

May 27, 2020

The Honorable Frank Pallone
Chairman of the Energy and Commerce Committee
United States House of Representatives

Dear Chairman Pallone,

The members of the CEO Climate Dialogue welcome your efforts to advance comprehensive climate change legislation in the Congress. The release of the Clean Future Act discussion draft is an important moment to engage members of Congress and interested parties in a more detail-oriented conversation about the design of federal climate policy in the United States, and we appreciate the opportunity to provide our comments.

The CEO Climate Dialogue (CCD) is a coalition of 21 companies with over \$1.4 trillion in combined annual revenue and four leading environmental non-governmental organizations working in partnership to advance effective economy-wide solutions to climate change. The CEOs of the member companies and organizations are personally involved and committed to the goal of enacting bipartisan legislation as soon as possible.

Acting sooner rather than later allows us to meet the climate challenge at the least possible cost and put the necessary investments in place in time to meet our emissions targets. The CCD has established six guiding principles for legislation that – taken together – can help ensure success:

1. Significantly reduce U.S. greenhouse gas emissions so that the U.S. is demonstrably a leader on global efforts to effectively limit climate change. Specifically, U.S. policy should ensure the country is on a path to achieve economy-wide emissions reductions of 80% or more by 2050 with aggressive near and mid-term emission reductions commensurate with this goal.

2. Effective: A key test of any climate policy is whether it will deliver timely emissions reductions across the economy and includes mechanisms that provide certainty that emission goals are met. The timeline for reductions must allow capital intensive industries to adjust in an economically rational manner. Policies must encourage investment and planning decisions consistent with the timeframes needed. Policies must focus on emissions reductions outcomes, not specific resources or technologies.

3. Market-based: An economy-wide price on carbon is the best way to use the power of the market to achieve carbon reduction goals, in a simple, coherent and efficient manner. We desire to do this at the least cost to the economy and households. Markets will also spur innovation and create and preserve quality jobs in a growing low-carbon economy.

BASF Corporation

BP

Calpine

Carrier

Center for Climate and
Energy Solutions

Citi

Dominion Energy

Dow

DSM North America

DTE Energy

DuPont

Environmental Defense
Fund

Equinor

Exelon

Ford Motor Company

LafargeHolcim

National Grid

PG&E Corporation

PSEG

Shell

Syngenta

The Nature Conservancy

Total

Unilever

World Resources Institute

4. Durable and responsive: Well-designed and stable policies will deliver predictable results and increase public support over time, providing durability across time and political cycles. Policies should be adaptive over time in terms of pace and scope of reductions as our understanding of climate change, policy impact, and technological changes evolves.

5. Do no harm: Policies must support the competitiveness of the U.S. economy. Policies must address emissions leakage that can undermine climate objectives. Policies must also safeguard against negative impacts on biodiversity, land and water.

6. Promote equity: Unabated climate change is a major threat to the U.S. economy. Therefore, policies to address climate change, which may also entail some cost, must provide transparency and promote affordability while distributing costs and benefits in such a way that promotes equity. Policies must include mechanisms to invest in American workers, and in disadvantaged communities that have the least resources to manage the costs of climate change.

CCD's Comments on the CLEAN Future Act

The comments we have provided reflect shared opinions among our member organizations, but do not represent a complete list of areas of interest among individual members or the CCD. We urge the committee to review comments submitted separately by our individual members for additional perspectives and technical advice regarding key portions of the CLEAN Future Act, including the application of a Clean Energy Standard in the power sector.

1. Emissions Target

The CCD member companies and organizations believe U.S. policy should ensure the country is on a path to achieve economy-wide emissions reductions of 80 percent or more by 2050 and commend the committee for including an emissions target that exceeds that goal. The CCD also supports the committee's focus on emissions outcomes rather than technology-specific prescriptions.

2. Interim Emissions Targets

The CCD believes that interim targets are important components of our ability to meet long-term targets efficiently and effectively. Interim targets should foster a predictable and stable path for investment in low-carbon technologies and strategies and be structured to avoid the need for precipitous emissions reductions in the latter decades of the program.

The timeline for reductions must allow capital-intensive industries to adjust in an economically rational manner, and policies must encourage investment and planning decisions consistent with the timeframes needed.

The current draft of the CLEAN Future Act leaves the question and creation of interim targets up to the executive branch. The committee should ensure that any interim emissions reduction goals allow adequate time for planning and investment across economic sectors.

3. Policy Architecture

As outlined in our principles, the CCD member companies and organizations believe an economy-wide price on carbon is the simplest, most coherent, and most efficient emissions reduction tool that we currently have. Though we are pleased to see the CLEAN Future Act attempts to address each major sector of the economy and that it incorporates some market-based tools, it does so in an inconsistent and potentially unequal way, using varying tools such as a clean energy portfolio standard, fuel economy standards, and various other levers within the Clean Air Act. While each of those tools deserve consideration to achieve the goals of the legislation, an economy-wide price on carbon should be the key feature of the CLEAN Future Act, not a backstop policy. The other titles of the CLEAN Future Act should be integrated into the carbon pricing provisions with great attention paid to linkages among the policies, so they result in a coherent and efficient policy.

The CCD believes state and regional leadership on climate is important and we recognize that the Clean Air Act's reliance on state implementation plans for compliance has been an effective model for criteria air pollutants that impact local and regional air quality. We note, however, that the approach to state climate plans (SCP) as proposed in the CLEAN Future Act is inconsistent with the CCD preference for an economy-wide price on carbon. CCD members that have specific concerns with the efficacy and efficiency of the SCP provisions in the CFA have addressed their concerns in their individual comments.

Economy-wide carbon pricing is particularly well-suited to climate change for the simple reason that all reductions of greenhouse gases in the atmosphere have equal value, regardless of where they come from. In other words: it makes no difference to the atmosphere where a greenhouse gas is emitted, or where it is reduced. That fact frees policymakers to design approaches that incentivize the private sector to reduce emissions wherever they can be obtained at the lowest cost.

The financial incentive created by a carbon price to lower emissions can be a strong driver for companies to reduce their emissions by investing in low-carbon technology innovation and deployment. Importantly, it can also support investments in technology to remove carbon from the air (e.g., direct air capture), and natural climate solutions that sequester carbon in lands and forests.

Studies that have evaluated the performance of market-based pricing approaches to environmental protection have found that they have achieved their environmental objectives and have done so at lower cost than conventional command-and-control approaches. Estimates of cost savings range from seven percent to 96 percent, with more than half of studies showing that market-based programs cut the cost of regulation by well over 50 percent compared with command-and-control options. For example, the SO₂ allowance trading program resulted in 33 percent cost savings compared to early estimates of program performance—on the order of \$1 billion annually (Ellerman, 2000) while reducing power-sector emissions from 15.7 million tons in 1990 to 7.6 million tons in 2008 (U.S. Environmental Protection Agency, 2010).

The CCD would welcome the opportunity to work with the committee to identify economy-wide carbon-pricing policy options that meet the CLEAN Future Act emissions reduction goals, reduce costs, and drive innovation and investment.

4. Economic Competitiveness

U.S. manufacturers are driving transformational solutions that reduce emissions and improve energy efficiency in their customer industries like – among others - energy, automotive or building & construction. The use of products made by the manufacturing sector in widespread applications like insulation materials, performance improving additives, energy storage or lightweight products is key to achieve sustainable emissions reductions.

Given its diversity, its needs for reliable and affordable electricity and thermal heat, and the nature of many core manufacturing processes, the industrial sector is probably the most challenging sector of the economy to decarbonize. Unlike other sectors of the economy, manufacturers are integrated in global supply chains and compete in the global marketplace, making them more sensitive for increased costs caused by regional or local climate policies.

The CCD endorses predictable policies addressing all emitting sectors of the economy. Policy makers need to acknowledge that available large-scale technology options, emission abatement costs and cost sensitivity may differ widely between and within sectors, especially in the manufacturing sector.

The CCD appreciates the Committees efforts outlined in Title V of the Clean Future Act to address areas which are critical to reduce emissions.

The CCD supports programs like:

- The authorization of funding for Carbon Capture and Utilization technologies which play a vital role in scaling up economically unfeasible on-site projects to reduce process-related emissions (Sec. 503).
- Programs to encourage the deployment of combined heat and power, waste heat to power and efficient district energy (collectively referred to as CHP). Given that many industrial facilities have a significant on-site demand for electricity and heat, CHP allows for meeting those demands in an efficient and cost-effective way (Sec. 511).
- Programs like the Smart Manufacturing Leadership to improve energy efficiency and to support comprehensive energy management especially in small and medium sized enterprises. In many cases, energy efficiency is still a low-hanging fruit to reduce emissions (Sec. 512).

Carbon leakage, which refers to the situation that may occur if businesses were to transfer production to countries with laxer emission constraints due to costs related to climate policies, could lead to an increase in total emissions. Unless there is an enforceable and comprehensive global climate policy framework covering most global greenhouse gas emissions, carbon-leakage protection for energy-intensive, trade-exposed (EITE) industries are critical. Those policies must level potential carbon costs and disadvantages for businesses competing in the global marketplace. Also, a comprehensive carbon-leakage policy for eligible industries must be part of any climate legislation from day one.

Unfortunately, the CLEAN Future Act falls short on specific provisions to address carbon leakage protection for EITE industries like chemicals, cement/concrete, steel, aluminum, refiners, and fertilizers. Many approaches have been enacted or proposed in programs around the world, ranging from allocation of allowances for eligible industries under cap-and-trade programs, compensation for carbon

costs on purchased electricity under a clean energy standard, and carbon border adjustments. Experiences from other parts of the world show that designing these types of policies can be challenging and it will take time to get it right. The CCD is encouraging the Committee to continue a dialogue with the business community and think tanks on this important issue. Given the importance of maintaining a globally competitive manufacturing sector as the United States moves toward a cleaner energy future, the CCD encourages the committee to thoroughly assess the pros and cons of a variety of different approaches to addressing carbon leakage for EITE industries.

5. Equity Considerations

The CCD appreciates the inclusion of the provisions in the CLEAN Future Act that address equity considerations, including policies that invest in American workers (e.g., assistance for workers transitioning from fossil fuel jobs), and in disadvantaged communities that have the least resources to deal with the cost of climate change (e.g., and energy efficiency grant programs, and solar installation grant and loan program for low-income and underserved areas).

6. Conclusion

Thank you for the opportunity to comment on the CLEAN Future Act discussion draft. The CCD looks forward to working with you and other members of the committee and the Congress to advance climate policy that is market-based, durable, equitable, and supportive of the American economy. We believe strongly that these goals can be achieved through an economywide price on carbon, designed in a manner that is consistent with all of the CCDs six guiding principles.

Sincerely,

A handwritten signature in blue ink that reads "T Mealey". The signature is fluid and cursive, with the first letter of the last name being a large, stylized 'M'.

Timothy J. Mealey
Staff Director
On Behalf of the CEO Climate Dialogue