FAX

SENT
7/28/2011 12:17:49 PM

TO:	Richard Corey
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FROM:	Simon Mui
COMPANY:	NRDC
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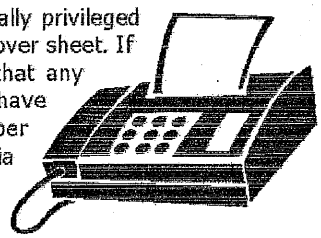
SUBJECT:	LCFS HCICO Letter

NOTES

Richard,
Attached is the letter that USW sent today to Mary that I mentioned last week. I am also including the original draft.

NRDC



UNITED STEELWORKERS

USW

UNITY AND STRENGTH FOR WORKERS

District 12

Robert LaVenture
District Director
Chris Youngmark
Assistant to the Director

July 28, 2011

Chairman Mary Nichols
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Regulation to Implement CA Scoping Plan and Transportation Fuels

Dear Chairman Nichols,

I write on behalf of the United Steelworkers and our members in the ten unionized California oil refineries who produce most of the fuels currently consumed by our state's motor vehicles.

As you know our organization has been a strong supporter of AB32 since its passage and worked actively to prevent its suspension by opposing Proposition 23 in last year's election. We remain firmly convinced that AB32's effective implementation will drive economic development in our state, create hundreds of thousands of new jobs and industries, and secure markets for energy-intensive products manufactured in our state to the highest standards possible.

We believe that this last outcome, however, will partly depend on the effective implementation of the law for the oil industry, in particular with the low carbon fuel standard. If the LCFS is implemented in such a fashion that its regulations don't guard against leakage by ignoring imported products, we will have replaced California produced products with those from states or countries that do little or nothing to regulate greenhouse gas emissions.

We are particularly concerned about "leakage" in the petroleum refining industry and would like to work with you to design provisions that would prevent the loss of CA refinery jobs to imported fuels from states and countries that do not participate in similar programs.

I will have my office contact you later this week to set up a meeting at your earliest convenience to review the effectiveness of the current proposed LCFS. We understand that several of our partners in the BlueGreen Alliance have supported the LCFS as part of AB32, and would also welcome their participation in these discussions to address our concerns.

Sincerely,

Robert LaVenture

Director, District 12
United Steelworkers (USW)

RL/jcl

Cc: The Honorable Edmond Brown, Governor
Nancy McFadden, Cabinet Secretary
Linda S. Adams, CA EPA Secretary
Gary Beevers, International Vice President
Dave Foster, Executive Director, Blue Green Alliance
Chris Youngmark, Assistant to the District Director
Rick Latham, Sub District Director

A State Low Carbon Fuel Standard with Development of Manufacturing a Centerpiece
(Draft – Prepared only for discussion)

On August 24, 2011, the California Air Resources Board (CARB) will reconsider its previous decision to approve the AB 32 Scoping Plan. The United Steel Workers (USW) submits these comments for CARB's consideration during this process.

The USW is one of the first industrial unions to support comprehensive climate change legislation and is a leader in the labor movement on the environment as well as a founding member of the Blue Green Alliance. While the USW supports regulatory efforts to reduce greenhouse gas emissions, we are concerned that California's Low Carbon Fuel Standard (LCFS), as currently pursued by CARB, may result in the elimination of good-paying California jobs and an increase of fuel used in California that is sourced from Middle Eastern and other non-North American crude oil.

The current LCFS impacts what crude oil a California refinery will process because it penalizes the use of High Carbon Intensity Crude Oil (HCICO). The HCICO creates a penalty for California refiners processing HCICO, but allows entities outside of California to refine it and sell it here without penalty. The regulation is absent of compliance protocols or enforcement mechanisms that assure our local fuel manufacturing base is not disproportionately disadvantaged relative to out-of-state international refineries. A majority of refineries located in California built their business model around refining crudes available to California that are now being considered as HCICO or potential HCICO. Over the years those local plants have built extensive modifications to comply with the CARB gasoline regulations, this LCFS regulation now penalizes those refineries for using international crude markets. California crude production is in decline, and crude substitutes are needed to keep the refineries in business.

HCICO producers will likely increase their sale of HCICO to refineries in jurisdictions that do not impose a HCICO penalty for local or export purposes. Due to the global nature of crude oil markets, any greenhouse gas emission reductions presumably "achieved in California" by California's imposition of the HCICO penalty will be offset by the emissions resulting from the increased quantities of HCICO and processed in other jurisdictions. This phenomenon is known as "leakage." In addition, there will be increased greenhouse gas emissions resulting from the transportation of HCICO from North American crude oil producers to overseas refineries for processing, as well as from the transportation of finished transportation fuels back to California. This induced consequence of the HCICO provision, increases green house gas emissions from transport, undermines the transition to a green economy and erodes our states import-sensitive and trade-exposed manufacturing sector, compromising jobs in the transportation fuel sector.

The threat of leakage and adopted HCICO provisions are particularly acute among manufacturers of energy-intensive primary products like the ones made by USW members. In a commodity-based industry such as refining, even small differences in production costs can devastate California refining and turn 1,000 good-paying California refining jobs into less than 50 fuel terminal jobs.

In creating a state program to achieve greenhouse gas emission reductions from transportation fuels, California must make the present and future development of manufacturing a centerpiece of the program for both traditional and renewable fuels. The products made by USW members and millions of other hard-working Americans are the building blocks of transportation sector mobility. Making clean fuels are green jobs and making them in California increases the stability and sustainability of our state and country.

By making the following improvements to the LCFS, CARB will be supporting California manufacturing and other California jobs:

1) Avoid differentiating crudes that create commodity shuffling of crude oil, intermediates and products that foster "leakage" of greenhouse gas emissions,

2) Provide equitable treatment for California refineries to run foreign crudes similar to San Joaquin Valley crudes,
3) Do not ignore imported intermediates/blend stocks/finished fuels from the regulation and expect California refiners to carry the burden of climate change while other countries are given an advantage to sell HCICO fuel and components into the state.
4) Assign transportation fuel refining, intermediates and crude oil commodities the designation of 100% trade exposed as the European Countries do to protect manufacturing jobs and associated state revenue.

California has an economic and national security interest in a vibrant manufacturing base for refining clean fuels. The USW recognizes the critical steps government can take to stabilize the economy by investing in infrastructure and a diverse efficient clean energy economy and securing jobs from those investments.

CARB's Low Carbon Fuel Standard will be the cleanest fuel standard in the world manufactured in some of the worlds cleanest refineries. Unduly penalizing the California refining industry could result in the closure of facilities which has wider negative effects such as job losses, reduced energy security and global increases in green house gas emissions.