



California Metals Coalition

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May 19, 2009

TO: Clerk of the Board
California Air Resources Board
1001 I Street
Sacramento, California 95814
ccworkshop@arb.ca.gov

CC: Ms. Mihoyo Fuji mfuji@arb.ca.gov

RE: April 13, 2009: Discussion of Emissions Leakage Issues in Cap-and-Trade

I. BACKGROUND

California is the nation's leader in manufacturing jobs. The five-county area of Southern California alone employs 784,100 people. Los Angeles County is the nation's largest manufacturing center with 447,000 jobs, topping Chicago by more than 62,000 manufacturing jobs¹. Southern California's manufacturing base alone would rank 3rd amongst states—after California as a whole and Texas. **The metalworking sector is part of California's manufacturing base.**

The **California Metals Coalition (CMC)** was established in 1972 as a non-profit, non-partisan government relations organization. Today, CMC is supported by 200 metalworking corporations and 7 state trade organizations from across the state, which employ over 30,000 Californians with living-wage jobs and benefits.

The reduction of greenhouse gas emissions in metalworking operations is a challenge that the industry has been pursuing prior to AB 32. Energy efficiency, equipment replacement, lean manufacturing, environmental controls, and employee preparedness are already commonplace issues for California metalworking facility. Unlike our competitors across the world, the most technologically advanced environmental controls are often found at California metalworking facilities.

Since 2006, the California Metals Coalition (CMC) has been a dues-paying supporter of California's Climate Action Registry (CCAR) and agreed to protect, encourage and promote early actions to reduce

¹ Los Angeles Economic Development Corporation: December 2008

greenhouse gas emissions. CMC has held several workshops on AB 32 for the metalworking industry, with our most recent session in October 2008. Participants included CCAR, Edison and the Southern California Gas Co.

Several CMC metalworking members are CCAR “Climate Action Leaders,” and for the last few years have been taking early action measures to voluntarily collect, measure, report and reduce greenhouse gas emissions. Finally, CMC is working with CARB staff to eliminate the use of SF6 in magnesium sand casting and investment casting operations. This is a CARB Early Action Item.

II. COMMENTS

A. MARKETS SERVED AND WORLDWIDE COMPETITION: California’s metalworking industry rarely sells to the end user. We primarily sell components or commodities to companies who then process or build a final product. We compete for contracts against companies from every part of the world. Even the smallest increase in our costs can mean the difference between getting a job and losing one. Here are a few examples of the markets we compete in and why the industry is very vulnerable to emission “leakage”:

- 1) Municipalities: Currently, there are many California metalworking companies that compete to sell to municipalities. Unfortunately, most government agencies only purchase from the lowest bidder, regardless of environmental issues/costs. One example is New York City’s Department of Environmental Protection. In 2007, the *New York Times* asked in an e-mail message about the department’s source of iron manhole covers, and Mark Daly, director of communications for the Department of Citywide Administrative Services, said that state law requires the city to buy the lowest-priced products available that fit its specifications. States commonly have “lowest-price” specifications. As a result, cost increases for California metal manufacturers can result in being uncompetitive when selling to our own government. The result is leakage of emissions to areas like India which have little-to-no environmental laws. With “lowest-price” specifications common in government, costs cannot be passed on to the customer/consumer.



2) Aerospace, Medical and Military: California metalworking facilities also compete to sell in aerospace medical and military applications. We sell highly-complex metal parts to companies such as Boeing, Airbus, and Lockheed-Martin, who then assembly a final product for sale. When California metalworking companies bid on a job for aerospace and military applications, they compete against companies throughout the world, but often in China, India, and Mexico. Passing on costs is near impossible. The customers are too large and have too many options to choose from. One example is seen in the *Modern Casting Magazine* article from January 2009. A company in Nogales, Mexico won a \$2,000,000 contract from a company in Southern California. Mexico's lack of environmental laws is well documented, when compared to California. Unfortunately, laws such as AB 32 can increase costs to California metal manufacturers and drives this work/emissions beyond our borders.

Around the World

Mexico-Based Aerocast Wins New Purchase Orders

Nonferrous sand caster Aerocast Inc., Nogales, Mexico, announced it has received purchase orders from Hamilton Sundstrand, Windsor Locks, Conn., to supply tooling equipment totaling about \$290,000.

Aerocast, which earlier this month began pouring magnesium castings in addition to aluminum, expects to complete the order this spring.

According to a letter issued by Aerocast President Robert Jamieson Sr., it has received purchase orders totaling about \$1,936,000 since March 2008.

Hamilton Sundstrand, a subsidiary of United Technologies Corp., Hartford, Conn., designs and manufactures aerospace systems for commercial, regional, corporate and military aircraft, as well as space programs and some industrial customers. **MC**

MODERN CASTING / January 2009

3) Commodity Market: There are many metalworking facilities in California that recycle and sell metal ingot or scrap metal. Processing this metal takes equipment and energy. With margins in this market at just pennies per pound, even the smallest additional cost can make a company uncompetitive. As a result, recycled material is simply shipped out of state to be processed. It is not uncommon to have raw materials shipped to China to be processed, made into new product, and then sold back in California. At the very least, this leads to an increase in greenhouse gases from additional transportation.



4) Components: Very few California metalworking facilities sell their product to the public. We primarily make components that are sold to companies who assemble and sell a final product. Springs, wire components, engine parts, pumps and valves, medical devices, and more are manufactured in California.

Passing on costs when you don't have access to the end user is very difficult.

B. EMISSION INTENSITY FACTOR: While ferrous and non-ferrous can be considered emission intensive industries, there is a significant amount of variance when comparing emissions per ton of metal processed. *Leveling the Carbon Playing Field, World Resources Institute, 2008* demonstrates that in an

area such as steel production, China, India and Russia have up to 300% more emissions of CO2 per ton of metal processed when compared to the US.

Moreover, the California Metals Coalition strongly believes that if there was data comparing California manufacturers to other areas of the US, our manufacturing emissions factor would be even smaller.

C. ADDING 3,000 NEW CARS TO THE ROAD...EVERY YEAR: Based on preliminary calculations done by the California Metals Coalition, China and India emit 2 to 3 times as much CO2 per ton of metal processed. If we were to take a metalworking facility in California emitting 10,000 tons of CO2 per year, the equivalent in China or India (to make the same product) would be nearly 30,000 tons of CO2 per year.

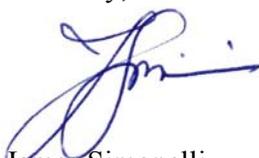
When a California metalworking facility closes or loses work to places like China and India, our world becomes more polluted. The average car emits 5.5 tons of CO2 per year. A metalworking facility closing in California and opening in China could result in up to 20,000 more tons of CO2 per year—the equivalent of 3,636 new cars on our roads every year.

III. CONCLUSION

On behalf of the California Metals Coalition, we thank you for the opportunity to provide comments on this important issue. CMC does not discount the amount of hard work and effort by CARB in implementing a new law as diverse as AB 32.

CMC looks forward to being utilized as a resource for ideas, comments, and alternative for achieving a healthy environment and strong business climate. Please do not hesitate to contact us at your earliest convenience as we would like to open up a dialogue on this topic.

Sincerely,

A handwritten signature in blue ink, appearing to read 'James Simonelli', with a long horizontal flourish extending to the right.

James Simonelli
Executive Director

cc: CMC Board of Directors