

AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS



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LEGISLATIVE ALERT!

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March 19, 2007

Honorable John D. Dingell, Chairman
House Committee on Energy and Commerce
2125 Rayburn Office Building
Washington D.C. 20515

Dear Chairman Dingell

I am writing in response to your letter to AFL-CIO President John J. Sweeney soliciting policy recommendations on climate change issues. We appreciate the opportunity to share the thoughts of the AFL-CIO on this issue and look forward to an ongoing dialogue with the Committee throughout the legislative process.

As you are aware, AFL-CIO union members represent workers in a broad cross-section of the U.S. economy, many in industries that will be directly affected by the legislation you are drafting. We felt that it was important to allow individual unions to also express their views on climate change initiatives; therefore you may be receiving comments from individual affiliates under separate cover. I would urge your serious consideration of their views.

Recently the AFL-CIO sent to every Member of Congress a policy paper on energy and climate change. We believe it articulates a balanced approach that would assure abundant, affordable energy supplies, create good paying jobs for American workers, and improve the environment while maintaining diversity in the electric utility industry, by retaining all current generating options including fossil fuels, nuclear, hydro and renewables; promoting good jobs by encouraging significant public investment backed by meaningful environmental standards, which ensure domestic job creation and environmental gains; lessening our dependence on foreign oil by promoting clean coal technology, bio-fuels, and renewable energy sources; encouraging innovation in the automotive sector, while opposing discriminatory CAFE proposals that are neither economically nor technologically feasible and would jeopardize the jobs of thousands of American automotive workers.

We believe any approach for addressing greenhouse gas emissions must be implemented upstream on an economy-wide level and can be accomplished in a manner that is conducive to economic growth and is worker friendly. Domestic efforts to address climate change should be conditioned on similar actions by U.S. trading partners and developing countries.

Attached is our response to the specific questions you posed. Again, we thank you for asking us to participate in this process. We look forward to working with you and your committee in the weeks ahead. If you have any questions please contact David Mallino, Jr. of the AFL-CIO's Legislation Department at 637-5084, or Bob Baugh of the Industrial Union Council at 637-3966

Sincerely,



William Samuel, Director
DEPARTMENT OF LEGISLATION

Attachment

**AFL-CIO response to the Committee on Energy and Environment request for
information regarding climate change legislation
March 19, 2007**

- 1) **Outline the issues you think should be addressed in the Committee's legislation, how you think they should be resolved, and your recommended timeline for Congressional consideration and enactment. Address the impacts you believe the relevant policy would have on:**
- a) Emissions of greenhouse gases and the rate of consequences of climate change;**
 - b) The effects on the U.S economy, consumer prices and jobs**

The AFL-CIO supports balanced measures to combat global warming. However, the federation opposes extreme measures that would undermine economic growth, harm particular sectors, or place the U.S. at a disadvantage to other nations.

We believe 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. Any mandatory tradable-permits program should initially seek to gradually slow the growth in greenhouse gas emissions, and should also contain a "safety valve" cost cap to protect the economy. In addition, U.S. efforts to address climate change should be conditioned on similar actions by U.S. trading partners and developing countries.

Any auction of carbon permits should be reasonable in scope and must assure that no sector is disproportionately burdened. The revenues generated should be primarily targeted to finance improvements in technology that will allow clean energy to be produced at prices close to what consumers pay for energy from conventional sources, and to encourage deployment of this technology in a manner that promotes domestic production and jobs for American workers. This includes incentives for conversion to clean coal technology, carbon capture and sequestration, domestic production of advanced technology vehicles and their components, energy efficiency, and renewable energy resources. We also recognize that hydro and nuclear energy are non-carbon emitting types of generation that also help maintain energy diversity in the electric utility industry.

In moving new energy initiatives underwritten by subsidies and tax changes, the government must consider the national and regional impact on employment and production in the U.S. The financial incentives must be designed to address the nation's energy needs and result in the retention and creation of good American jobs. Modernization and upgrading of existing facilities and the development of new technologies that can be manufactured domestically must be the priority. Financial incentives must not encourage the movement of work offshore, but should allow reasonable time frames so that industries that are large users of energy have time to adjust.

2) **Cap and trade policies**

a) **Which sectors should it cover? Should some be phased in over time?**

We believe 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. This should also be done in a manner that does not undermine economic growth, harm particular sectors, or place the U.S. at a disadvantage to other nations.

Any mandatory tradable-permits program should initially seek to gradually slow the growth in greenhouse gas emissions, and should also contain a "safety valve" cost cap to protect the economy. Any auction of carbon permits should be reasonable in scope and must assure that no sector is disproportionately burdened.

b) **To what degree should the details be set in statute by Congress or delegated to another entity?**

Climate change legislation should be as detailed as practicable on issues such as emission targets and timetables, the allocation of allowances among emitting sectors, the potential auction of allowances, and the uses of proceeds from the auction.

c) **Should the program requirements be imposed upstream, downstream or in some combination thereof?**

They should be imposed upstream on an economy-wide level, with contributions from each sector in proportion to the greenhouse gas emissions of that sector.

d) **How should allowances be allocated? By whom? What percentage of the allowances, if any, should be auctioned? Should non-emitting sources, such as nuclear plants, be given allocations?**

Any auction of carbon permits should be reasonable in scope and must assure that no sector is disproportionately burdened. Allowances and auction proceeds should be allocated to help spur technology, and to cushion the impact on certain industries. For example, allowances and auction proceeds allocated should assist investment in domestic production of advanced vehicles, to level the playing field in the auto industry, and for the conversion to clean coal technology, carbon capture, and sequestration.

Allowances and a cap and trade system should be targeted to the emitters so as to encourage the investment in new technology to lower emissions. The point of the financial incentives and rewards of a cap and trade system are to encourage

positive changes in domestic behavior. No one should be able to game the system for financial reward. There should be a prohibition on firms obtaining an allowance and then closing those facilities or moving those operations offshore. In addition, there should be a clawback provision for the return of allowances to the government that are not used due to cutbacks in production. The intent should be to reward increased efficiency.

Since allowances are in essence public disbursements, the value of the allowances, as well as their sale and disposition, should be public information and subject to timely public reporting.

e) How should the cap be set (e.g. tons of greenhouse gas emitted, CO2 intensity)?

The AFL-CIO supports the approach proposed by the National Commission on Energy Policy. GHG emissions intensity targets can be converted to allowable tons of emissions for various emitting sectors. The carbon intensity improvement targets in the current Udall-Petri and Bingaman proposals appear reasonable and achievable.

f) Where should the cap be set for different years?

The AFL-CIO supports the approach proposed by the National Commission on Energy Policy.

g) Which greenhouse gases should be covered?

The AFL-CIO supports the approach proposed by the National Commission on Energy Policy. Climate change legislation should cover all emitting sectors of all six greenhouse gases covered by the Kyoto Protocol in a cap-and-trade framework similar to that proposed by Reps. Udall and Petri and Senator Bingaman, with realistic targets for the annual improvement of U.S. greenhouse gas intensity per dollar of GDP. Several phases of increasing rates of improvement per dollar of GDP may be appropriate.

h) Should early reductions be credited? If so, what criteria should be used to determine what is an early reduction?

There is a critical concern related to credits for early reduction. There needs to be a mechanism included to allow coal, auto, transportation and other sectors to get assistance right away, even though greenhouse gas reductions will only kick in later on.

The timing of government investments in new technology should enable early reductions and assure a smoother transition to a set of requirements for long-term reductions. The problem is that the creation of an investment fund from the

auction of allowances will not take place until the actual implementation of a cap and trade program. However, there is an immediate need for investments in clean coal, advanced auto, and other technologies. These need to be in place prior to program implementation as well as after. Congress must find a way to forward fund these important investments in new technology and thus enable these sectors to meet the program requirements when they are implemented.

i) Should the program involve a safety valve? If so, at what levels?

Any mandatory tradable-permits program should initially seek to gradually slow the growth in greenhouse gas emissions, and should also contain a "safety valve" cost cap to protect the economy. The AFL-CIO supports the approach proposed by the National Commission on Energy Policy.

j) Should offsets be allowed? If so, what type of offsets? What type of criteria should govern the offsets that would be allowed?

A broad menu of domestic and international offsets should be allowed, ranging from terrestrial carbon sequestration to project-related offsets. The U.S. is not bound by the Kyoto Protocol, and is in position to provide substantial flexibility in the means available to meet GHG efficiency targets. Expanding offset opportunities to international markets could stimulate the development and export of advanced clean coal and other energy technologies to developing nations.

Criteria for the availability and use of offsets should be developed by regulation, based on general statutory guidelines describing acceptable offset mechanisms.

Offsets should not be allowed if they encourage the movement of work out of the U.S.

k) If an auction or safety valve is used, what should be done with the revenues from those features?

The recycling of auction revenues is of the highest priority. The revenues generated should be primarily targeted to finance improvements in technology that will allow clean energy to be produced at prices close to what consumers pay for energy from conventional sources, and to encourage deployment of this technology in a manner that promotes domestic production and jobs for American workers. This includes incentives for conversion to clean coal technology, carbon capture and sequestration, domestic production of advanced technology vehicles and their components, energy efficiency, renewable energy resources, and for training the workers engaged in the production and deployment of these technologies. There should not be a cap on the fund created from the revenue raised through the auction.

However, as we previously identified in our response to question 2h, “there needs to be a mechanism included to allow coal, auto, transportation and other sectors to get assistance right away, even though greenhouse gas reductions will only kick in later on. The problem is that the creation of an investment fund from the auction of allowances will not take place until the actual implementation of a cap and trade program. However, there is an immediate need for investments in clean coal, advanced auto, and other technologies. These need to be in place prior to program implementation as well as after. Congress must find a way to forward fund these important investments in new technology and thus enable these sectors to meet the program requirements when they are implemented.”

l) Are there special features that should be added to encourage technological development?

Technological incentives and investments should have a dual purpose: one is to achieve positive environmental/energy outcomes and the other is to capture the new technologies for job growth through domestic production/construction and for the export market.

Modernization and upgrading of existing facilities and the development of new technologies that can be manufactured domestically must be the priority. Financial incentives must not encourage the movement of work offshore but should allow for reasonable time frames so that industries that are large users of energy have time to adjust. There should be a prohibition on firms obtaining an allowance and then closing those facilities or moving those operations offshore or beyond our borders. In addition, firms should not profit from the sale of allowances created by temporary production cutbacks. The government should recapture these unused allowances.

m) Are there design features that would encourage high emitting developing countries to agree to limits on their greenhouse gas emissions?

U.S. efforts to address climate change should be conditioned on similar actions by U.S. trading partners and developing countries. This is the place where energy/environment and manufacturing/trade policy meet. It is critical that any cap and trade program have a trigger mechanism that initiates real action, not a study or another vote of Congress to take action.

There can be a carrot and stick approach using international trade law to address the failure of major developing nations to develop systems to limit greenhouse gas emissions. For example, there could be a requirement that, with a time certain deadline and an impasse/failure in negotiations, nations not participating would have to purchase carbon allowances on products for exports into the U.S., i.e., a border adjustable permit requirement. This or another trade-based approach is critical to encourage behavior change in our trading partners. Trade sanctions have been used on some previous environmental protocols.

However, there is a long history of lax environmental standards, repression of workers rights, currency manipulation, and other financial incentives being utilized by foreign governments to build their own industrial base. These are all illegal subsidies that have undermined U.S. manufacturing and contributed to our unsustainable trade deficit. A cap and trade program will exacerbate this situation if it does not include a timeline for compliance for non-participating trading partners and provide a clear timely response mechanism with significant financial consequences.

3) How well do you believe existing authorities permitting or compelling voluntary or mandatory action are functioning? What lessons do you think can be learned for existing voluntary or mandatory programs?

Voluntary mechanisms are not sufficient. A mandatory cap and trade program that is reasonable, balanced in its approach to all sectors, sensitive to economic growth, and linked to similar action by our international trading partners will help assure a level playing field for all.

There is a concern over the growing number of state-based emission control programs. There needs to a level playing field that provides energy producers and manufacturers with a degree of certainty about regulation and requirements. Our energy and emission issues are national in scope.

4) How should potential mandatory domestic requirements be integrated with future obligations the United States may assume under the 1992 United Nations Framework Convention on Climate Change? How should any U.S domestic regime be timed in relation to international obligations? Should adoption of domestic requirements be conditioned upon assumption of specific responsibilities by developing nations?

U.S. efforts to address climate change should be conditioned on similar actions by U.S. trading partners and developing countries. (See our response to question 2 m above)