February 3, 2016

Chair Edwards
Vice Chair Olsen
Attn: Beth Reilly
Committee Administrator
Senate Committee on Environment and Natural Resources
Submitted via email: beth.reiley@state.or.us

RE: Associated Oregon Industries Testimony on Senate Bill 1574

Dear Senators:

Thank you for providing Associated Oregon Industries the opportunity to submit written testimony for the Senate Committee on Environment and Natural Resources public hearing regarding SB 1574, the Healthy Climate Act.

Associated Oregon Industries ("AOI") is Oregon's largest statewide business association representing approximately 1,500 businesses that employ nearly 200,000 people. AOI businesses and employees are located in many communities across this state. And like many Oregonian's, AOI members value both the environment and economic prosperity; and therefore, support legislation that recognizes one does not have to be exclusive of the other.

Oregon is a beautiful place to live, work and grow a business. There is no question that Oregon's natural environment is one of our great assets; culturally intertwined with our history, identity, and economic development. That is why Oregon businesses and workers have been leading the effort to find new ways to reduce energy use and greenhouse gas emissions. And Oregon should continue those efforts. Our values and those of our workers and the communities we call home demand no less. But the unforgiving realities of business and competition also mean that we need to incorporate initiatives in a way that achieves our environmental objectives thoughtfully.

In short, AOI agrees that reducing greenhouse gas emissions is important to address a global problem; however, disagrees that SB 1574 is the appropriate solution for Oregon.

To explain, SB 1574 proposes to raise an estimated $3.9 billion in new revenue in the year 2025, which will likely increase overtime as the emissions cap lowers. These estimates are derived from 2014 DEQ emissions data and a 2014 Portland State University study (commissioned by Legislative Revenue Office) analyzing the approximate price of carbon ($60) necessary to meet the bill's 2025 greenhouse gas reduction goal. Combining that price and the available emissions data demonstrates the potential, and extraordinary costs many business and consumers will bear across the state.

SB 1574 is a costly bill and will impact consumers and Oregon's industrial and manufacturing sectors. Industry impacts have been evidenced in California. Since the passage of AB 32 (the California cap and trade program), California has experienced anemic manufacturing job growth compared to the national average – 2 percent compared to the national average of 7.6 percent. This is important because manufacturing comprises nearly 30% or Oregon's GDP and pays a 30 percent premium over other sectors. The impacts from this bill not only hurt Oregon businesses competitiveness, but also those people they employ and the entire state economy.

Additionally, the goal of reducing carbon emissions will not be fully realized. Due to the realities of global competitiveness, businesses will be forced to leave the state, taking with them well-paying jobs, energy demand and also relocating carbon emissions. In 2013 California had 46 manufacturing businesses start or expansions, while Texas had 253. Because no state generates more carbon pollution than Texas – nearly double California's rate and 19 times that of Oregon, this bill would create a perverse effect of shifting manufacturing out of a clean economy like Oregon's and transferring it to dirty economies like Texas or China.

While proponents suggest DEQ will prepare rules capable of protecting energy intensive, trade exposed businesses and costs to Oregon families, the bill language lacks sufficient detail. The bill uses imprecise language like "as determined necessary" and "a certain percentage of allowances" to describe these promises. These provisions are likely to be interpreted differently by DEQ, the legislature and even from business and utility representatives. Consequently, the promises fail to provide businesses any confidence or assurance that their business will be able to remain competitive in a global market place.

All of this is not to suggest Oregon cannot or should not continue to find opportunities to reduce global greenhouse gas emissions. Oregon businesses have continued to demonstrate their commitment to finding solutions by investing heavily in energy efficiency and making significant strides in reducing greenhouse gas emissions; leading the country with the lowest carbon intensity economy without utilizing nuclear power. Moreover, according to the U.S. Environmental Protection Agency, Oregon's industrial and commercial sectors now emit *less* carbon than they did in 1990. That is no accident. Rather, it is the result of innovation and efficiency driven by a desire to be more environmentally conscious while still creating opportunities for Oregon workers. This should be the focus of climate policy legislation, not punitive measures like SB 1574.

Lastly, this bill has originated in the wrong chamber because it is likely a revenue raising measure that must originate in the House of Representatives under Article IV, section 18, and receive three-fifths' votes of both chambers under Article IV, section 25, of the Oregon Constitution.

SB 1574 has the essential attributes of a bill for raising revenue. First, SB 1574 brings money into the state treasury by selling "allowances" that businesses need to lawfully conduct their businesses. Second, the payments are in the nature of a tax or similar exaction, not a fee. The persons paying the state do not receive equivalent benefits from the state in exchange for the payments. Instead, the state will use the payments to benefit the public. The payments are not voluntary because businesses cannot lawfully conduct their businesses without paying for "allowances." The required payments, coupled with the use of the payments to benefit Oregonians as a whole, mean that, more likely than not, the courts will consider SB 1574 to be a bill for raising revenue.

Thank you for your consideration and I welcome a continued conversation on this subject.

Respectfully Submitted,

Mike Freese
Vice President
Associated Oregon Industries
Phone: (503) 588-0050
Email: mikefreese@aoi.org