

**American Forest & Paper Association  
Comments on California Cap on Greenhouse Gas Emissions and Market Based  
Compliance Mechanisms**

December 14, 2010

California Air Resources Board  
Clerk of the Board, Air Resources Board  
1001 I Street, Sacramento, California 95814  
<http://www.arb.ca.gov/lispub/comm/bclist.php>

Dear Sir or Madam,

The American Forest & Paper Association appreciates the opportunity to comment on “California Cap on Greenhouse Gas Emissions and Market Based Compliance Mechanisms” (Subchapter 10 Climate Change, Article 5, Sections 95800 to 96022, Title 17, California Code of Regulations).

AF&PA is the national trade association of the forest products industry, representing pulp, paper, packaging and wood products manufacturers, and forest landowners. Our companies make products essential for everyday life from renewable and recyclable resources that sustain the environment. The forest products industry accounts for approximately five percent of the total U.S. manufacturing GDP, putting it on par with the automotive and chemical industries. Industry companies produce \$200 billion in products annually and employ approximately 900,000 people earning \$54 billion in annual payroll. The industry is among the top 10 manufacturing sector employers in 48 states. In California, the forest products industry employs approximately 68,000 people, has over 600 manufacturing facilities, gross shipments totaling over \$16 billion a year, and an annual payroll income of approximately \$4.1 billion.

AF&PA has commented in the past on the design of California’s cap and trade system and appreciates the Air Resources Board’s (CARB) consideration of those comments. We appreciate the inclusion of a broad definition of eligible biomass combined with a strong commitment to sustainability of the forest resource, as well as the recognition of the competitive pressures our industry faces. Today, we would like to focus our comments on the method proposed for allocating allowances to industry.

**AF&PA would like to express its desire to work with CARB on the development of the appropriate formula for allocating emissions allowances to the paper and**

**paperboard sectors covered by the proposed rule. We have significant concerns over the proposed use of greenhouse gas (GHG) efficiency benchmarks, in particular, product based benchmarks, as the basis for allowance allocation for these sectors.**

*“The emissions efficiency benchmark per unit of output assigned by the Executive Officer to each eligible activity defined in Table 9-1.” (page A-79).*

As we communicated in our January 2010 comments to CARB, AF&PA strongly supports the use of actual emissions as the basis for allowance allocations. The use of benchmarks, in particular, product-based benchmarks, as the basis for allocation is unworkable for several manufacturing sectors, including paper and paperboard, and arbitrarily creates winners and losers.

Unlike the cement and steel industries, most manufacturers, including the forest products industry, have large variation in products and processes. Due to this large variation, dissimilar products and processes would be placed in the same sector category under this approach. This results in a completely unrepresentative benchmark which will, in turn, over-allocate allowances to some facilities and under allocate allowances to others in a manner that is not based on their comparable efficiencies.

The industry has conducted an internal analysis of the allowance allocation method included in federal cap and trade legislation proposed earlier this year i.e.; sector GHG efficiency average by six digit NAICS product code. This analysis of pulp and paper manufacturing, including the paper and paperboard sectors, showed no correlation between greenhouse gas emissions and product type. As a result, the distribution of allowances differs so significantly across facilities that it can be viewed as market distorting versus a reasonable “reward for early action” or a “correct incentive to produce a given product in the cleanest way (lowest emitting way) possible,” (page J-21) as intended. For example, the distribution of annual costs borne by an individual facility within a NAICS code ranged from an expense of \$15 to \$20 million (at a \$20 allowance price) for some mills to \$9 million in revenue for others. The magnitude of such costs will force facilities to close rather than invest in efficiency improvements. The application of such benchmarks in a regulatory setting is inappropriate. Furthermore, excessive spending to purchase allowances only serves to drain resources that could have been spent on capital improvements to reduce GHG emissions.

Rather than product type, our analysis shows that fuel type, and degree of integration and steam production, are the overriding factors that determine a facility’s greenhouse gases. In most cases, these factors are intrinsic to a facility’s operations and can not be changed without changing the basic nature and/or configuration of the facility. For example, it would be unreasonable to expect a non-integrated paper or paperboard mill using natural gas, similar to those in California, to alter its operations so extensively as to begin producing, rather than purchasing, pulp (i.e.; become integrated) and use biomass fuel. Any benchmarks developed for regulatory purposes should take these factors into account.

As a result of our analysis, we have asked Duke University's Nicholas Institute for Environmental Policy Solutions to conduct a third-party study of the impacts of different allocation methods on the industry (to be completed in early 2011). We would hope to share the results of the study with CARB and initiate a dialogue toward developing appropriate allocation formulas for the Forest Product Industry that incent GHG reductions, but do not arbitrarily or severely penalize facilities.

### ***International Benchmarks***

The European Union has developed greenhouse gas benchmarks for industry allowance allocation under its Emissions Trading Scheme. It should not be assumed that such benchmarks are applicable to U.S. operations. As policymakers work toward an international climate agreement, a global carbon market, and examine comparable actions by trading partners, it will become evident that many U.S. manufacturing sectors are less energy efficient than their international competitors. Due to poor economic health, historically lower energy costs, and high capital costs required to make investments in alternative fuels and energy efficiency, the U.S. Forest Products Industry GHG profile does not compare favorably against some of its international competitors, both in developed countries and in emerging economies where state of the art facilities are being built, frequently with government subsidies. International benchmarks used as the basis for sector crediting in developing countries or border adjustments will only serve to put many U.S. manufacturers at a competitive disadvantage and eventually out of business with a corresponding loss of hundreds/thousands of jobs.

### ***Applicability and Unnecessary Complexity of Benchmarks***

An overly complex allocation method is unnecessary, particularly when resulting environmental impacts are determined by the cap and not the allocation. The development of appropriate comparisons among facilities will be extremely resource intensive for regulatory agencies, and in some cases, will not be possible given the complexity and variability of production processes. While benchmark studies may provide helpful narrative or directional information regarding technologies and processes, there are a large number of subjective decisions, assumptions and generalizations made when developing benchmarks for a particular process or product that ultimately render the benchmark itself inappropriate when applied to a specific facility. If actual best performing facilities or processes are used as a benchmark it may be impossible to know why a facility or process does not meet a benchmark given the complexity of the assumptions underlying the benchmark value. Furthermore, facilities in California are typically already using a combination of natural gas as fuel and combined heat and power technology, and therefore, are already high performers from a GHG perspective. Under a sector averaging approach, the extremely low number of facilities that would comprise the benchmark in California – three paper manufacturers and two paperboard mills – would make it impossible to develop a reliable statistical measure of GHG performance.

Thank you for your consideration of these comments. If you have any questions, please contact Rhea Hale at 202-463-2709 or [rhea\\_hale@afandpa.org](mailto:rhea_hale@afandpa.org). We look forward to

working with you on this important design element of California's cap and trade program.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul Noe".

Paul Noe  
Vice President for Public Policy  
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