

**Testimony of
Paul N. Cicio
President
Industrial Energy Consumers of America**

“EPA’s Greenhouse Gas Regulations and Their Effect on American Jobs”

**Before the House Subcommittee on Energy and Power
House Committee on Energy and Power**

March 1, 2011

Chairman Whitfield and Ranking Member Rush, thank you for the privilege of appearing before you. My name is Paul Cicio and I am the President of the Industrial Energy Consumers of America (IECA).

IECA is a nonpartisan association of leading manufacturing companies with \$800 billion in annual sales and with more than 750,000 employees nationwide. It is an organization created to promote the interests of manufacturing companies through advocacy, and collaboration for which the availability, use and cost of energy, power or feedstock play a significant role in their ability to compete in domestic and world markets. IECA membership represents a diverse set of industries including: plastics, cement, paper, food processing, chemicals, fertilizer, insulation, steel, glass, industrial gases, pharmaceutical, aluminum and brewing.

Manufacturing sector is still on the ropes

Manufacturing continues to lose competitiveness as evidenced by recent trade data. The Commerce Department reported on February 11, 2011 that exports grew in 2010 by almost 17 percent – but imports rose 20 percent and pushed the annual trade deficit up to almost \$498 billion, a 32.8 percent increase. The largest percent gain in a decade. The trade deficit with China for 2010 reached a high of \$273 billion.

Locked in global competition

Our country and the US manufacturing sector are locked in global competition with other countries and their manufacturing facilities – and both are losing relative economic ground. We must once again become a country that embraces the manufacturing sector with policies that foster capital investment, innovation, relative low cost energy and regulations that are cost effective and provide certainty.

It is essential that manufacturing and government work together to create an environment in the US such that companies will want to invest here, versus other countries. Since 1996, manufacturing investment as a share of real GDP fell by 18 percent and the decline is accelerating. This is a clear indicator that relative to other countries in the world, the US has not been a good place for manufacturing to invest for a long time.

The EPA GHG regulation is an example of a regulation that creates uncertainty and discourages investment. And, when added to the many other new regulations, it is understandable why corporate America is sitting on two trillion dollars of cash and are not investing it here. It is too risky versus investing in other countries.

For industry to increase jobs and thrive, we need economic and regulatory/legal certainty. Unfortunately, the EPA GHG regulation is just one of several new, expansive, and expensive regulations that impact manufacturing directly and indirectly. New regulation examples are listed below.

- NAAQS revisions (short-term NO_x, SO_x, CO, Ozone and PM 2.5, PM coarse, and secondary NO_x/SO_x);
- Industrial Boiler MACT Standards;
- TSCA;
- Clean Air Transport Rule;
- Utility Boiler MACT Standards;
- Coal Combustion Residual Rules;
- Cooling Water Intake Regulations;
- CISWI MACT;
- Effluent stream conductivity limits proposed for CAPP coal;
- Coal fly ash waste redetermination.

To be sure, the list is staggering and of great concern because each come with a cost and regulatory uncertainty. Each of the initiatives will result in significant costs in their own right, but taken together they could be devastating. The phrase “dying of a thousand cuts” has been used thru out industry to describe the concern. Secondly, the fact that many of these programs are interrelated, but have very different solutions, timetables and goals have resulted in so much regulatory uncertainty that investments in growth projects are virtually at a standstill.

Lastly, as a reminder, capital investment as a result of regulation is a “non-productive” non-ROI use of capital. This means that if capital is used to comply with regulations like those above, than less is available, for example, for a manufacturing company to increase the output of its facilities. Plus regulations increase the cost of operating a facility.

That being said, manufacturing is not opposed to responsible cost effective regulation. We support a clean and healthy environment.

The Practical Impacts of EPA’s GHG Regulation on Industrial and Electric Utility Sources

1. Congress never intended GHGs to be regulated under the Clean Air Act

The Clean Air Act (CAA) was never intended to regulate GHGs. It is like trying to fit a square peg into a round hole. The CAA is designed for regional and end-of-pipe type emissions that have technology solutions and relatively few regulated sources or uniform sources (autos).

Regulating GHGs from fossil fuel combustion is quite another issue. Manufacturing has over 400,000 facilities and each can have hundreds if not thousands of combustion sources without a single end of pipe technology solution. The manufacturing industry has thousands of different product technology processes. Frightfully, the EPA portents to understand the technology behind each of these product processes and will regulate each.

2. Elected officials are responsible for deciding how to address climate change – not the EPA

EPA GHG regulation usurps the authority of the legislative branch. Climate change policy is a challenge because some policies can have significant negative direct and indirect economic

impact on every American, manufacturing and on the global competitiveness of the nation. Climate policy touches energy, economic and industrial policy. If we get it wrong, America loses jobs and economic growth. Get it right and we can thrive. Decisions regarding energy, economic and industrial policy are a responsibility of the elected Congress, not the appointed EPA.

3. EPA GHG regulations forces the US to act unilaterally to address an international emissions challenge and jeopardizes competitiveness in the process.

Addressing climate change takes thoughtful unified international action, not unilateral action that will impair industrial competitiveness. That is why the Senate passed the Byrd Hagel resolution that said the US would not act unilaterally – but we are thru EPA's action. EPA mandates to reduce GHGs will increase direct and indirect energy and environmental compliance costs that could drive industry overseas along with their GHG emissions. This is not a solution. Action must be both international in scope and cost effective to avoid shifting our jobs offshore. The EPA GHG regulations are neither.

4. EPA has not done an analysis on what it will cost industry, its impact on jobs and economic growth.

The timing of EPA's actions could not be worse. The manufacturing sector has lost 5.4 million jobs or 31 percent and another 16.2 million related service sector jobs since 2000. In that same time period, over 40,000 facilities have been shutdown. In 2008, US manufacturing produced only 17.6 percent of the world's manufacturing goods, down from 27 percent in 2000. Meanwhile, China increased their share from 8 percent to 17.3 percent in the same time period. In 2011, experts forecast that China now controls nearly 30 percent of the world's market while the US is stuck in a job-less economic recovery and is struggling to reduce unemployment, increase exports and economic growth. This is not the time to implement untried regulations with unknown, but potentially significant costs.

5. EPA is now in control of US industrial policy.

Under these regulations EPA sets deadlines as to:

- “when” capital must be spent on energy efficiency technology projects;
- “what” energy efficiency projects will be completed, even if it is inconsistent with the scope or timing of other manufacturing production plans or business strategies or priorities;
- “what technology” will be used, even if that technology is not cost effective or desirable for the type or quality of products that the facility produces;
- what manufacturing “practices” will be used to operate the facility, taking decision making out of the hands of plant managers and into the hands of the EPA.

As an example, the GHG regulation gives industry time deadline to comply. The energy and capital intensive industries like chemical, steel, aluminum, fertilizer, cement, glass and paper could find themselves mandated to apply best available control technology on most of its equipment. If that is the case, there are not enough suppliers to serve industry demand all at the same time. Demands from all of industry at the same time would also significantly raise the costs of each project. Alternatively, applying MACT technology may be too expensive given the life of a facility or the business strategy and the EPA MACT could become the catalyst for facilities to be shut down. Add the MACT demands of the electric utility and refining industry on top of manufacturing sector demand, it is easy to understand why we are concerned.

6. Could create winners and losers within the same industry in different states.

Two competing companies in two different states could have different State imposed GHG regulations with different costs directly impacting competitiveness and jobs.

7. EPA GHG regulations are legally uncertain - that becomes our economic uncertainty.

A large number of legal challenges have been filed that will take years to resolve. The courts will decide, potentially leaving business at risk if EPA's program is deemed not legal.

IECA's "Sustainable Manufacturing & Growth Initiative" (SMGI), a better way.

The University of Maryland economic modeling of the IECA "Sustainable Manufacturing & Growth Initiative" (SMGI) illustrates that its policies reduces 10 percent of US GHG emissions in ten years while creating 3.2 million man-year jobs, cumulative private fixed investment of \$407 billion over 10 years while revitalizing the competitiveness of the manufacturing sector.

Thank you.