



Statement of the U.S. Chamber of Commerce

**ON: The President's UN Climate Pledge: Scientifically
Justified or a New Tax on Americans?**

**TO: U.S. House of Representatives Committee
on
Science, Space, & Technology**

DATE: April 15, 2015

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The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

The mission of the U.S. Chamber of Commerce Institute for 21st Century Energy is to unify policymakers, regulators, business leaders and the American public behind a common sense energy strategy to help keep America secure, prosperous and clean.

Thank you, Chairman Smith, Ranking Member Johnson, and members of the Committee. I am Karen Harbert, president and CEO of the Institute for 21st Century Energy (Institute), an affiliate of the U.S. Chamber of Commerce, the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and dedicated to promoting, protecting, and defending America's free enterprise system.

The mission of the Institute is to unify policymakers, regulators, business leaders, and the American public behind common sense energy strategy to help keep America secure, prosperous, and clean. In that regard we hope to be of service to this Committee, this Congress as a whole, and the administration.

There are four main points I wish to make regarding the Obama Administration's Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change (UNFCCC) and related issues:

1. The U.S. INDC Lacks Basic Information to Allow a Rigorous Assessment of the Goal
2. The Commitments are Hugely Unequal
3. The Administration's Plan is "All Pain . . .
4. . . . No Gain"—U.S. Industries and Emissions will Just "Leak" to Other Countries

1. The U.S. INDC Lacks Basic Information to Allow a Rigorous Assessment of the Goal

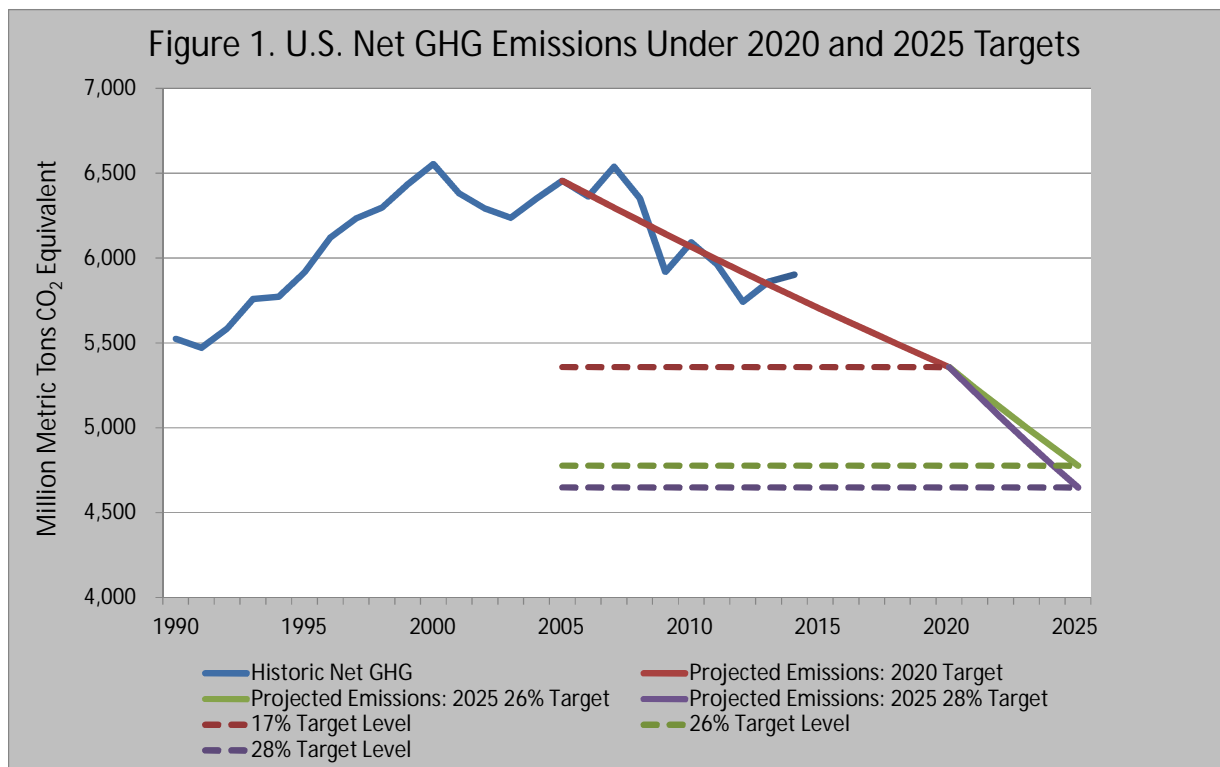
The Obama Administration has set a goal to cut its net greenhouse gas emissions 26% to 28% from the 2005 level by 2025, with a "best effort" to achieve 28%. Its submission to the UNFCCC is supposed to provide "information to facilitate the clarity, transparency, and understanding of the contribution." But rather than providing a clear roadmap to 2025, the INDC leads us instead into terra incognita.

This lack of transparency is all the more disappointing because the U.S. INDC claims that, "The target reflects *a planning process* that examine opportunities under existing regulatory authorities to reduce emissions in 2025 of all greenhouse gases from all sources in every economic sector" [emphasis added]. While regulatory proposals used to support the INDC are developed in a public process, the planning process the administration undertook to develop its international commitment did not allow for any opportunity to get input from the public, the business community, other stakeholders, and the Congress. This despite the fact that the outcome of this process—a national economy-wide emissions goal—will have far-reaching effects on the economy and employment.

A close examination of the INDC raises more questions than it answers. Nowhere does it explain how the administration intends to achieve the unrealistic goals it has set out. The lack

of detail is all the more astonishing when one considers that this plan has been in the works for well over a year. In fact, there is nothing in the U.S. INDC that was not known already after the President’s climate change announcement in China about five months ago. In the absence of a detailed explanation of how the administration intends to meet the goal, stakeholders in the U.S. and around the world have no basis through which to assess its cost or achievability.

So how do the numbers of the plan add up? In short, they don’t. According to EPA’s most recent greenhouse gas (GHG) inventory, net GHG emissions—which include sinks (e.g., removals of carbon dioxide from the atmosphere by forest growth)—were 6,455 million metric tons of carbon dioxide equivalent (MMT_{CO₂} eq.) in 2005 and 5,860 MMT_{CO₂} eq. in 2013. To achieve a 28% reduction by 2025, emissions would have to drop by a total of 1,808 MMT_{CO₂} eq. from the 2005 level, or 1,212 MMT_{CO₂} eq. from the 2013 level, to meet the 28% goal (Figure 1).



Sources: Environmental Protection Agency and Energy Information Administration.

Reducing GHG emissions economy-wide by an additional 1.2 gigatons CO₂ eq. between 2013 and 2025 will be no easy matter. There is no indication in the plan from where the bulk of the emission reductions are expected to come.

We know that EPA has estimated that its proposed regulation of existing power plants, which *if* upheld by the courts and fully implemented as proposed (not a foregone conclusion), would result in an estimated 500 MMT_{CO₂} in reduction by 2025 from the power sector. The

administration also has said it expects reduction from existing automobile efficiency standards and new standards for heavy trucks, regulations on methane emissions from oil and gas operations, appliance efficiency standards, voluntary measures to reduce hydrofluorocarbons under EPA's Significant New Alternatives Policy program, and programs to enhance carbon sinks through land use management. But nowhere in the INDC is there any estimate of the actual emission reductions that could be expected from each of these activities.

Even with aggressive implementation of the aforementioned regulations, emission reductions by 2025 will still fall well short of the 1.2 gigatons CO₂ eq. needed to meet the 26% to 28% reduction goal, though because the administration has not provided any modeling, it is not clear by how much. We estimate that announced and forthcoming rules could lead to nearly 700 MMTCO₂ in reductions, leaving between 500 and 600 MMTCO₂ eq. of the administration's commitment—or about 40% of necessary reductions—still unidentified. How does the administration intend to fill in this gap? We do not know, because the administration has not provided sector-by-sector and GHG-by-GHG breakdowns of how it expects to reach its target.

Conspicuous by its absence in the INDC is any reference to emissions from industry. It is hard to imagine that the administration does not intend to get at least some reductions from energy-intensive industrial sectors. Indeed, EPA's current budget proposal notes the agency will soon begin considering new GHG regulations on the refining, pulp and paper, iron and steel, livestock, and cement sectors. Again, none of this is detailed in the INDC.

Before the recent climate talks in Lima, Peru, this past December, Todd Stern, the administration's chief climate negotiator, said the Lima conference should agree on the "specific kinds of upfront information that Parties should provide so that their undertakings *can be readily understood and analyzed*" [emphasis added]. The administration's own INDC falls well short of even this modest mark.

It is difficult to see how this plan can be sold to the international community much less to constituencies here at home, especially given the uncertain legal foundation upon which the centerpiece of the INDC, EPA's Clean Power Plan, rests. In its *Utility Air Regulatory Group v. EPA* ruling, the Supreme Court warned the EPA that, "When an agency claims to discover in a long-extant statute an unheralded power to regulate 'a significant portion of the American economy,' we typically greet its announcement with a measure of skepticism. We expect Congress to speak clearly if it wishes to assign to an agency decisions of vast 'economic and political significance'" [citations omitted]. What EPA has proposed in using a little-used provision of the Clean Air Act to redesign fundamentally the electricity markets of the entire United States is exactly the type of regulatory extremism the Supreme Court cautioned against. As a result, at least 32 states have warned EPA that its rulemaking suffers from fundamental legal shortcomings. In 28 of these states, the warnings have come directly from governors

and/or attorneys general.¹ Further, because the Obama Administration has decided to defy Congress and implement its climate plan through executive action, nothing it commits to at Paris, including the promise of billions of dollars in financial assistance, will be legally binding on any future administration, something other countries are beginning to notice. The legal limbo the administration's actions have created will have real consequences for business as it tries to plan for the future.

2. The Commitments are Hugely Unequal

The world has changed considerably since the UNFCCC was launched in 1992, and a new international agreement should take into account changing trends in global emissions and economic development. The old model of donor and recipient countries reflects neither the current nor future state of affairs.

If the world is serious about reducing GHG emissions, then developing countries will have to take on meaningful commitments. The International Energy Agency's most recent mid-range forecast suggests developing countries will account for 141% of the increase in carbon dioxide emissions from energy between 2012 and 2040.

The indications are, however, that large emerging countries especially have precious little desire to take on ambitious commitments, citing the principle of "common but differentiated responsibilities and respective capabilities" enshrined in the UNFCCC and the understandable desire to increase energy access and advance economically. These dynamics will lead to large disparities in the level of commitments being offered.

China—the world's largest GHG emitter—provides a useful example. It is generally acknowledged that an essential condition to a new and comprehensive international climate change agreement is persuading China to commit to meaningful limits on greenhouse gas emissions. In November, the U.S. and China made a joint announcement outlining in broad terms what each country will offer up ahead of the Paris climate change talks.

China pledged to peak its carbon dioxide emissions (at an undetermined level) "around" 2030 and to increase its share of non-fossil fuel energy consumption to "around" 20% of total demand by 2030. Trumpeted as a historic breakthrough by the president, the announcement earned glowing reviews at the United Nations climate change talks held in Lima last December.

It turns out there is very little new in the China announcement, and its commitment amounts to little better than business as usual. The central projection of the International Energy Agency's (IEA) most recent *World Energy Outlook*, for example, estimates that in the

¹ For examples, see: U.S. Chamber of Commerce Institute for 21st Century Energy. 2015. *In Their Own Words: A Guide to State and Stakeholder Concerns regarding the Environmental Protection Agency's Proposed Greenhouse Gas Regulations for Existing Power Plants*. Available at: <http://www.energyxxi.org/eparule-stateanalysis>.

2020s, China's GDP growth will slow appreciably and its industrial output and coal use will flatten, causing its carbon dioxide emissions to peak shortly after 2030 at a little over 10 billion metric tons. Citing similar trends, ExxonMobil's latest forecast shows Chinese carbon dioxide emissions peaking five years earlier, in 2025, at nearly 11 billion metric tons and declining thereafter.² To put these growth forecasts into perspective, the very large 500 MMTCO₂ eq. reduction in U.S. power sector emissions EPA estimates its proposed existing power plant rule would deliver in 2025 would be offset by Chinese carbon dioxide emissions in about three weeks.

India—the world's third largest GHG emitter—is another country that has declined to propose ambitious GHG reductions ahead of Paris, citing its desire to industrialize and raise living standards. In fact, the Indian government has announced that it intends to double domestic coal output over the next five years to fuel economic expansion.

The Russian Federation—the world's fourth largest GHG emitter—has proposed a commitment of a 25% to 30% reduction in net GHG emissions by 2030 from a 1990 baseline "subject to the maximum possible account of absorbing capacity of forests." Data submitted by Russia to the UNFCCC, however, show that in 2012, the country's net GHG emissions were 50% below their 1990 level. This means Russia actually is proposing to *increase* its emissions in 2030 from 700 to 900 MMTCO₂ eq. compared to the 2012 level.

None of this should be taken as criticism of these goals. Countries do not check their national interests at the UN cloakroom. Like many other developing and emerging economies, China and India will continue to use fossil fuels because they have an overriding interest in boosting growth and lifting their people out of poverty. Cutting GHG emissions will always take a backseat to these goals. In comparison, the U.S. goal is well out of line with what many other governments (except the European Union) are proposing.

3. The Administration's Plan is "All Pain . . .

Achieving the president's U.S. goal would be very expensive and technically difficult. The public record of detailed review and analysis of the electricity sector and broader economic impacts of the Clean Power Plan is extensive and growing, and by all indications this regulation is poised to be one of the most costly and burdensome rulemakings ever promulgated by any agency.

EPA's own analysis of the rule projects that it will result in nationwide electricity price increases of between 6% and 7% in 2020, and up to 12% in some locations. EPA estimates

² Even China's current goal of reducing its carbon dioxide emissions intensity—that is, emissions per unit of GDP—by 40% to 45% from 2005 to 2020, a pledge it made under the 2009 Copenhagen Accord, represents a continuation of existing trends. Data from sources as varied as IEA, EIA, and the World Bank show that during the previous 15 year period, from 1990 to 2005, China's emissions intensity fell anywhere from 39% to 47%.

annual electricity sector compliance costs between \$5.4 and \$7.4 billion in 2020, rising up to \$8.8 billion in 2030. These are power sector compliance costs only, and do not capture the subsequent adverse spillover impacts of higher electricity rates throughout the rest of the economy.

Numerous additional state and stakeholder analyses show that EPA has significantly underestimated the compliance costs and energy price impacts of its rule. For example:

- A study by NERA Economic Consulting found that average U.S. electricity prices would increase by 12% per year and that compliance costs would be at least \$41 billion annually and between \$366 billion to \$479 billion over a 15 year timeframe.
- The National Rural Electric Cooperative Association estimates that the rule would raise average electric rates for co-op consumers more than 10% in 2020 and more than 17% in 2025, with some locations seeing rate hikes as high as 33% in 2020 and 46% in 2025.
- The United Mine Workers of America estimates that the rule would result in 187,000 direct and indirect job losses in the utility, rail, and coal industries in 2020, and cumulative wage and benefit losses from these sectors of \$208 billion between 2015 and 2035.
- A study by the Midcontinent Independent System Operator estimates that utility compliance costs for its operating region through 2033 would be between \$55 billion and \$83 billion. The costs would obviously be passed along to residential, commercial, and industrial consumers in the form of higher electricity prices.
- Kansas Corporation Commission (KCC): "The KCC estimates a base case that the EPA's CPP as proposed would cost the state of Kansas \$8.75 billion with a possible range of costs between \$5 billion and \$15 billion. The corresponding increase in rates is between 10% and 30% over 13 years."
- Kentucky Energy and Environment Cabinet: "[T]he Cabinet determined through its own econometric modeling that the six% change in electricity prices alone estimated by EPA would cause a net loss in the United States of 439,000 full time jobs, over half (236,000) of which would come from energy-intensive manufacturing sectors...Cabinet modeling suggests that a ten% increase in the real price of electricity, which could be intensified by the proposed rule, would, on average, be associated with a 1.1% reduction in state GDP (SGDP). This would result in a loss of almost \$2 billion to the state of Kentucky".
- Texas Commission on Environmental Quality: "The carbon emission limits for Texas...will result in significantly increased costs for Texas electricity customers. Some estimates of these increased costs include:
 - \$10-\$15 billion total annual compliance costs by 2030;

- total electricity-related costs in Texas alone could be in excess of \$10 billion;
 - increased energy costs for consumers in ERCOT of up to 20% in 2020, which does not include additional costs of transmission upgrades, procurement of additional ancillary services, energy efficiency investments, capital costs of new capacity, and other costs associated with the retirement or decreased operation of coal-fired capacity in ERCOT.
 - \$3 billion per year to comply with the energy efficiency mandate alone.”
- Virginia State Corporation Commission: “SCC Staff analyses of utility planning data indicate that, using conservative assumptions, the incremental cost of compliance for one utility alone (Dominion Virginia Power) would likely be between \$5.5 billion and \$6.0 billion on a net present value basis.”

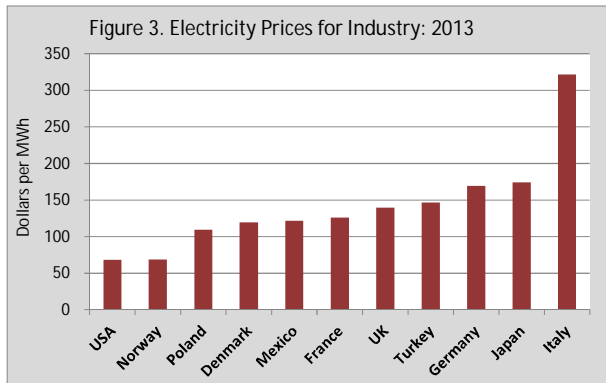
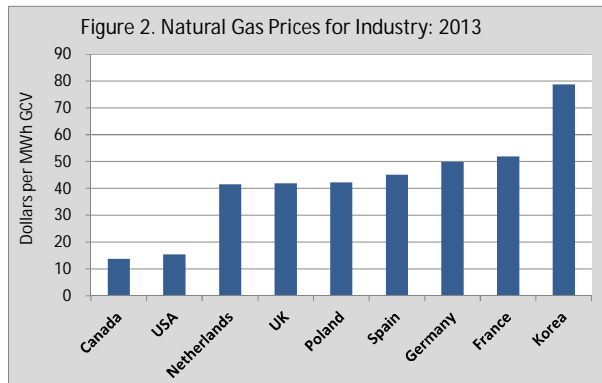
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It is important to note that despite these costs, EPA admits that its Clean Power Plan, the heart of the U.S. INDC, will have no discernable impact on the climate, and that all of the benefits will come from reductions in other pollutants EPA already regulates within a margin of safety.

The administration’s plan will be ineffective largely because any emissions reductions achieved will be more than offset by increases in emissions from other countries, in particular developing countries. Addressing climate change will be of considerably less interest to these countries, where the main priority of governments is poverty eradication.

Another reason GHG emissions in these other countries would continue to grow is because of “carbon leakage” from the U.S. as energy intensive industries flee to more countries with less regulation and lower energy costs.

It is well understood that America’s abundance of affordable, reliable energy provides businesses a critical operating advantage in today’s intensely competitive global economy. Figures 2 and 3 illustrate the comparative energy advantage in natural gas and electricity prices for industry. Affordable and reliable fuel and electricity, supplied by a diverse mix of coal, nuclear, and increasingly natural gas, give American industry an enormous economic edge, and they are driving a manufacturing revival in areas of the country desperately in need of jobs and investment.



Source: International Energy Agency.

Unfortunately, EPA's Clean Power Plan and other burdensome EPA regulations threaten to throw away this national energy advantage. Instead of attracting foreign investment to the United States, EPA rules could repel this investment into the United States and perhaps even more critically force U.S. companies to shift their investment focus overseas.

Because U.S. businesses compete on a global scale, the electricity and related price increases resulting from EPA's rule will severely disadvantage energy intensive, trade-exposed industries such as chemicals, manufacturing, steel, and pulp and paper. As a result, GHG emissions would not be reduced in the global sense, but simply *moved* to other countries that have not implemented similar restrictions.

Europe provides a cautionary tale. According to EIA, Europe's residential electricity prices have increased at a much faster rate than in the United States. Regulatory structures—including the Emissions Trading System, taxes, user fees, large (and unsustainable) subsidies and mandates renewable energy technologies, and the mix and cost of fuels all conspire to make Europe's electricity prices among the highest in the world. Europe is learning that its exorbitant energy prices, largely policy-driven, are ruining its competitiveness and turning energy-intensive industries into endangered species. More and more, we are seeing European companies fleeing sky-high energy costs and shifting production to the United States and other countries.

This is consistent with the conclusion of the Intergovernmental Panel on Climate Change Fourth Assessment report, which found that actions governments took to implement the Kyoto Protocol resulted in economy-wide leakage on the order of 5% to 20%, not insignificant amounts. Similar results could be expected in the United States as a result of EPA regulation.

Conclusion

Business needs a predictable environment in which to operate and plan. Unfortunately, the administration's INDC adds to the already large uncertainty surrounding a new international

agreement. Its INDC does not provide any guidance in how it intends to meet its goal of a 26% to 28% reduction in net GHG emissions by 2025 from the 2005 level. By our estimates, emissions reductions due to existing and proposed regulations would fall short of the administration's goal by 500 to more than 600 MMTCO₂ eq., a not insignificant amount. Clearly, the administration plans to target the industrial sector to make up for most if not all of this shortfall. But without any detail, neither domestic stakeholders nor Parties to the UNFCCC know how this might come about.

Moreover, based on what we have seen so far, large emerging economies have shown very little interest in reducing emissions in any meaningful way, certainly nothing coming close to what the administration is proposing for the United States, which would be extraordinarily costly to achieve. An agreement locking such disparities in emissions pledges into place would jeopardize America's energy advantage and leak U.S. industries, their jobs, and their emissions overseas. As a result, the U.S. will see no environmental gain for a great deal of economic pain.

Back in 1997, the Clinton Administration disregarded clear guidance from the Senate and signed the Kyoto Protocol, a treaty it knew was political poison and that it never bothered to submit to the Senate for ratification. Judging from this latest episode in U.S. climate diplomacy, the Obama Administration looks likely to repeat the mistake of signing onto a lopsided deal and making promises future presidents and congresses may neither be willing nor able to keep. As Yogi Berra might say, "It's déjà vu all over again."