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"A 21st Century Energy Policy for Environmental and Economic Progress"

Chairman Boxer, on behalf of the 10 million members of the AFL-CIO, I want to thank you and the members of the Environment and Public Works Committee for the opportunity to testify this afternoon on this important subject.

America needs an energy policy for the twenty first century that will result in a cleaner planet, greater energy efficiency and the revitalization of our manufacturing base. Climate change is a serious environmental threat in need of a prompt legislative response by the U.S. Congress. It is also an opportunity for our nation to prove that economic development and environmental progress can and should go hand-in-hand.

Crisis and Opportunity

Embodied in our position is a set of ideals that reflects a major change of direction for the AFL-CIO on energy policy. They grew out of the recognition by the AFL-CIO Energy Task Force that "A growing body of scientific evidence has confirmed the environmental challenges posed by global warming. Human use of fossil fuels is undisputedly contributing to global warming, causing rising sea levels, changes in climate patterns and threats to coastal areas. Because of these dangers, the AFL-CIO supports balanced measures to combat global warming."

The task force also 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."

We also believe that a strong and diverse manufacturing base are in the national interest but the reality is this sector is in a deep and ongoing crisis. The nation is awash in record setting trade deficits. Since 1998 more than 3.5 million manufacturing jobs were lost and over 40,000 manufacturing facilities have closed. 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

Policy and Principles

Over the past year, our interaction with Congress and many other businesses, industry, environmental and international labor organizations have helped evolve and sharpen the thinking of the AFL-CIO Energy Task Force. The work of the National Commission on Energy Policy, the Apollo Alliance, House and Senate energy legislation, the broad and open stakeholder process initiated by Senators Bingaman and Specter as well as Chairman Dingell's detailed questionnaires regarding cap and trade programs forced our thinking about how these systems can and should work.

The task force recognized that any discussion about climate change was a discussion about the nation's industrial policy because energy and the environment are at the nexus of manufacturing and trade policy. As a result, the AFL-CIO established a set of principles to guide our participation in the carbon emission discussion.

1) Our nation should embrace a balanced approach that assures diverse, abundant, affordable energy supplies, creates good paying jobs for American workers, improves the environment, and reduces our dangerous dependence on foreign oil.

2) We support an approach to carbon emissions that does not advantage one sector over another, is economy wide, has timetables and standards that allow for the development and deployment of new technology, and helps 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 upon a set of economic development principles that cleans the environment and creates jobs but will not encourage offshoring of manufacturing or the sale of assets.

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 carbon emission/cap and trade program must provide a system of incentives and penalties to assure that major developing nations, like China and India, participate.

We have applied these principles in every discussion held with staff and members of Congress. Two weeks ago, after months of dialogue with Senate staff about new carbon emission legislation we endorsed the Low Carbon Economy Act of 2007 introduced by Senator Bingaman and Senator Specter.

We believe this legislation represents and important step forward with five interrelated actions:

- It makes a significant environmental statement with a 2050 goal of final emission reductions of 60 percent or more below current levels.

- It has a timetable for reductions that balances concerns about the economy with our ability to develop and deploy new technology and makes those subject to a system of regular reviews of the targets and technological capability.

- It provides pricing certainty for long-term investment decisions, assures a modest effect on fuel and electricity prices and avoids short-term price spikes that can lead to fuel-switching through a Technology Accelerator Payment.

- It provides resources for early and major investments in new technology from clean coal and renewable energy technologies to advanced technology vehicles and components and the modernization of manufacturing facilities for energy efficient production.

- It provides an international perspective that includes both incentives and penalties designed to encourage the participation of major developing nations in a global solution to the problem of carbon emissions.

I will focus the remainder of my time on the last two points investment policy and international aspects.

Investing for the Future: Resources, Energy, Manufacturing and Auto

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.

New Resources for New Investments

One of the most important aspects of S. 1766, the Low Carbon Economy Act of 2007, is that it does not place additional demand on the federal budget for financing new technology investments. The cap and trade program in S.1766 is self-funding. It creates a large pool of capital by initially setting aside a 47 percent of the allowances available for auction for public benefit/investment. This will gradually rise over time to 100 percent.

- 8% of allowances will be set aside annually to create incentives for carbon capture and storage to jump-start an intensive strategy to sequester GHG emissions. Approximately $35 billion by 2020.
- 20% of the total credits, up to $25 billion per year will be auctioned by the government to generate much-needed revenue for research, development, and deployment of low- and no-carbon technologies; to provide for climate change adaptation measures;

- 4 % of the allowances are set aside to provide assistance to low income households

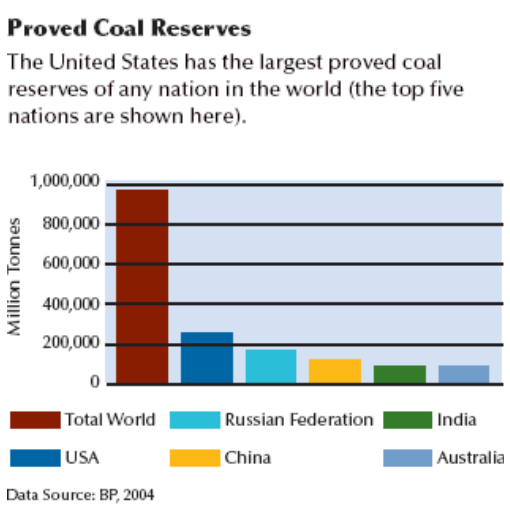
- 5% of allowances are reserved to promote agricultural sequestration, and 1% of the allowances will reward companies that have reduced emissions before program implementation.

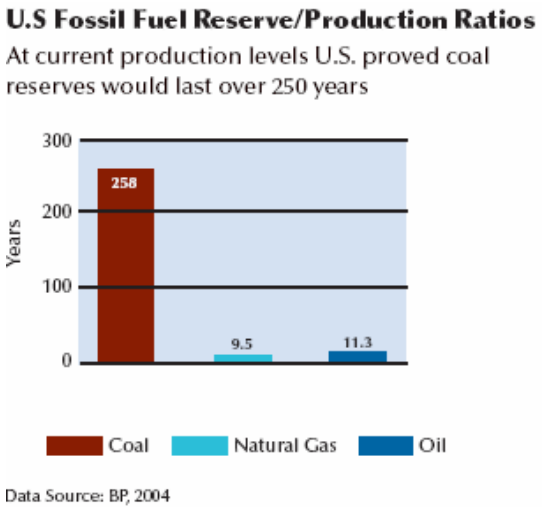
- 9% of the allowances are left to be distributed by States to address regional impacts, promote technology or energy efficiency, and enhance energy security.

Another important element of this cap and trade proposal are the steps taken 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 works. Only actively operating manufacturing facilities (including new facilities) will receive allowances, and their allocation is based on the number of production employees at those U.S. facilities. The point of the system is to encourage a positive change in the domestic behavior of energy producers and manufacturers while retaining jobs and our technical capability to produce goods.

Targeting Energy Production

The revenues generated under the Bingaman - Specter bill are 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 manner that promotes domestic production and jobs for American workers. The investments and incentives are targeted 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 cannot achieve energy independence nor meet carbon reduction goals without utilizing existing coal resources. This nation is blessed with the largest known coal deposits in the world, a resource that provides over half of the electrical energy in the U.S. But, we must

use our coal cleanly and more efficiently. To do so we must accelerate development of carbon sequestration technologies and the deployment of more efficient coal burning technology. The targets and timetables of the Bingaman-Specter bill work hand in hand with its technology incentive provisions to ensure that essential capture and storage technologies will be available in time to meet the bill's substantial 2030 emission reduction target.

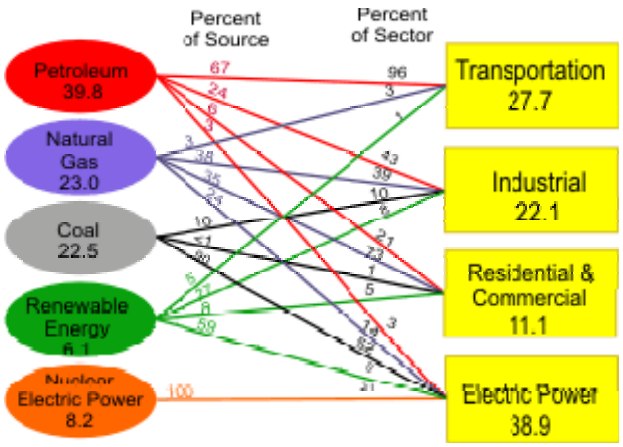
The conversion to clean coal technologies is an opportunity both domestically and internationally. It is in our interest to develop these new technologies and export them to China and the rest of the world. But, we must be as equally committed to rapidly developing carbon capture and sequestration as we are to developing renewable sources of energy.

With a huge fertile land base, moderate climate, coastal and mountain lands the U.S. has an untapped abundance of renewable energy resources available such as wind, solar, hydro and biomass-derived fuels. There was time in the early 1980's we led the world in solar, battery and wind turbine technology but we failed to follow through on those commitments. On the other hand, Germany and Japan, as a matter of industrial and energy policy, targeted those technologies and invested in them. Today they lead the world and export these products around the globe. It is time for our nation to go back to the future.

We believe the investments targeted for energy production in the Bingaman-Specter bill can provide a path to reducing our reliance on foreign oil and cut CO2 emissions while promoting broad-based economic development. Each of these resources faces technical hurdles and it would be wrong to assume that it is simply a matter of technology deployment. There is the need for matching up early investment in technology development and then deployment. For example, the auto industry often cites that it will take 15-18 years to replace the entire U.S fleet. The same is true in energy production. It will take decades and major investments to convert to clean coal technologies as well as to achieve large-scale deployment of renewable technology.

Targeting Auto and Manufacturing

Linking the energy production investments to domestic manufacturing is only one part of national energy/environment/industrial strategy. The other half is targeting investments in our domestic manufacturing processes and the automotive products we produce because transportation and industry account for approximately 50 percent of our energy usage.



Investing in manufacturing is in the nation's interest because of the broader role this sector plays throughout the economy. It is the productivity leader that helps expand the economic pie. It accounts for two thirds of all R&D investment and is the primary source of innovation. It is the leading purchaser of new technology and financial and technical services. It is the leader in new work organization and work process. At the community level manufacturing jobs have been a critical economic ladder with rungs at all levels. And, because of the web of supplier industries and the relatively high wages and benefits, each manufacturing job, it is estimated, is associated with up to four additional jobs.

The automotive industry is the single most important industry to American manufacturing. Manufacturing accounts for 16 percent of the nation's GDP, and the automotive sector makes up 25 percent of all manufacturing, some 4% of GDP. Auto is the cornerstone of an advanced manufacturing economy, not only because of its enormous economic impact but also because it involves the most complex integration and assembly of leading edge technologies and products. From the glass, rubber, steel, and electronics to engines, transmissions, design, engineering, R&D and more, an automobile encompasses the critical elements of this nation's industrial infrastructure.

Currently, many advanced technology vehicles are assembled overseas, and virtually all of the key components are built in foreign countries. However, a study by the University of Michigan's Transportation Research Institute demonstrates that federal incentives to encourage domestic production can reverse this trend, create jobs and result in higher tax revenues for the federal and state governments.

The AFL-CIO Energy Task Force has called for the U.S. government to pursue measures to improve energy efficiency. We have called upon Congress to establish a Marshall Plan to help re-tool the U.S. auto industry to accelerate domestic production of advanced technology and alternative fuel vehicles and their key components.

The Bingaman – Specter bill has responded with critical investments targeted to upgrading manufacturing as well as auto specific investments in domestic production of advanced hybrid, diesel and fuel cell vehicles, as well as vehicles that run on ethanol and other

alternative fuels. This initiative will help create tens of thousands of automotive jobs for American workers, while at the same time helping to reduce global warming emissions and our reliance on foreign oil.

From the economic development perspective, the Low Carbon Economy Act of 2007 has a number of positive payoffs. The upgrading of manufacturing facilities will help retain good manufacturing jobs. The investments in clean coal, renewables and advanced automotive technology and component parts will create new jobs. All the investments will help capture cutting edge technology for use in domestic production and export.

International Aspects: The Need for a Global Solution

The inclusion of an international section in the Bingaman- Specter bill was the result of many hours of discussion. It was a critical issue in our support of the 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.

By some estimates, China passed the United States in carbon emissions in 2006. 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.

In 1997 when the AFL-CIO rejected the Kyoto protocol because it did not include the developing world the federation took a lot of criticism but our concerns were well founded. Since Kyoto the Chinese government has said they will be a developing county for at least the next 50 years and will not agree to be restricted by this framework. In that time our trade deficit with China soared from $50 billion in 1997 to $235 billion in 2006. They now hold $1.5 trillion in U.S dollars and securities. This year China overtook the

United States as the number one exporting nation in the world, and it now accounts for 47 percent of the U.S trade deficit in manufactured goods.

In a May 2, 2007 study the Economic Policy Institute estimates that "the rise in the U.S. trade deficit with China between 1997 and 2006 has displaced production that could have supported 2,166,000 U.S. jobs. Most of these jobs (1.8 million) have been lost since China entered the WTO in 2001… Since China entered the WTO in 2001, job losses increased to an average of 441,000 per year—more than the total employment in greater Dayton,"

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.

The Bingaman – Specter bill takes an evenhanded approach to this issue:

- The Executive branch is directed to negotiate with the major developing nations over implementing a system to control carbon emissions.

- To effectively engage developing countries the bill provides incentives to developing nations. For example, it would fund joint research and development partnerships and technology transfer programs similar to the Asia Pacific Partnership.

- The bill also provides for a Five-Year Review Process to reassess domestic action based on an assessment of efforts by our major trade partners (as well as climate science and available technology).

- If the President deems the actions of these trading partners nations to be inadequate then the U.S. government can require that imported products from these countries purchase carbon allowances from a separate pool.

- If there is sufficient international effort on greenhouse gases, the President could recommend further reductions of emissions at least equal to 60% below current levels.

The AFL-CIO believes climate change is both a crisis and an opportunity for our nation. By taking the right steps – timelines, goals 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.