INTERNATIONAL BROTHERHOOD OF BOILERMAKERS, IRON SHIP BUILDERS, BLACKSMITHS, FORGERS, AND HELPERS, AFL-CIO

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Committee on Government Reform on Oversight,
Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs
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Testimony on the Impact of the Kyoto Protocol
on the U.S. Cement Industry and Its Workers

Introduction

Thank you Mr. Chairman for permitting me to testify before your committee on behalf of our membership regarding the Kyoto Climate Change Protocol ("Protocol") and the adverse impact the Protocol would have on employment within the U.S. cement industry, if implemented. As you know, I came before your committee in June of this year to testify on the overall impacts that the Protocol would have on our members, and I appreciate the opportunity to now focus on its impact on U.S. cement workers.

The International Brotherhood of Boilermakers represents approximately 90,000 members in many diverse industries throughout the United States. We represent workers in private and U.S. navy shipyards, power plants, paper mills, oil refineries, copper smelters, quarries and mines, forging and heat treating plants, and in the instant case, cement and construction materials plants. The majority of all the workers we represent are employed in energy intensive industries and would be greatly affected by the Protocol. In the International's Cement, Gypsum and Allied Workers division, we represent over 11,000 workers employed by the U.S. cement industry.

Mr. Chairman, we are here to tell you about the job loss that will occur if the Protocol is implemented as the Administration intends, and for that reason we are opposed to it. The International Brotherhood of Boilermakers has a long history of supporting clean air initiatives, specifically the Clean Air Act of 1970 and the subsequent 1990 amendments to the Act, as well as -- the development and use of clean air technology. By now, we all know or have an idea of what the Kyoto Protocol, resulting from the Conference of the Parties to the United Nations Framework Convention on Climate Change, means to the United States -- a commitment on the part of the United States to adhere to specific legally binding emissions reductions, targeting six gases believed to be the cause of a green house effect on the Earth. Of these six greenhouse gases, it is argued that carbon dioxide emissions are a serious problem and must be reduced in order to meet those commitments.

What does this mean, however, to the U.S. cement industry and its workforce? Implementation of the Protocol as suggested by the Clinton Administration would likely result in a reduction of capacity utilization throughout the U.S. cement industry, which in turn would lead to plant closures, which would ultimately cause a loss both in existing jobs and in the potential to create new jobs. This issue is very transparent. It no longer is simply an environmental issue, but is a trade matter that could result in serious adverse implications to the U.S. cement industry and its workers. The Protocol could cause as many as 3,000 Boilermaker members to lose their jobs, and approximately 3,000 additional workers in the U.S. cement industry, who are not members of our union, would be put out of work. In total, nearly 6,000 cement workers, or one third of the cement industry's workforce, would lose their jobs.

I. Background on the U.S. Cement Industry

The U.S. cement industry is both capital and energy intensive, relying heavily upon the cyclical nature of the construction market within various regions of the United States. The U.S. cement industry produces approximately 86 million tons of cement annually, and employs nearly 18,000 workers. More than 11,000 of those workers are members of the International Brotherhood of Boilermakers. During the past several years, cement demand has increased in the United States and the industry has undertaken many capital investments and plant expansions to meet that growing demand.

Over the next four to five years, through these investments and expansions, which include the construction of two new "greenfield" plants, one in Florida and one in Texas, cement production capacity will increase within the U.S. by nearly ten million tons. For example, several investment projects in Texas will increase capacity in that state by four million short tons, or forty percent, over 1996 capacity. In fact, the United States ranks as the second largest cement consuming nation in the world, and the third largest in cement production.

It is forecasted that cement demand and consumption will continue to rise in the United States as a result of a strong economy, increased housing construction, and various Federal initiatives such as those provided for under the Transportation Equity Act for the 21st Century ("TEA 21"). All of the above helps provide stability to U.S. cement workers, and creates the potential for a significant increase in U.S. jobs as more than sixteen cement companies throughout the United States expand production capacity.

II. The Cement Production Process

The production process for cement is both energy and capital intensive, requiring large amounts of coal and coke (i.e., a by-product of petroleum refining), as well as electricity. Raw materials, mainly limestone and other aggregates, are ground, preheated and processed through a cement kiln. The process results in the production of "clinker," which is then ground into cement. In the production process, CO_2 (Carbon Dioxide) emissions are given off during the combustion of fuels and as a result of the calcination of the limestone.

III. The Protocol's Impact on Employment in the U.S. Cement Industry

I would like to turn your attention to the significant adverse impact that the Protocol would have on the U.S. cement industry's workforce. It is expected, and we have no reason to believe otherwise, that under the terms of the Protocol, developing nations will be excluded or not held to the same standards as the United States for the reduction of greenhouse gas emissions. The reduction of greenhouse gases cannot be effectively accomplished by excluding nations, such as China and regions such as Southeast Asia. It is these nations and regions that are quickly developing energy intensive industrial sectors that rely heavily on coal and other fossil fuels, and that already are not held to the same environment and labor standards as U.S. industries. By allowing industries within developing countries to forgo any requirements under the Protocol, we grant those industries a significant added advantage over U.S. industry and workers in energy, environmental and production costs. Also, we further reward foreign industries in developing nations by removing any competitive advantage our domestic industries and workers may have by holding them to an even higher standard under the Protocol for environmental compliance and emissions reductions. This of course, will adversely impact many of the 11,000 Boilermaker members working in U.S. cement plants, their families and their communities.

A. The Yellen Report: A Lack of Research Indicating Job Losses

The U.S. cement industry has approximately 18,000 workers. While we continue to analyze the number of jobs that could be lost in the industry due to the implementation of the Protocol, the Yellen report makes nothing more than mere conjectures of job loss in "energy-intensive sectors." The U.S. cement industry is one of the six energy-intensive industrial sectors. Although many reports have been issued that discuss energy and technology costs, and the feasibility of implementing the requirements of the Protocol, the Administration has not provided any "hard" data on the impact the Protocol would have on jobs within the U.S. cement industry or other energy-intensive industrial sectors.

The Yellen report, entitled The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis (July, 1998), says that increases in energy prices will be offset by an international trading or permit system. Regarding job loss, the report assumes that aggregate employment effects will be negligible. The report states, and I quote: "the analysis of the Kyoto Protocol with effective international trading and developing country participation suggests that there will not be a significant aggregate employment effect under permit prices of $14.00 per ton to $23.00 per ton. Some job loss could occur in energy-intensive sectors, although given the small predicted change in energy prices, impacts in most such sectors appear to be modest."

Speaking on behalf of the International Brotherhood of Boilermakers, I believe it is presumptuous to assume that there will be both an effective international trading system in place and developing country participation. That is why our members oppose the Protocol. The Yellen report is unsound and does not provide sufficient data upon which to make an informed and educated decision about the effect of the Kyoto Protocol on the U.S. cement industry and its workers. For the Administration to base its opinion concerning the affect on our workforce of an international trading system for which no basis or criteria has been established is simply wrong. To our knowledge, the Administration has only talked about the establishment of an international trading system and has not developed or offered a procedure by which to implement it. To base a report on economic effects and job loss within any industry without developing the report's main component makes that report completely unreliable.

To date, the Administration has not given us evidence of any data regarding potential job loss within the U.S. cement industry or any other industrial sector. When it comes to U.S. jobs, assumptions will not suffice. When our government thrusts itself into the global economy, it represents us, the people of the United States, and purports to act on our behalf. In the instant case, we should be concerned with U.S. jobs, not simply the environment. The Protocol's impact on jobs within the U.S. cement industry can be extreme. We cannot advance as a nation if implementation of the Protocol causes significant job loss within the U.S. cement industry, as well as other U.S. industries. We must support these jobs in order to provide opportunities for future generations. Although the Administration mentions the possibility of adjustment assistance for those U.S. workers that lose their jobs, it is not adjustment assistance that is needed. We need to maintain the competitive advantage our cement industry has over foreign cement producers, and we need to support existing U.S. jobs within the industry and focus on the potential to create new jobs.

We agree wholeheartedly with the statement made in the Yellen report that is directed towards uncertainties in the effort to combat global climate change, and I quote, "[l]ack for knowledge regarding what the subsequent steps will be complicates any analysis of climate change mitigation." Unless or until the U.S. Department of Labor undertakes a comprehensive study regarding the Protocol's impact on employment in energy intensive industries, and bases that study

on a program for implementation of a global climate change treaty, assumptions should not be made, or believed. It is not sound economic or public policy, and it is unfair to American workers, to move forward with any climate change treaty until the true consequences of its impact on U.S. workers is determined.

B. The Protocol: Making the U.S. Cement Industry and its Workers Uncompetitive

Reducing our emissions of greenhouse gases by the required seven percent can only be accomplished by new and increased taxes on gasoline, coal and other fossil fuels, combined with the implementation of a trading system that creates an "allowance" program for the allocation of carbon emissions among countries and industry sectors. Some would say that another option is to shut down U.S. cement plants and eliminate U.S. jobs. However, This union does not see that as an option. Nor do we see the Protocol as particularly helpful to the U.S. cement industry. Global agreements of this magnitude must be inclusive, not exclusive. We cannot allow developing nations, and thus foreign cement producers, to be excluded and held to a lesser standard than their U.S. counterparts. This is why the Protocol is a bad idea, and not only unfair but unjust to U.S.

workers. If implemented, the Protocol will remove any competitive advantage that U.S. workers have over foreign workers, and U.S. cement workers are a prime example. Presently, the U.S. cement industry is one of the most efficient and highly productive cement industries in the world, providing U.S. cement workers with substantial benefits, the least of which being high paying jobs.

It is certain that energy prices, and the Yellen report admits as much, such as the cost of coal and other fossil fuels, will increase if the Kyoto Protocol is implemented. The Yellen report said, and I quote, "there is no reason to expect that mitigating climate change would necessarily have a negative effect on the trade balance." To make such a statement is to make a false statement. I can assure you that the Protocol and any "backdoor" regulations implemented by the U.S. Environmental Protection Agency ("EPA") will likely have a significant adverse impact on the U.S. cement industry as a result of the expected substantial increase in energy and environmental compliance costs. In fact, our industries are now experiencing increases in costs due to the EPA's proposal and implementation of "backdoor" regulations such as PM/Ozone and the NOx SIP Call.

The U.S. cement industry is both very energy intensive, using great amounts of coal and fossil fuel, and highly competitive. Furthermore, the U.S. cement industry does not rely on exports of its product to remain viable, but competition and stability within the industry is drawn to domestic demand and production. On average, energy inputs account for as much as 40 percent of cement production costs. Energy prices, contrary to the Administration's declaration, are expected to more than double between the years 2000 and 2010 as shown by the 1997 report conducted by the Office of Energy Efficiency and Renewable Energy, U.S. Department of Energy. Therefore, we can expect the cost of production for cement to rise by one-third and the price of cement in the U.S. to increase by a similar percentage. These are costs that will be borne solely by cement industries in developed countries, meaning in the instant case that the costs will be borne by the U.S. consumer and U.S. workers.

C. Plant Closures and Job Loss Due to Increased Cement Imports

Nations such as China, and regions such as Southeast Asia, have existing overcapacity and under utilization of cement production. It is forecasted that during the next several years, these nations' cement production capacity will greatly increase, strongly contributing to over supply of cement in the world market. As a result, the delicate trade balance between U.S. cement production and foreign imports can easily be disrupted by an increase in energy prices and environmental compliance costs, and thus cost of production, all as a result of the Protocol. Soaring energy prices and compliance costs will drive up the U.S. cement industry's production costs, sealing the fate of the U.S. cement worker.

Due to the Protocol, we can expect U.S. cement prices to increase to reflect rising energy and environmental compliance costs. Foreign producers in developing countries with over capacity and excess cement supply will export their cement to the United States to reap the benefits of these price increases, provided to them by the Protocol. China and the

Asian Rim countries, or "Asian Tigers", have a total cement production capacity of nearly 600 million tons, or seven and one-half times that of the U.S. cement industry (based on 1996 figures; tons referred to are based on metric tons). China currently has excess capacity and exports approximately 10 million tons of cement each year. By the year 2000, Asia's cement capacity is expected to increase by more than 75 million tons, with demand rising only by more than 34 million tons. With U.S. cement demand on the rise, and cement prices increasing to reflect that demand (and made higher by increasing production costs due to high energy prices), our domestic market is a prime market for Asia to dump its excess cement supply.

China, for example, would have an added advantage over U.S. companies in the domestic market for sales of cement if it is excluded from the Protocol as a developing nation. Not only would China's cement producers not have to comply with the stringent environmental standards set forth by the Protocol, but many of China's cement plants are state-owned and subsidized by the Chinese government. Add to that the fact that on average it costs approximately $5.5 million to build a cement plant in China versus more than $115 million to construct a cement plant in the U.S., and that cement prices in China currently average $35 per ton versus $75 per ton in the U.S. Thus, cement from developing countries such as China will be produced with lower environmental compliance and energy costs than U.S. cement. When our domestic market is flooded by this low priced, and often cheaper product, U.S. cement prices will fall sharply and the cement industry will be forced to cut costs and decrease production as market share is lost. The end result will be plant closures and job loss.

A similar scenario occurred in the 1980's. At that time, as U.S. cement demand and prices increased, low priced foreign product from Mexico flooded the U.S. market, driving down U.S. cement prices, squeezing U.S. cement companies' production costs, and ultimately causing seven plants to close at the cost of hundreds of jobs to U.S. workers. Capacity in the southern tier region of the United States decreased by nearly ten percent and investments and expansion stopped. In essence, the Protocol is nothing more than foreign aid, granting China's and other developing countries cement producers a competitive advantage over U.S. cement producers.

Furthermore, the nature of the U.S. cement industry, however, does not allow cement companies to base investments and expansion on short term events. Long term planning is important to the U.S. cement industry and its workers. If the Protocol is implemented as the Administration intends, without full knowledge of whether developing nations will be included and to what degree, without a complete understanding of the impact on U.S. jobs, the U.S. cement industry will envision nothing but uncertainty -- and uncertainty equals losses. New and capital investments -- even those that are in the planning stages or that have just begun -- could or would stop, new plants will not be built, and the likelihood of job loss will escalate throughout the industry. As in the past, when outside, rather than true market forces have affected the industry, the ultimate price is paid by the U.S. worker. That would be very unfortunate because most cement plants are located in rural areas and are do not provide many high-tech jobs. For example, the town of Kosmosdale, Kentucky was actually borne out of the building of a cement plant many years ago. Schools, hospitals, restaurants and business establishments were created in an area dependent upon the production of cement. It would be a terrible injustice if due to the Protocol a place such as Kosmosdale were to disappear with the closing of the cement plant, displacing hundreds of workers and their families, and forcing those workers to relocate with the harsh reality of finding a new job.

How can our workers be expected to compete against cement producers in developing nations that are not held to stringent environmental and regulatory standards, and that have lower energy and production costs. Cost increases of the magnitude expected will certainly result in the cement industry cutting costs and decreasing production capacity as imports increase, thus disrupting the delicate trade balance for such a high cyclical and capital intensive industry. The final outcome, of course, is that our industry will lose as many as 6,000 jobs, or one-third of the cement industry's current workforce.

Conclusion

The U.S. cement industry is in an expansion mode. With a booming economy and the passage of the Transportation Equity Act for the 21st Century, capital investments within the industry are increasing and new jobs are being created. U.S. cement capacity is expanding to meet market demand. Our members do not want to lose their jobs, nor do they wish to see the Protocol be the root cause of foreign imports displacing domestic production and sales. Nor do or members want our nation be forced to rely on foreign cement imports to build our bridges and highways and for other critical infrastructure needs simply because developing nations are excluded from the Protocol.

In sum, the short-term effects of the Protocol are apparent: job loss; disappearance of investment opportunities; and the end of expansion within the U.S. cement industry. The long-term effects are even more drastic: a loss of the potential to create new jobs; a reliance on foreign cement for our nation's critical infrastructure needs; and the closure of existing plants and loss of jobs in the future. The Protocol would produce little, if any, benefit to our nation, our economy and our workers. Expansion of energy intensive industries in non-developed countries that will be excluded from the Protocol, and other environmental requirements, will replace the clean, efficient plants in the United States. The earths air will not be cleaner, it will be more polluted. The only change will be the disrupted families and communities caused by the ill conceived notion that this Protocol accomplishes something positive for the environment.

The International Brotherhood of Boilermakers asks that the Administration obtain a comprehensive study on the effects of the Protocol on the nation's workforce, and we strongly opposes the adoption of any rule of regulation that is drafted to achieve the goals of the Protocol.