

June 17, 2008

TO: WCI PARTNERS

Organized labor in the Western states and provinces is committed to the goal of reducing greenhouse gas emissions. **We believe that global warming is an indisputable fact, scientifically documented, that will thoroughly change our economy, our labor markets, and our standard of living.** Whether these changes will be for the better or worse is the question that faces us. We have a window of opportunity to address the issue and assure that global warming is slowed and stopped, and that it is done in a manner that guarantees economic growth and equity. Labor must have a “seat at the table” where global warming issues are debated, whether at the state/province level, regionally, nationally or internationally. If we are to truly solve this crisis then it will take the collective effort of the entire society and leaving labour out can only be a recipe for failure.

FUNDAMENTALS

The Stern Review bluntly states that “Climate change presents a unique challenge for economics: it is the greatest and widest-ranging market failure ever seen” As representatives of many who have lost out to market failures, we thus approach a discussion of a solution to global warming based on letting the market work with a degree of skepticism and concern about potential pitfalls.

In short, we have serious reservations that a Cap and Trade or Cap and Auction system is the best way to proceed. Nonetheless, we are pragmatic in our assessment that this is in fact the system upon which the WCI has settled. We certainly know that other experiences have shown that improperly done, the outcome of a cap and trade system will not only hurt workers, it also won't work. We have stepped forward to engage in the debate because we see that the interests of workers and their families must be represented. We will be responding to the various parts of the WCI draft proposal from the perspective of these significant but so far silent stakeholders. Our bottom line will be: The climate crisis was caused by unregulated corporate interests and cannot be solved by an unregulated market. The government must act firmly and globally to make sure that the mechanisms enacted serve the public good, not just the immediate interests of owners and share holders of large corporations and utilities, much less the growing numbers of speculators lining up to take advantage of the opportunity to reap financial benefit from whatever system is adopted.

ECONOMIC IMPACT

The Draft Recommendations state that partners “will carefully examine economic impacts, including the impact on consumers and businesses in each jurisdiction.” We would point out that to be a consumer in a real way requires citizens to become workers first. We therefore argue that it is crucial that the impact on workers and the labor force also be considered. There will be losers as well as winners in the transition to a clean and efficient energy economy, and no acceptable plan for that transition should proceed without a consideration of these impacts and how they can be mitigated. Further, though we accept the claim that new jobs will result from the transition, these jobs must be monitored to assure that they provide family wages and benefits, and contain career pathways. Only by dealing with the upstream issue of quality jobs can the downstream issue of consumer impact really be mitigated. If unemployment and increasing poverty are to be avoided then the issues of job loss must be taken head on by the WCI and its members.

We recommend that the question of economic impacts on workers be added and a clear proposal for transition planning and funding be included in the WCI cap and trade program.

REPORTING

We agree that accurate and complete reporting is crucial to a Cap and Trade system, and thus we support independent verification and rigorous audits.

Further, we agree with other stakeholders who support a reporting rule that provides consistency, simplicity and cost effectiveness.

Finally, as has been found necessary in so many of our regulatory statutes, we urge the partners to make whistleblower protection a part of the reporting requirements. Workers often find themselves in a position to contribute to the public interest but are fearful of their jobs. It is imperative that there be provisions that spell out the protections for workers who desire to make representation to the oversight body. Without this an extremely important component of monitoring and accountability will be lost. We would be happy to forward more specific language if that is deemed necessary.

SCOPE

The scope should be as wide as possible to begin with and expand over time to include all sectors. We support an approach that is economy-wide, with contributions from each sector (including transportation fuels, urban land use, building design, and agriculture) in proportion to the GHG emissions of that sector.

THE PROBLEM OF “LEAKAGE” AND JOB LOSS

There have been a number of studies done that suggest any action to limit carbon emissions will result in a lower GDP and a loss of jobs. The problem of competition is not only an economic one but one which cuts to the core of whether or not this program will be successful. Recently, Business Council of British Columbia economist Jock Finlyson suggested that cap and trade system could be a double loss for domestic industry.

“Shutting down industry in North America, including here in B.C., and offshoring the production of cement or steel or anything else and then just importing it back to North America, not only does that not help us economically, it actually is negative in terms of global emissions,” he said. ¹

Canada’s second largest bank produced a study recently that called directly for action to ensure a form of “carbon tariff” is included in the design of any cap and trade system. A report by CIBC World Markets states that OECD countries lowering their carbon emissions without introducing a carbon tariff will only see more work shipped offshore and no drop in carbon emissions on a world scale.

Without the carbon tariff, the program will simply add costs to consumers, make domestic industry less competitive and will increase overall global emissions as more and more production is shifted to unregulated jurisdictions, notes report author and CIBC World Markets chief economist Jeff Rubin. ²

The report points out that carbon emissions in China are amongst the highest in the world, particularly in energy production where China produces one-third more CO₂ emissions than the United States per unit of energy and double the emissions in Canada.

European countries are grappling with the same issues as the first round of cap and trade comes to a conclusion. Serious errors were made that resulted not only in windfall profits but in the increased pressure to export jobs to countries who are not engaged in the struggle to lower emissions. It appears the approach in Europe will be to give those industries which are “foreign pressured” more access to permits at low or no costs to ensure they remain competitive. There is growing pressure in Europe to look directly to a carbon tariff or border adjustment to ensure that “dirty products” are not undercutting both the environmental goals and the economic competitiveness of their industries. European Industries in areas like cement production are supporting the tariff proposal. Paul Vanfrachmem, President of Cembrureau, welcomed the idea because what is

¹ Vancouver Sun, March 28, 2008

² The Carbon Tariff-StrategEcon, March 27, 2008

happening now is “cement imports are increasing a lot, especially imports from China where there is no carbon constraint.”³

This position was supported recently by the General Secretary of the European Trade Union Confederation, John Marks, who said, “A solution exists to keep employment and the planet from being the losers: an import compensation mechanism, such as a carbon tax, would equalize carbon costs for companies outside Europe and in Europe while allowing a considerable effort to be demanded from industry, such a system would keep heavy industry and jobs in Europe.”⁴

The Lieberman Bill in the United States includes a provision for border adjustments should the nation embrace a cap and trade system.

What is critically important is at a time when North America is bleeding good paying manufacturing jobs at an alarming rate we must design a system which at the very least does not reward those who produce “dirty products” in foreign countries and import them without consequence to our markets. Those countries with lower standards cannot be rewarded for their lack of action on what can only be described as a global crisis. To avoid this issue when designing the WCI system will simply accelerate the loss of industry and jobs.

Parties to the WCI have already acknowledged the problem. But the solution proposed only applies to the electrical generation system. While we applaud the establishment of the principle, there are other industries where the impact of the cap and trade system could well be far more profound.

ELECTRICITY

We strongly support the proposal that electricity imported into the market where WCI exists must meet the same standards for carbon emissions as those utilities operating within the jurisdiction. Therefore power imported from outside the jurisdiction (both foreign and domestic) must have a carbon tariff of some sort imposed, in order to reflect the cost we pay within the jurisdiction for reducing emissions. This can be done in a number of ways but it must be done. Substituting power from outside the WCI grid that fails to meet the climate goals of the WCI is clearly an unfair advantage for those who do not embrace the need to deal with climate change.

OIL AND GAS

There appears to be a glaring hole in the analysis to date. Oil and Gas production within the WCI will be included in the scheme. This is critical because the production of oil and gas is one of the major emitters of carbon into the atmosphere. Steps, sometimes

³ Trade Diversion, Commentary on Development, Globalization and Trade by Jonathan Dingel

⁴ Progressive Economics Forum, January 15, 2008

costly but necessary, will have to be taken to change this. Within the WCI oil and gas producing companies will see this reflected in production costs. **Therefore we request that the same principle be applied to the importation of oil and gas that the WCI will apply to electricity.** There must a carbon tariff on oil and gas production that is produced with lower standards and then imported into the WCI jurisdiction.

CARBON TARIFFS ON OTHER INDUSTRIES

Electricity and Oil and Gas are obvious areas where action is needed, but there are many more. The manufacturing sector is another area where sector specific assessments of competition from outside the WCI jurisdiction are necessary before any final arrangement can be agreed to. Industries operating within the jurisdiction can deal with the competitive issues by applying the same or similar standards. This is simply not true for those outside. Already struggling value-added industries must not be punished further while goods produced with dirty fuel and few environmental standards flood our markets. A case in point would be the pulp and paper industry where competition from offshore producers is increasing while mills close down in North America. Two recent closures saw paper and pulp machines sold to companies operating in China and India. While it is bad enough that these foreign operations will compete in other jurisdictions, it would be absurd that we would allow them to undercut markets in WCI jurisdiction by importing “dirty” pulp and paper. The cement industry is another sector where serious damage will be done. But the entire manufacturing sector must be included because imports are clearly part of the market makeup in nearly every sector.

We therefore seek the WCI to implement a carbon tariff to be applied on foreign and domestic imports as a fundamental principle of the program to be announced in July. To maintain public support and any form of social consensus on this issue, the tariff or border adjustment must be included in the outline of principles. Failure to do this will not only undercut the economies of the regions in question but will seriously undercut the primary objective of the program which is to deal with ensuring we do our part in the fight to stop global warming. This decision will guarantee as the program is developed, there are enough tools to ensure we are not simply opening the door wider for corporations to transfer the production AND pollution offshore while shutting down the industries in North America. Clearly a lose-lose for both the environment and the economy.

For industries that are export dominated the challenges are even more difficult to deal with. Certainly the carbon tariff will help those exporting within the WCI region but those whose primary business is outside the region will face special challenges. Strategic plans for these industries must be developed that do not undercut the environmental goals we are seeking. There are some fine lines to walk here between environmental success and economic suicide. However, we cannot allow ----defacto --- the dirtiest producers of goods in the world to set the environmental standards for the planet.

ALLOCATIONS

Except in limited instances, we are opposed to the allocation of free allowances, which we believe can quickly become the source of windfall profits for those companies which receive them. The minimum auction percentage should be 75%, not 25%, and it should increase to 100% in the 2nd phase.

There should be no open and unlimited trading of allowances. Allowances and a cap and trade system should be targeted to the emitters so as to encourage the investment in new technology to lower emissions. The point of the financial incentives and rewards of a cap and trade system are to encourage positive changes in domestic behavior. No one should be able to game the system for financial reward. In other words, the WCI should offer NO OPPORTUNITIES FOR SPECULATION. We believe strongly that the public will not support a solution where those who trade paper will reap a profit while others are paying the price for doing the tough work of meeting the global climate challenge.

Since allowances are in essence public disbursements, the value of the allowances, as well as their sale and disposition, should be public information and subject to timely public reporting.

We oppose unlimited banking of allowances, especially in the following cases:

- There should be a prohibition on firms obtaining an allowance and then closing their facility or moving their operations offshore. This is a critical issue and requires clear guidelines and regulations
- There should be claw back provisions for the return of allowances to the government that are not used due to layoffs or cutbacks in production. Permits cannot be exchanged or traded as a result of corporate decisions to shift production or scale back production through job loss.

We support a “safety valve” cost cap to protect the economy along the lines of that proposed by the National Commission on Energy Policy.

POSSIBLE USES OF AUCTION REVENUE

Auction proceeds should be used for the public good, not to generate windfall profits for industry. Among the recipients of auction funding should be:

- Support for displaced workers and affected communities – direct financial assistance (such as bridges to retirement), funds for re-employment and re-location in comparable jobs, as well as re-training in where the age and skill level

of dislocated workers make this an appropriate option. Related to this, layoff aversion programs in affected industries should also receive funds for programs that are not appropriate for other funding sources.

- Workforce training programs to bring members of our communities out of poverty and into family-wage green collar jobs.
- Incentives for innovation, research and development where capital is not otherwise available and where there are significant public “co-benefits,” such as local economic development and family-wage job creation. Metrics could be developed that measure positive social impact.
- Support for up-front capital investments to reduce emissions, especially in high-electricity-using enterprises like manufacturing, including retooling/reinvestment programs that would help drive the transition to energy efficient technologies in existing plants, versus creating economic hardship and threatening job loss.
- Equity programs that could help ensure that low income and middle class consumers, and small businesses are protected from the impacts of the re-pricing of carbon fuels. Such programs might include direct assistance with energy bills as well as home weatherization, the building of affordable green homes, etc.

OFFSETS

We urge offsets *within* the WCI jurisdiction that will drive economic development in our region, including investments and job creation, by pushing for technological solutions related to permanent reductions at home. Offsets that encourage the movement of work outside the jurisdiction should not be allowed.

WCI should consider even more restrictive use of offsets for the common good – e.g., allowing offsets only for those projects that assist low-income homeowners to weatherize their homes, or construct affordable green homes for low-income individuals.

We believe that offsets bring about greater social equity if they address environmental justice needs at or near the source of the emissions and involve projects that provide environmental and economic benefits to affected communities.

- Offsets should be limited to a small portion of covered entities’ compliance obligation.
- Offsets must be verifiable and enforceable by a state agency.

CONCLUSION

It can be argued that working people have the most to gain from winning the battle against global warming; after all they make up the majority of the planet. But it can also be argued they have the most to lose depending on how this battle is carried out. We agree there is no choice but to fight to save our planet from increasing environmental disaster...but it is a choice on how we do that. We all do not start on a level playing field. We cannot pack up our families, our communities and take them to the countries where our employers move the factories to avoid pollution standards. We do not have unlimited incomes so solutions that involve raising the prices to change consumption mean poor and working people pay the highest price.

In North America and around the world there is wide spread acceptance that the gap between the wealthy on one hand the the majority on the other continues to widen with the subsequent poverty and despair that follows. Solutions to global warming that ignore this reality will simply make it worse.

Our proposals in this submission do not dramatically change the general principles of the program being proposed. They provide safeguards against profiteering, dirty product dumping and bogus carbon offsets. Our proposals also ensure that the monies generated by the program are targeted to environmental improvement and opportunity for the lowest sectors of our society.

Like any great national or international challenge, the opportunity exists to unite all sectors of the society. That the opportunity to unite people exists today, because of the climate crisis.... is indeed a precondition to the success of the program. We cannot afford to fail. So we are submitting these proposals because we not only want to be at the table, but we want to be part of real solutions that will not only succeed in slowing and stopping global warming, but contribute to building an equitable, sustainable and safe planet.

**SUBMITTED ON BEHALF OF
THE B.C. FEDERATION OF LABOUR AND
THE OREGON AFL-CIO**

JIM SINCLAIR
President
B.C. Federation of Labour

ANGELA SCHIRA
Secretary-Treasurer
B.C. Federation of Labour

BARBARA BYRD
Secretary-Treasurer
Oregon AFL-CIO