "anti-backsliding" requirement is not included, then we would vigorously oppose such legislation.

The UAW believes that the establishment of a "credit trading" system that would allow auto manufacturers to buy and sell CAFE credits for passenger cars and/or trucks would also have the effect of undermining the two fleet rule and/or fleet wide averaging. As a result, it would inevitably jeopardize the continuation of small car production. It could also aggravate the uneven playing field that currently exists between foreign and domestic auto manufacturers. For these reasons, we oppose the proposals put forward by the Administration and others for such "credit trading" systems.

One of the key issues in any discussion of the CAFE program is the stringency of and time frame for any proposed increases in the fuel economy standards. In his State-of-the-Union address, President Bush estimated that the CAFE changes advocated by the administration would save 8.5 billion gallons of gasoline by 2017. Back-up materials provided by the administration indicated that this assumes a 4 percent annual increase in CAFE standards for both passenger cars and light trucks. However, NHTSA has subsequently indicated that this is just a target, not a firm commitment. A number of Members of Congress have also put forward proposals to increase CAFE to 35 mpg for the combined passenger car and light truck fleets, to 40 mpg for passenger cars, or to require 4 percent annual increases in the CAFE standards.

The UAW remains very skeptical about all of these proposals. We question whether increases of this magnitude are technologically feasible. In our view, the study by the National Academy of Sciences in 2001 does not support increases of this magnitude.

As previously indicated, the UAW is deeply concerned about the economic feasibility of these proposals. In our judgment, the imposition of CAFE increases of this magnitude could have extremely negative consequences for production and employment at GM, Ford and DCX, and for the continuation of retiree health benefits for 500,000 retired workers and their families. To avoid serious job and benefit loss, we believe Congress must ensure that any proposals for increases in the CAFE standards also include measures to provide assistance to struggling auto manufacturers, and to help level the playing field in the industry with respect to retiree health care legacy costs.

Conclusion

In conclusion, the UAW appreciates the opportunity to testify before this Subcommittee concerning the critically important issues of climate change and energy security. We look forward to working with this Subcommittee to fashion measures that will enable the U.S. to make significant progress in reducing greenhouse gas emissions and oil consumption, while protecting jobs and benefits for American workers and retirees.

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