

TESTIMONY OF

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

on the subject of

**LEGISLATIVE HEARING REGARDING THE AMERICAN
CLEAN ENERGY & SECURITY ACT**

before the

**SUBCOMMITTEE ON ENERGY & ENVIRONMENT
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES**

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Introduction

Mr. Chairman, my name is Alan Reuther. I am the Legislative Director for the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW represents over one million active and retired workers, many of whom work or receive retirement benefits from auto manufacturers and parts companies. The UAW appreciates the opportunity to testify before this Subcommittee on the discussion draft that Chairmen Waxman and Markey have released entitled the "American Clean Energy & Security Act of 2009," as well as on various fleet modernization proposals.

In a March 27, 2009 letter to President Obama, Chairmen Waxman, Markey, Dingell and Boucher stated that our nation faces three imperatives that are closely related: (1) reducing our dependence on foreign oil which imperils our national security; (2) protecting the planet from climate change by reducing greenhouse gas emissions; and (3) stimulating our economy and creating jobs in order to lift our nation out of the current recession. This letter emphasized that prompt action on comprehensive energy and climate legislation will provide a pathway for meeting these three national imperatives.

The UAW wholeheartedly agrees with this assessment by the distinguished Chairmen. We are prepared to work with this Subcommittee and the entire Congress to achieve this objective.

The UAW believes the Waxman-Markey discussion draft contains many positive features that should form the basis for comprehensive energy and climate legislation. At the same time, in our judgment several areas require further elaboration and refinement. This testimony will first discuss Titles III and IV of the discussion draft, which would establish an economy-wide cap-and-trade program to reduce greenhouse gas emissions, along with various transition

programs. It will then discuss various provisions in Titles I and II relating to clean energy and energy efficiency. Finally, this testimony will comment on various vehicle fleet modernization proposals.

Titles III and IV - Global Warming and Transition Programs

The UAW strongly supports the provisions of Title III establishing an economy-wide cap-and-trade program to reduce greenhouse gas emissions that are causing global warming. We believe this is the best way to guarantee that necessary emissions reductions will occur, while allowing regulated entities to make these changes in the most economically efficient manner. From our perspective, this approach is vastly preferable to allowing EPA to attempt to regulate all greenhouse gas emissions through its existing authority under the Clean Air Act.

The UAW is also pleased that Title III would require all sectors of the economy to come to the table to reduce our nation's greenhouse gas emissions, including electricity sources, fuel producers and importers, mobile sources, and industrial stationary sources. We welcome the provisions that would regulate greenhouse gas emissions from the transportation sector on an "up-stream" basis, by regulating fuel producers and importers. In our judgment, this approach minimizes regulation, promotes economic efficiency, and ensures that all sectors participate in reducing greenhouse gas emissions.

The UAW welcomes the inclusion in Title III of mechanisms to contain costs and prevent price spikes that could have a negative impact on some sectors of the economy and on employment. This includes the provisions allowing international and domestic offsets, as well as the provisions allowing banking and borrowing of allowances and establishing a strategic reserve of allowances. However, we urge the Subcommittee to secure economic analyses of these provisions to determine whether, taken together, they would be effective in containing cost

increases. Additionally, the UAW believes that any legislation must include provisions to prevent manipulation and speculation in the market for emissions allowances.

The UAW applauds the inclusion in Title IV of provisions that seek to preserve the competitiveness of domestic industries, and to guard against unfair competition from countries that have not adopted comparable programs to reduce greenhouse gas emissions. We believe the rebate program established under Section 403 would be helpful in achieving this objective. However, we believe this rebate should be based on 100 percent of the greenhouse gas emissions per unit of output for all covered entities. We also believe it is important that this program be expanded to include products, such as auto parts, that contain large amounts of energy-intensive components or materials (e.g., steel). Otherwise, companies would be able to gain a substantial competitive advantage by producing auto parts or similar products in nations that do not have comparable cap-and-trade programs. This could trigger an even greater exodus of auto parts production and jobs to China, India and other developing nations.

The UAW also applauds the inclusion of the provisions in Sections 413-416 that would allow an international reserve allowance program to be established if negotiations do not result in other nations adopting comparable programs to combat climate change. In our judgment, however, these provisions must be strengthened to ensure that this “stick” will be effective in preventing the competitiveness of our businesses from being undermined by unfair foreign competition. In particular, these provisions should be modified to reduce the discretion of the executive branch in implementing the international reserve allowance program, as well as the time lag before the program must be established. Furthermore, as with the rebate program, the UAW believes the international reserve allowance program should be expanded to include auto parts and other products that contain large amounts of energy-intensive materials or components.

The UAW also supports the provisions in Section 422 of Title IV that would establish workforce training programs. This will help to provide American workers with the skills needed for clean energy jobs of the future. We also note that the discussion draft includes a placeholder in Section 424 for worker transition provisions. The UAW urges the Subcommittee to include robust transition provisions that will provide laid off workers with income support and health care coverage. We believe this assistance is needed to cushion the impact of the cap-and-trade program on particular industries and their workers, and to help laid off workers as they transition to new jobs.

In addition, the UAW strongly urges the Subcommittee to add provisions that will provide transition assistance to states and local communities. In particular, we believe a portion of the revenues from the auction of carbon allowances should be allocated to states whose economies rely heavily on manufacturing. This would help to ensure that the cap-and-trade program will not impose undue burdens on these states and communities. These provisions should allow states and communities to fashion initiatives that will create new jobs, as well as programs that will provide assistance to workers and retirees who have been negatively impacted by transitions in various industries.

Most importantly, the UAW believes that any cap-and-trade program should include provisions that will use a substantial amount of the revenues from the auction of carbon allowances to help auto manufacturers and parts companies with the major up-front costs associated with meeting existing fuel economy regulations and any tougher fuel economy/greenhouse gas emissions standards that may be imposed under Title II of the legislation. This would be fully consistent with the more general principle that a portion of the revenues raised from the auctioning of carbon allowances should be reinvested to spur research and development of advanced, low carbon technologies, and to promote the deployment of these technologies throughout our nation. In our judgment, this is

critically important for economic growth and to ensure that we will be creating the jobs of the future in this country.

Of particular importance, the UAW believes a portion of these revenues should be used to provide at least another \$25 billion to fund the Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP) established under section 136 of the Energy Independence and Security Act of 2007 (EISA), as well as funds for the new program that may be established under Section 124 of Title I of the discussion draft to encourage the retooling of manufacturing facilities in this country to produce plug-in electric drive vehicles. Automakers and parts manufacturers already have submitted applications for grants that will use more than the original \$25 billion that was appropriated for the Section 136 program. President Obama has called for providing another \$25 billion in funding for this program. The UAW submits that guaranteed, full funding for the Section 136 program and any new Section 124 program will be critically important in accelerating the introduction of the full range of advanced vehicles (hybrids, plug-ins, and advanced diesels), and ensuring that these advanced vehicles and their key components will be made in this country, creating jobs for American workers and generating tax revenues for the federal and state governments.

In addition, the UAW believes revenues from the auction of carbon allowances should be used to pay for other costs associated with meeting tougher fuel economy/emissions standards, beyond those linked to advanced technology vehicles. To meet tougher fuel economy/emissions standards, the auto manufacturers and parts companies will have to develop and deploy a range of new fuel saving technologies, not simply those related to advanced technology vehicles. Because of their current precarious financial situation, the Detroit-based auto companies simply do not have the resources to make the up-front investments that will be required in all of these areas. And because of the over capacity and negative pricing environment in the auto industry, the automakers and parts suppliers do not have the ability to simply pass these costs on to

consumers. Thus, government assistance will be necessary to ensure that all of the auto manufacturers and parts companies can move forward with the full range of technological innovation and retooling that will be necessary to meet tougher fuel economy/emissions standards.

Titles I and II - Clean Energy and Energy Efficiency

The UAW applauds the provisions in Title I that are designed to promote clean energy sources. Specifically, we support the thrust of the renewable energy provisions requiring retail electricity suppliers to meet a percentage of their load with electricity generated from renewable sources. We also support the provisions promoting development of carbon capture and sequestration technologies and the provisions facilitating deployment of a smart electricity grid. In our view, these measures are critically important to realizing the full promise of vehicle electrification.

The UAW also strongly supports the clean fuels and vehicles provisions in Title I. We believe the low carbon fuels standard can make a major contribution to reducing our nation's consumption of oil and greenhouse gas emissions. However, the provisions allowing credits to be awarded to auto manufacturers and importers of electric vehicles should be modified to ensure that these credits are channeled into the existing Section 136 Advanced Technology Vehicles Manufacturing Incentive Program. This will ensure that these credits are used to support advanced auto production and jobs in the United States, instead of subsidizing auto industries in other countries.

The UAW applauds the provisions supporting large-scale demonstrations of electric vehicles. This can provide an important boost to the deployment of these vehicles and help to create demand for the production of these vehicles by auto manufacturers. Most importantly, the UAW strongly supports the thrust of the provisions in Section 124 granting financial support to automakers to retool

plants to build plug-in electric drive vehicles in this country. This can help to ensure that these vehicles will be produced in the United States and will create jobs for American workers. However, the UAW is concerned that these Section 124 provisions overlap with, but may not be as effective as the existing Section 136 Advanced Technology Vehicles Manufacturing Incentive Program. For example, the Section 136 ATVMIP includes auto suppliers who retool facilities in this country to produce key components for plug-in vehicles (such as the battery packs). The UAW looks forward to working with the Subcommittee to reconcile the provisions of the proposed Section 124 program and the existing Section 136 program in the most effective manner.

The UAW applauds the energy efficiency provisions in Title II relating to buildings, lighting and appliances, utilities and industrial plants. These programs can make a major contribution to reducing greenhouse gas emissions.

The UAW also commends the discussion draft for including the transportation planning requirements in Title II. This section recognizes that initiatives to reduce vehicle miles traveled must be an important component of any effort to reduce oil consumption and greenhouse gas emissions from the transportation sector. These are difficult measures that will require decades of sustained investment. But this is essential to prevent the growth in vehicle miles traveled from negating the benefits from vehicle efficiency improvements.

Title II also calls for tougher efficiency standards for light duty vehicles. Although considerable progress was already made in this area in the Energy Independence and Security Act of 2007, the UAW recognizes that further progress can and should be made. In particular, to enhance our nation's energy security by reducing consumption of foreign oil, the UAW believes that any economy-wide cap-and-trade program should be complemented by tougher vehicle efficiency standards.

However, the UAW is concerned by several aspects of the light duty vehicle efficiency provisions in Title II. Although these provisions take the commendable step of calling for the harmonization of standards that may be set by NHTSA, EPA and the State of California, they do not purport to establish any minimum benchmark for such standards beyond 2015. Beyond that date, the provisions merely provide a green light for subsequent regulatory action by the State of California.

The UAW believes this approach has several glaring deficiencies:

- It fails to provide any certainty that there will be guaranteed minimum reductions in oil consumption and greenhouse gas emissions over an extended period of time;
- It fails to provide automakers with certainty as to what will be required of them over an extended period of time, thereby making it more difficult for the companies to make necessary decisions on technologies and investments.

In lieu of this approach, the UAW submits that it would be preferable to substitute provisions that mandate minimum vehicle efficiency targets that must be met by the automakers for specified dates extending through 2030. These could be set as specific mpg targets, or as percentage improvements from a certain baseline. If these targets were combined with the existing requirement that vehicle efficiency standards must be set at the "maximum feasible" level, this would ensure that our nation receives the benefits of the minimum guaranteed reductions in oil consumption and greenhouse gas emissions, while still allowing for even greater reductions should NHTSA and EPA determine that this is feasible. At the same time, this approach would provide a greater degree of certainty to automakers, thereby making it easier for them to make key decisions on technologies and investments. Like the provisions in the discussion draft, this

approach could be based on the existing statutory authority of NHTSA and EPA, with the two agencies being directed to harmonize their regulations.

For this alternative approach to be feasible, the UAW recognizes that it would have to embody a negotiated agreement between NHTSA, EPA and the State of California, as well as other stakeholders. This agreement would have to reflect the desire of California and other states for more stringent reductions in vehicle emissions and oil consumption. At the same time, the UAW strongly believes it should reject some of the deficiencies in California law AB 1493 such as:

- the exemption of many foreign automakers whose vehicles make up about 15 percent of sales nationwide;
- the one-size fits all flat mpg approach (instead of the reformed, attribute based standards that all stakeholders supported in the Energy Independence and Security Act of 2007); and
- the lack of any anti-backsliding rule (such as the provision in EISA which protects domestic small car production and also guarantees that auto manufacturers must continue to make improvements in the fuel economy of their domestic car fleets).

The UAW believes legislation could specify that it is not altering existing law regarding the authority of California and other states post 2030 – i.e., after the end date of whatever tougher national standards are negotiated between the State of California and EPA/NHTSA and other stakeholders.

Finally, Title II of the discussion draft grants authority for EPA to establish efficiency standards for heavy duty vehicles, marine vessels, and aircraft. It also contains a provision giving the Administrator authority to issue regulations allowing trading and banking of credits between these sectors and the light duty

vehicle sector. Although the UAW believes this could provide helpful flexibility to companies in all of these sectors, we believe this section should specify that this credit trading and banking cannot be used to satisfy the anti-backsliding rule that EISA established for the domestic passenger car fleet. EISA already specifies that the credit trading and transferring allowed under that law cannot be used to satisfy the anti-backsliding rule for the domestic passenger car fleet. Extending this same principle to any new credit trading and banking provisions for these other sectors would help to ensure that the fuel economy and domestic production/jobs benefits of the anti-backsliding rule are not subverted.

Fleet Modernization Proposals

The UAW supports the concept of a fleet modernization (cash-for-clunkers) program, which would provide incentives for consumers to scrap older, less fuel efficient vehicles and purchase new, more fuel efficient vehicles. Most importantly, this type of program could provide an immediate boost to new vehicle sales, thereby helping to counteract the negative impacts of the current financial and economic crises which have driven auto sales to their lowest level in over 25 years. This would help struggling auto manufacturers, as well as their workers and retirees. At the same time, a fleet modernization program could help to reduce oil consumption and greenhouse gas emissions by replacing older, less efficient vehicles with new, more fuel efficient vehicles. This will provide significant benefits to consumers and the general public, both in terms of energy security and climate change.

In structuring any fleet modernization program, the UAW believes this Subcommittee and Congress should adopt several important principles.

- Any program should support auto production and jobs in the United States. From our perspective, it makes no sense to use taxpayers' money to subsidize overseas auto production.

- Any program should ensure that all of the major automakers can participate in an equitable manner. The program should not disproportionately benefit a single company.
- To maximize the stimulus effect for the auto industry, any program should provide incentives for the purchase of the widest possible segment of new vehicles.
- To maximize energy security/climate change benefits, any program should cover the purchase of any new vehicle that is at least a certain mpg more fuel efficient than the old vehicle being scrapped, rather than being limited to narrow categories of vehicles. This reflects the mathematic truth that the **greatest** fuel savings/reductions in greenhouse gases will be produced by consumers trading in older, very inefficient pickups, SUVs, and minivans and replacing these vehicles with newer, more efficient models of these vehicles.
- Any program should be simple, so it is understandable by consumers and easy to implement for vehicle dealers.

The UAW believes the legislation introduced by Representatives Sutton and Candice Miller (H.R. 1550) best meets the principles set forth above. In contrast, we strongly oppose the legislation introduced by Representatives Inslee and Israel (H.R. 520) because it is structured in a manner that heavily favors vehicles built overseas by foreign automakers. Furthermore, the very narrow focus of this legislation severely undermines its stimulus and energy/environmental benefits.

The UAW hopes that an acceptable compromise can be worked out among all stakeholders so that Congress may move forward quickly with a balanced fleet modernization proposal. We believe that a number of positive proposals have

recently been advanced that may facilitate the achievement of this objective. This includes proposals that would:

- set a cap on the amount of money available to each manufacturer for a fleet modernization program, based on their market share;
- provide a base incentive for the purchase of all new vehicles that are more fuel efficient than the vehicle being scraped, while also providing additional incentives for the purchase of new vehicles that exceed some fuel economy benchmarks; and
- provide additional incentives for the purchase of vehicles assembled in the United States.

In our judgment, a program combining these elements could satisfy the principles set forth above. It could provide a major stimulus to the auto industry, while at the same time providing substantial energy and environmental benefits.

Conclusion

In conclusion, the UAW appreciates the opportunity to testify before this Subcommittee on the discussion draft that Chairmen Waxman and Markey have released entitled the "American Clean Energy and Security Act of 2009," as well as on the subject of fleet modernization proposals. We believe the Waxman-Markey draft legislation represents a thoughtful and balanced approach for enhancing our nation's energy security, combating global warming, and promoting economic growth. We applaud Chairmen Waxman and Markey for the many positive provisions that would establish an economy-wide cap-and-trade program and provide transition measures, as well as the provisions dealing with clean energy and energy efficiency. We believe this legislation could be improved by including provisions that would use a portion of the revenues from

the auction of carbon allowances to assist the auto industry in meeting tougher fuel economy/greenhouse gas emissions standards. We also believe the light duty vehicle efficiency standard could be improved by providing greater certainty over a longer period of time on the fuel savings/emissions reductions that must be achieved and on the technological and financial challenges that the auto industry will be required to meet. We look forward to working with the Subcommittee and the entire Congress to craft provisions in these areas, and to facilitate prompt enactment of this critically important legislation. Thank you.

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