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Chairman Boucher, on behalf of the 9 million members of the AFL-CIO, I want to thank you and the members of the Subcommittee on Energy and Air Quality of the House Energy and Commerce Committee for the opportunity to testify this afternoon on this important subject. Our comments will focus on the Federations climate change initiatives in relation to the Climate Security Act of 2008 (S. 3036). Sponsored by Senators Boxer, Lieberman and Warner; the Investing In Climate Action and Protection Act (H.R. 6186) sponsored by Representative Markey; the Safe Climate Act (H.R. 1590) sponsored by Representative Waxman; and the Low Carbon Economy Act (S. 1766) sponsored by Senators Bingaman and Specter.

The AFL-CIO believes it is time for our nation to take bold steps to meet the 21st Century challenges related to climate change. Scientific evidence has confirmed that human use of fossil fuels is undisputedly contributing to global warming, causing rising sea levels, changes in climate patterns and threats to coastal areas. Unrestrained growth in greenhouse gas emissions poses critical economic and environmental issues. This challenge is an opportunity to enact an energy policy that will result in a cleaner planet, greater energy efficiency and the revitalization of our manufacturing base.

The world is looking to the United States for leadership because we are the most energy-intensive nation in the world and one of its leading emitters of greenhouse gas. Our nation can lead a new technological revolution in the way energy is generated and used that can be of benefit to the world as a whole and serve as a foundation for the revival of the middle class in the United States. But to accomplish this, we need a strategic approach centered on domestic investment in new technologies and good jobs. And we need to lead in fostering a shared international response to this issue.

Policy and Principles

Over the past 18 months, our interaction with Congress and many other businesses, industry, environmental and international labor organizations, has helped evolve and sharpen the thinking of the AFL-CIO Energy Task Force.

The February 2007 report by the AFL-CIO Energy Task Force recognized that "reliable and affordable electrical energy, is the lifeblood of the manufacturing, transportation, construction and service industries;" …and that we must "maintain diversity in the electric utility industry, by retaining all current generating options, including fossil fuels, nuclear, hydro and renewables, to ensure a stable, reliable and low-cost supply of electricity for the United States."

That report was also driven by our belief that a strong and diverse manufacturing base is in the national interest. This sector is in a deep and ongoing crisis. Since 1998, some 3.9 million manufacturing jobs were lost and 35,000 manufacturing facilities closed while the nation amassed trillion of dollars in trade deficits. The offshoring of skilled work, R&D, design, engineering and more continues to erode our innovative and technical capacities. Solving the climate change crisis is an opportunity to address the manufacturing crisis

The AFL-CIO supports a new industrial policy, and an environmental economic development policy, which places manufacturing and trade at the center of a green economy program. New investment in a sustainable energy infrastructure must be structured to create good jobs and ensure stable energy prices. These must be supported by effective trade policies. Without these key elements, there is a serious risk of driving good jobs offshore into nations without emission regimes and far less carbon efficient production.

A set of environmental economic development principles has helped guide the Federation's efforts:

1) Our Nation should embrace a balanced approach that ensures diverse, abundant, affordable energy supplies, creates good jobs for America's workers and improves the environment.

2) Our Nation should adopt an economy-wide cap-and-trade program that is transparent and requires all sectors to come to the table to reduce their carbon emissions. It should have timetables and standards that allow for the development and deployment of new technology and should help finance the new technologies that can provide clean energy at prices close to conventional sources.

3) Energy incentives and investments by the Federal Government must be based on a set of economic development principles that clean the environment and create jobs but will not encourage offshoring of manufacturing jobs.

4) Investments must be used to identify, develop and capture cutting-edge technologies and to manufacture and build these technologies here for domestic use and export.

5) The international component of any climate change cap-and-trade program must provide both incentives and a border mechanism enforced through a trade regime, to ensure that major developing nations, such as China and India, participate.

6) There must be adequate resources to both address the transition needs of workers and communities adversely affected by legislation, as well as, financial assistance to assist low and moderate income families.

The AFL-CIO is here today to reinforce these principles with the Energy and Air Quality Subcommittee, just as we have in every discussion held with staff and members of Congress.

Investing for the Future: Greening the Economy

Meeting the future energy needs of the nation while reducing our carbon footprint offers difficult choices and huge opportunities. It requires a commitment to major long term investments, that these be invested domestically and that the technology and products resulting from the investments be produced domestically. In this way the Nation can maximize the outcomes from its investments by assuring that those dollars recirculate through the domestic economy. This is environmental and industrial policy working in harmony. All the legislation we are addressing today took steps in this direction.

The Markey and Waxman bills and Boxer- Lieberman –Warner and Bingaman-Specter legislation all provided for an investment portfolio based on auction proceeds. The Waxman bill does not provide the level of detail that appears in the other bills. The AFL-CIO was most deeply engaged in the Senate stakeholder process that developed a robust portfolio in both bills. This included: carbon capture and sequestration technology (CCS), advanced technology vehicles, renewable energy and biomass, electric grid modernization, relief for low-and moderate-income families, worker and community transition, worker training, and more. These investments were bolstered by domestic investment requirements and international provisions regarding the participation of developing nations, including a border mechanism.

While the climate change bills all invest in CCS technology, those investments may be years away. There is an immediate need for investment in CCS technology. The AFL-CIO applauds the introduction of the Carbon Capture and Storage Early Deployment Act by Chairman Boucher. This legislation will create a non-governmental fund and entity to accelerate the deployment of carbon capture and storage technologies. This is an investment that needs to be made now so that the technology is available as soon as possible to meet the carbon emission standards of the future.

In the short term, there are a wide variety of options for emissions reduction that can help bridge some of the gap between the coal technology of today and the carbon capture and sequestration technology of the future. There is also an enormous potential for energy savings and good jobs in making our economy more energy-efficient. The modernization of the 160,000 miles of high transmission lines that make up the electrical grid and the retrofitting public, industrial and commercial buildings and home weatherization also increase energy efficiency and create jobs. The expansion and increased usage of mass transit and passenger rail offers similar opportunities for the economy and the environment.

Another important investment policy incorporated in the Senate legislation was to impede the ability of manufacturing firms to game the system simply for financial gain or to drive them offshore. Firms cannot collect credits for reductions achieved through closures, cutbacks or outsourcing work. Only actively operating manufacturing facilities (including new facilities) receive allowances, and their allocation is based on the number of production employees at those U.S. facilities. The point of the system was to encourage a positive change in the domestic behavior of energy producers and manufacturers while retaining jobs and our technical capability to produce goods.

The Bingaman-Specter, Boxer-Lieberman –Warner and Markey legislation all identified worker and community transition and worker training as critical investments. The Boxer-Lieberman – Warner identified major areas of worker investment, one of which corresponds with previous House legislation on green jobs. The worker and community transition is modeled after the best elements of TAA legislation and previous displaced worker legislation over the past 25 years. In addition to strong training, education and counseling benefits it provides for wage replacement, health care, retirement bridges, and other forms of economic and social assistance. It also recognizes the burdens that may fall on communities heavily dependent upon an affected industry and offers community planning and other forms of economic development assistance. The green jobs training program is modeled after House legislation that encourages collaborative community and labor-management initiatives.

Cap and Trade, Timelines and Cost Containment

A cap and trade system begins with the actual cap and an emission standards timeline The AFL-CIO supported the standards and timeline within the Bingaman-Specter bill. These were reasonable and recognized the linkage between standards and technical capability for mass deployment of new CCS technology. The caps and timetables established in the Boxer-Lieberman-Warner, Markey and Waxman bills are more stringent. These fail to take into account the actual state of technology development and deployment necessary to achieve their proposed standards.

The AFL-CIO believes that any approach for addressing greenhouse gas emissions must be done upstream on an economy-wide level, with contributions from each sector in proportion to the greenhouse gas emissions of that sector. Also, any auction of carbon permits should be reasonable in scope and must assure that no sector is disproportionately burdened. The Boxer- Lieberman – Warner, Bingaman-Specter and Markey bills do take an upstream approach with the burden being shared across sectors.

The AFL-CIO supports a limited market approach to cap and trade, with regulatory mechanisms that act as a price control to prevent any serious long-term damage to the economy. The Bingaman-Specter legislation contained a safety valve and the Boxer-Lieberman-Warner legislation offered an alternative approach to controlling price spikes through a borrowing from the future mechanism with set pricing. The Waxman and Markey bills fail to provide similar protections.

Carbon pricing has a direct relationship to fuel switching (from coal to natural gas) and that has serious consequences for the economy. The goal should be to encourage the adoption of new technologies like carbon capture and storage and discourage fuel switching. The AFL-CIO worked with the NCEP and members of the environmental community to identify the price triggers for fuel switching and ways to avoid this scenario. The Boxer-Lieberman-Warner bill did take this concern into account.

Fuel switching is directly related to our ongoing concern over the cost containment measures, and any legislation's timetable and standards for emission reductions in the 2020 period. While the Boxer-Lieberman-Warner bill offers one form of cost control it does not solve the problem of the 2020 standards in theirs and the Waxman and Markey bills. The stringent timelines will act as a trigger for massive fuel switching. It is in the 2020-2030 period that CCS technology should become available for mass deployment. But, the early aggressive targets will have already triggered the investment decisions for compliance. We urge that there be greater flexibility in the standards and timetable.

Market Functionality

The Stern Commission cited climate change as the greatest market failure in history. Today, open and unregulated markets have left the Nation in a housing crisis, soaring food costs, world capital markets in turmoil, and still dealing with the fallout of Enron. Even as this testimony is being delivered Congress is looking into the role speculation and futures contracts are playing in oil, grain and commodities markets. Thus, we remain deeply troubled with a simple market-only approach that is open to speculation and windfall profits by individuals and entities that have nothing to do with carbon emissions.

The open and "unlimited trading" initially proposed in legislation means that anyone, can buy allowances from a limited and declining pool. With well over 10,000 firms needing allowances, we reject the notion that letting additional speculators (those not needing to use carbon emission credit) into the market to create more liquidity is neither necessary nor desired. However, letting these speculators in will create windfall profits and drive prices higher leaving consumers and industry to pay the price.

In addition, the ability of purchasers to bank these allowances in perpetuity creates additional risks. While some would argue that unlimited banking might help business decision making, it also may lend itself to uncompetitive behavior in search of windfall profits or market advantage.

Open access and unlimited banking leaves the system open to predatory and speculative trading practices, the hoarding of allowances and windfall profits that will fuel volatile pricing in the market. This will have a direct and detrimental pricing impact on the public, utilities sector, and energy-intensive industries.

The AFL-CIO believes that the goal of any climate change legislation with a cap and trade program is to move industries and consumers to change behavior and lower carbon emissions.

The Federation recommends a regulated and restricted approach to the trading of allowances. We believe that:

- Market participation (as purchasers not sellers) should be limited to firms that intend to use the allowances. With an accurate carbon footprint and a declining pool of allowances, available prices will rise but not be artificially inflated by speculators.

- The banking of allowances should be limited and regulated to avoid non-competitive and speculative behavior. There needs to be a limit on the amount of allowances any particular firm can bank related to its actual needs. In addition, there should be a "time certain" by which a firm must use the allowances or revert back to the auction pool. A firm would always be able to reenter the market and bank a limited amount for a limited duration. These steps will help create a more certain, less speculative, trading environment.

- The allowances and market will be created for buyers and sellers who need to use them. Purchasing and retirement of allowances should be limited to entities regulated by state performance or efficiency standards in any sectors covered under the federal cap-and-trade program seeking to meet state standards more stringent than any comparable federal standards, by purchasing and retiring federal allowances.

Offsets and International Allowances

The use of offsets and international allowances as tools for cost containment needs to be approached with caution so that the outcomes sought for the long run, a cleaner planet and viable competitive domestic industries, are achieved. It is in our interest to assure that domestic industry makes the needed investments in transformational technology. Our concern is that these investments will be deferred with the easy availability of less expensive offsets and allowances. This would be a formula for business closure in future years.

In recent meetings with EU officials and European traders, the AFL-CIO has learned that the EU had the same concerns in mind with their recently implemented phase II reform. Under their system, offsets are limited on average to 15% because they fear that too many easily obtained offsets will undermine efforts to assure that domestic investments for mitigation are made. They want viable competitive clean industries in their countries. The EU does not have domestic offsets only international offsets. To date their experience with international offsets has been problematical and filled with concerns over the validity of these offsets.

The AFL-CIO remains concerned about the ability to monitor the legitimacy of domestic and foreign offsets. The Boxer-Lieberman-Warner legislation recognized these concerns and took steps to assure their legitimacy. However, this bears further examination. Project based international offsets may interfere with the adoption of a systematic carbon emission regime in the nation selling the offsets. Additionally, offsets must be both verifiable and there must be enforcement mechanisms in place to assure that investments into allowable offsets actually result in the reductions of green house gasses.

The idea should be to use these tools to help a firm balance that transition, but not to avoid making needed industry investments. The need for flexibility in the use of offsets and international allowances should be tempered with requirements that the purchasers must also be making progress with domestic investments to improve carbon emission performance. This needs to be made explicit in the legislation.

Energy Intensive Industries

There is far too little known about the impact of a cap and trade program on energy intensive industries such as steel, aluminum, paper, chemicals, airlines and others. The AFL-CIO has raised this issue consistently through the stakeholder process on the Senate bills. The Federation encouraged a set of economic impact studies that the National Commission on Energy Policy has commissioned for the steel, aluminum, paper and chemical industries. These will be finished within the next few weeks. The Boxer-Lieberman-Warner legislation recognized this concern by making additional free allocations of allowances available for these sectors. The NCEP studies will be a valuable source of data to help inform future decision-making.

There needs to be additional analysis of the economic impact on other sectors such as the aviation industry. The Airline Pilots Association points out the acute situation of this sector and its price sensitivity. Record fuel prices have wreaked havoc on the airline sector with four air carriers having ceased operations and more than 9,000 airline employees having lost their jobs this year and thousands more facing furlough this fall. The industry like others has a record of accomplishments in reducing GHG and conserving fuel, but fuel costs, industry consolidation and a weakening economy will continue to threaten our national aviation system for the foreseeable future. Congress needs to be better informed on the impact of cap and trade and performance of energy intensive industries so that these factors can be taken into consideration when crafting legislation.

International Aspects: The Need for a Global Solution

The inclusion of an international section in the Boxer- Lieberman-Warner, Bingaman-Specter, and Markey bills to assure that our industries and workers are not put at a competitive disadvantage with our trading partners is an important step forward. The Waxman bill does not address this concern. It has been a critical issue for our support of any legislation. The AFL-CIO believes that having a dynamic and healthy industrial base is in the best interest of the Nation and we must do our best to cut our carbon emissions. However, this cannot be a go it alone proposition.

The participation of developing nations is critical to solving this problem, while assuring the competitiveness of U.S.-based manufacturing. Mexico and Brazil account for more than half the emissions from Central and South America. Deforestation is estimated to account for 20-30 percent of carbon emissions with the burning of forests in the Amazon basin acting as a major contributor.

In 2007 China passed the United States in carbon emissions. They have a new "1950's technology" coal plant coming online every week with 500 plants being planned. They are dirty but cheap to build. Unabated, by 2030 China's emission will grow 139 percent and make up 26 percent of the world's total. They and other major developing nations must be part of the solution or everything we the EU and other nations do to cut carbon emissions will be for naught.

There is a second economic implication of the non-participation of these nations. China and other rapidly developing countries are already a magnet for manufacturers seeking to avoid labor, environmental, currency and other standards. Seventy percent of China's foreign direct investment is in manufacturing, with heavy concentration in export-oriented companies and advanced technology sectors. Much of this energy resource will be dedicated to China's manufacturing export platforms, which already account for nearly 40 percent of Chinese GDP.

To put it bluntly, it is not in our national interest to see our efforts to reduce carbon emissions become yet another advantage that a developing nation uses to attract business. However, it is in our interest and the worlds interest to have developing nations become part of the solution because the problem cannot be solved without them.

While we applaud the inclusion of international language in the Senate and Markey bills there is more that can be done to strengthen them. For example, the coverage should include more finished products. The AFL-CIO stands ready to work with Congress to address the critical issue of international competitiveness.

Federal and State Issues

Many states have enacted or are considering measures to reduce greenhouse gas emissions. This includes state or regional cap-and-trade programs, performance or efficiency standards relating to autos, utilities, fuels and other sectors covered under the cap in the federal legislation, as well as, initiatives in areas outside of the cap (e.g. building codes, conservation, transportation planning).

The Boxer-Lieberman-Warner, Markey and Waxman bills all preserve existing state authority to regulate greenhouse gases. However, the Boxer-Lieberman-Warner and Markey bills also supersede pending litigation over the scope of that authority, and make it clear that California and other states may regulate auto CO_2 tailpipe emissions. In addition, the Boxer-Lieberman-Warner, Markey and Waxman bills all fail to deal with the important issue of how state climate change measures - whatever their scope - will interface with the federal cap-and-trade program

In exchange for the establishment of the federal cap-and-trade program, the states should be pre-empted from having state or regional cap-and-trade programs affecting the sectors covered under federal legislation. This would prohibit state programs that cap emissions from the electric power, transportation or industrial sectors, or require the purchase, sale or retirement of allowances in these sectors. This is necessary to prevent regulated entities from having to submit duplicative allowances for the same ton of carbon, and to establish a level national playing field for an economy-wide emissions trading program.

The federal cap-and-trade program should be the exclusive federal authority for dealing with greenhouse gas emissions from those sectors covered under the cap. This is necessary to prevent EPA from issuing regulations that impact these sectors and have the effect of overriding the decisions made by Congress in the cap-and-trade program concerning the stringency of the federal cap, the point of regulation, and the distribution of economic burdens. EPA should retain any existing authority it may now have under the Clean Air Act to regulate in sectors that are outside the cap.

Conclusion

The AFL-CIO believes climate change is both a crisis and an opportunity for our nation. By taking the right legislative steps – timelines, standards and a safety valve sensitive to the economic impacts on business, workers and communities, assuring that our investments capture the intellectual property of cutting edge technology, by producing these new technologies and goods domestically, and engaging the developing world in the solution -- we can have a cleaner planet, greater energy efficiency and a revitalized manufacturing base.

The Federation looks forward to working with Congress to achieve these goals.