verallia

October 17, 2011

Mary Nichols, Chair
California Air Resources Board
1001 I Street
PO Box 2815
Sacramento, CA 95812
mnichols@arb.ca.gov

Dear Ms. Nichols:

Verallia/Saint Gobain, (Verallia,) is writing to request your immediate attention to our long-ignored concerns about the potentially devastating adverse impact the proposed Cap-and-Trade regulation will have on our California operations. Both directly, and through our industry's trade association, the Glass Packaging Institute, (GPI,) we have provided data to and communicated our concerns to CARB staff over the past four years, with several face-to-face meetings in the past year alone, but the most recent draft of the proposed regulation posted CARB's website on October 10, 2011 fails to adequately address the vital issues which we have been discussing. For background information I am enclosing two recent letters which highlight these concerns.

Verallia is the single brand for all of Saint-Gobain's global packaging businesses. Verallia serves the North American market from 13 manufacturing plants in eleven states: Washington, California, Oklahoma, Louisiana, Missouri, Illinois, Wisconsin, Indiana, North Carolina, Pennsylvania, and Massachusetts. The company's 4,000 U.S. employees produce approximately 9.1 billion glass containers annually for beer, food, beverages, spirits, and wine.

Unfortunately, over the past decade we have found it necessary to close two California plants, (Maywood closed in 2004 and El Monte closed in 2006,) which had become uncompetitive for a number of reasons including the high cost of doing business in California. Our remaining California manufacturing plant is located in Madera and employs about 350 skilled workers and produces primarily wine bottles for customers in California. In addition we operate a packing and distribution center in Fairfield, California, which employs about 35 salaried employees. (In addition, most of the actual operations are performed by more than 100 additional workers employed by a warehouse contractor.) Verallia's annual payroll and benefits for our employees in California exceed $36,000,000.

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A world class glass container producer, Verallia is successfully operating in the very competitive U.S. packaging marketplace. That being said, more than 60 U.S. glass packaging plants have been closed by various companies since 1985 due mainly to industrial consolidations, conversion of many glass food and beverage containers to plastic and other alternative packaging (e.g. wine-in-a-box) during this period. In addition, competition from foreign-produced glass containers is increasing, rapidly placing increased economic stress on our company's existing facilities. This is particularly true in California with respect to imports from Mexico and China.

Verallia strongly supports efforts to reduce global greenhouse gas emissions and applauds California's leadership in this effort. Examples of Verallia's commitment in this regard include being named an EPA Climate Leader, partnering with the Agency to achieve a 16% greenhouse gas reduction by 2012. Verallia was also recognized as an EPA ENERGY STAR Partner of the Year for 2009 and 2010 and also received the EPA Energy Star Award for Sustained Excellence in 2011 for its energy conservation improvements, all firsts in the glass container manufacturing industry. Further, Verallia is substantially reducing non-GHG emissions (*e.g.* NOx, SOx, and PM). The company has achieved these objectives while competing in a heavily regulated "Energy Intensive/Trade Exposed" industry.

As required by AB32, however, CARB is charged with developing regulations which both recognize early reduction efforts and protect energy intensive/trade exposed industries. While the regulations currently before the Board acknowledge that container glass manufacture is an energy intensive/trade exposed industry, the regulations fail to adequately address the early reduction efforts by our company and by our competitors in California and fail to provide adequate allocations of allowances to protect our industry from leakage. Verallia's investments in the Madera facility, which include a state-of-the-art combustion technology, in combination with the plant's voluntary utilization of high levels of cullet (post-consumer crushed glass) result in one of the lowest GHG emission rates per ton of glass produced in the U.S.. Verallia, and the other container glass producers in California which have undertaken similar voluntary GHG reduction efforts, should be recognized for these early reduction efforts and not ignored in the development of a regulatory program addressing GHG emissions.

What do we need in the Cap-and-Trade program? We need two things:

1. We need the benchmark for our industry sector to recognize the early reductions in GHG emissions in our industry sector. This can best be addressed by establishing a benchmark based on the inventory provided to CARB staff in 2009, which included extensive data for the years 2005-2007. CARB staff have used data from these years in establishing benchmarks for several industry sectors and should do so for container glass facilities as well. The result of using this data to establish the benchmark for our facilities will increase the energy efficiency benchmark for container glass from 0.264

tonnes of CO2e/ton of glass produced to 0.31 tonnes of CO2e/ton of glass produced. We need this amendment to the regulation prior to its adoption.

2. We need the cap adjustment factor to recognize that 25% of our GHG emissions are the unavoidable result of melting limestone and soda ash (essential raw ingredients) and thus cannot be reduced further. While the most recent draft of the regulations carved out a separate cap adjustment factor for industries in which 50% of their emissions were unavoidable consequences of melting limestone (such as in cement manufacture), the cutoff point for this separate cap adjustment factor ignores the fact that the glass industry is similarly threatened with leakage and cannot reduce the irreducible. We provided a table showing the 25% cap adjustment factor in our September 27 letter to CARB staff. We strongly urge the rule be revised prior to adoption to recognize a separate cap adjustment factor for glass manufacture.

These changes to the rule prior to adoption are critical to the continued operation of our glass container manufacturing and distribution operations in California. We look forward to supplying endlessly recyclable, high quality bottles to the California wine industry from our operations in California for years to come, but can assure the future ability to do so only if our energy intensive/trade exposed industry is adequately protected as CARB moves forward with its Cap-and-Trade program.

Sincerely,

Steven B. Smith
V.P. Environmental and Regulatory Affairs

Cc: Ty Sibbitt
Stephen A. Segebarth
Anthony Cannella, CA Senate
Linda Halderman, CA Assembly
Lois Wolk, CA Senate
Mariko Yamada, CA Assembly

Enclosures

Glass Packaging Institute Letter to Mary Nichols dated October 13, 2011
Verallia Letter to CARB dated September 27, 2011