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New Report Examines Costs to U.S. Industrial Sector of Obama's Paris Pledge

WASHINGTON, DC – Meeting the commitments President Obama made as part of the Paris climate accord could cost the U.S. economy $3 trillion and 6.5 million industrial sector jobs by 2040, according to a comprehensive new study prepared by NERA Economic Consulting.

The study was commissioned by the American Council for Capital Formation with support from the U.S. Chamber of Commerce Institute for 21st Century Energy.

The report, "*Impacts of Greenhouse Gas Regulations on the Industrial Sector*," explores several potential scenarios under which the United States could meet the Obama administration's international emissions pledge as part of the 2015 Paris Agreement. Existing regulations fall well short of achieving former-President Obama's goal of a 26 percent to 28 percent reduction in net emissions from the 2005 level by 2025, and an 80 percent reduction by 2040.

The study provides the first detailed analysis of the costs and impacts associated with the additional measures that would be needed to close this "gap."

- **Download Paper:** *Impacts of Greenhouse Gas Regulations on the Industrial Sector.*

"This groundbreaking study is the first of its kind to showcase the economic pain and job loss that would result from imposing ever-tightening climate policy regulations on the U.S. industrial sector," said **Margo Thorning, senior economic policy advisor to the American Council for Capital Formation Center for Policy Research.** "What's more, the regulatory approach is unlikely to succeed in reducing global emissions as our industrial and manufacturing activity will seek a more-friendly regulatory environment, thereby undermining U.S. climate goals."

"This study does the analysis that the Obama administration should have done in the first place, and it finds that it is next to impossible to meet the Paris pledge gap without major new

restrictions on the manufacturing and industrial sectors – restrictions that could reverse the manufacturing renaissance we are currently experiencing, pushing jobs back overseas," said **Karen Harbert, president and CEO of the U.S. Chamber's Institute for 21st Century Energy**.

The report's central scenario projects that *additional* regulatory actions necessary to meet the Paris target would by 2025 reduce U.S. GDP by $250 billion, reduce economy-wide employment by 2.7 million jobs, and lower household income by $160.

Industrial sector jobs would fall by 1.1 million, with the cement, iron and steel, and petroleum refining sectors suffering the largest production losses. Under the study's core scenario, the industrial 2025 output declines by about 21 percent, 20 percent, and 11 percent, respectively. Higher energy costs also hurt domestic demand and the international competitiveness of U.S. industry, leading to a greater share of industrial demand being met by imports.

The study also examines the potential longer-term impacts of placing U.S. emissions on a trajectory to achieve the Obama administration's long-term emissions goal of an 80 percent reduction by 2050. It found that in 2040, the last year of the model run, GDP would be reduced by nearly $3 trillion, industrial employment would fall by 6.5 million jobs, and average household income would decrease by $7,000.

Another finding is that emissions "leakage" to other countries is a significant factor, and ultimately renders the U.S. regulatory approach ineffective at reducing global carbon emissions. In 2025, 33 percent of industrial sector emissions reductions are transferred to other countries as production shifts from the United State to other parts of the world. The industrial products produced in these plants would then be imported back into the United States.

The study includes specific state impacts for four key manufacturing states—Michigan, Missouri, Pennsylvania, and Ohio.

In Michigan, state GDP would decline by 0.8 percent in 2025, household income by $180, and employment by 74,000 jobs — including 13,000 manufacturing and industrial jobs. The hardest hit sectors would be iron and steel, and refining, with output declining by 14 percent and 9 percent, respectively.

In Missouri, state GDP would decline by 1 percent in 2025, household income by $190, and employment by 53,000 jobs — including 7,000 manufacturing and industrial jobs. The hardest hit sectors would be iron and steel and cement, with output declining by 20 percent and 18 percent, respectively.

In Ohio, state GDP would decline by 1.2 percent in 2025, household income by $390, and employment by 110,000 jobs — including 24,000 manufacturing and industrial jobs. The hardest hit sectors would be cement and iron and steel, with output declining by 16 percent and 13 percent, respectively.

And finally, in Pennsylvania, state GDP would decline by 1.8 percent in 2025, household income by $1,000, and employment by 140,000 jobs — including 26,000 manufacturing and industrial jobs. The hardest hit sectors would be iron and steel and cement production, with output declining by 16 percent and 15 percent, respectively.

The full NERA report, executive summary, and national fact sheet are available at the ACCF website.

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The American Council for Capital Formation Center for Policy Research is a nonprofit, nonpartisan economic policy organization dedicated to the advocacy of pro-growth tax, energy, environmental, regulatory, trade and economic policies that encourage saving and investment.

The mission of the U.S. Chamber of Commerce's Institute for 21st Century Energy is to unify policymakers, regulators, business leaders, and the American public behind a common sense energy strategy to help keep America secure, prosperous, and clean. Through policy development, education, and advocacy, the Institute is building support for meaningful action at the local, state, national, and international levels.