**CARB Workshop:**

**CSCME Talking Points for John Bloom**

**October 21, 2016**

**INTRODUCTION**

* My name is John Bloom, and I am the chairman of the Coalition for Sustainable Cement Manufacturing & Environment, known as CSCME, which is an *ad hoc* coalition of all five companies that operate the eight cement plants in California.
* I am an economist with over 25 years of experience working in the cement industry. I have spent the past 8 years on economic and environmental policy issues associated with the implementation of AB 32 in California.
* The cement industry will be submitting comments on the proposed regulation, but I wanted to take this opportunity to communicate three key points.
	+ First, we support CARB’s current approach to allocating allowances to reduce the risk of leakage, which is based on publically available, objective, and widely recognized measures of leakage risk.
	+ Second, we strongly oppose CARB’s proposed post-2020 approach to allowance allocation that uses the unverifiable results of academic studies in a manner that even the researchers themselves have warned against and will result in severe leakage for our industry.
	+ Third, we understand that CARB is considering adopting command-and-control measures in response to environmental justice concerns, and I would like to express our opposition to that approach because it is ill-suited for the cement industry and will actually frustrate (not advance) the goals that we all share, including cleaner air, lower global GHG emissions, and a growing economy.

**CSCME SUPPORTS CARB’S CURRENT APPROACH**

* CSCME supports CARB’s current approach to allocating allowances to the industrial sector because, at least to date, it has been successful at achieving its intended objective, which is to minimize emissions leakage.
* The California cement industry is a prime example of that.
* To understand this point, you need to understand the recent history of the California cement industry.
* When AB32 was adopted in 2006, the California cement industry consisted of 10 cement plants operating at high utilization rates and producing over 11 million tons of cement clinker per year.
* As a result of the unprecedented recession, production declined by almost 40 percent by 2011, and two cement plants closed their doors.
* During this same time, CARB developed a cap-and-trade regulation that recognized the severe vulnerability of the California cement industry to leakage, and the cement industry responded by reducing its GHG intensity.
* In short, since the adoption of AB 32, the California cement industry has experienced the most severe economic downturn in modern history, weathered a slow recovery, and regained its footing without losing market share to imports, all while reducing its GHG intensity.
* This should be good news for all stakeholders.
	+ It is good news in terms of economic growth because cement is needed to construct buildings, roads, bridges, and other infrastructure and is essential to support California’s transition to a sustainable green economy.
	+ It is good news in terms of climate change because cement produced in California has a lower GHG footprint than cement produced overseas and shipped across the ocean to California.
	+ And it is good news in terms of environmental justice because the vast majority of cement production in California is in very sparsely populated areas. The alternative—imported cement—must be off-loaded in the ports, loaded on heavy trucks, and transported through California’s most disadvantaged and densely populated communities.

**CSCME DOES NOT SUPPORT CARB’S PROPOSED POST-2020 FRAMEWORK**

* That being said, the California cement industry strongly opposes CARB’s proposed post-2020 framework for determining assistance factors.
* Our opposition is based on a wide range of process, conceptual, and technical concerns, which we outlined in our comment letter in response to the proposed regulations. Unfortunately, CARB appears to have ignored those concerns.
* I’d like to highlight a number of our concerns today.
* **First**, the results of the leakage studies, which are the foundation of CARB’s new proposal, highlight the extreme importance of allowance allocation. For instance,
	+ In the absence of allowance allocations, the Domestic Leakage Study estimates that California’s industrial production would decline 11 percent on average in response to a $23 carbon price. And the International Leakage Study estimates an 18 percent decline in response to a $10 carbon price.
	+ To put this into perspective, U.S. industrial production tends to fall by roughly 5 percent per year during a “typical” recession and fell 18 percent per year in the Great Recession.
	+ Simply put, the results of the leakage studies effectively predict that, absent high levels of leakage assistance, the cap-and-trade program would push California into a severe industrial recession on the order of the Great Recession.
* The results are even more stunning for the cement industry, which is estimated to be hit harder than most any other industry. For instance,
	+ In the absence of allowance allocations, the International Leakage Study estimates that, with a carbon price of just $10, output in the California cement industry would fall by 72 percent when you consider both combustion and process emissions.
	+ This bears repeating – the International Leakage Study estimates that a $10 carbon price will result in a 72 percent reduction in output.
	+ If you scale this result to be consistent with even the most conservative allowance price assumption for the post-2020 timeframe, it effectively equates to the elimination of the entire California cement industry.
* Despite these dire predictions, CARB has proposed an assistance factor of 0.71 for the cement industry versus the current factor of 1 through 2020, a decline of 29 percent.
* Given the projected output decline of the International Leakage Study alone, an assistance factor of 0.71 suggests that the California cement industry could sustain an output decline of well beyond 30 percent without a significant increase in economic or emissions leakage.
* That is, of course, an absurd conclusion, but it highlights the absurdity of the proposed assistance factors in light of the massive output declines, and it should raise serious concerns for all stakeholders about CARB’s proposed approach to applying the results of the leakage studies.
* **Second**, CARB proposes to use the results of the leakage studies to calculate specific assistance factors for specific industries, as opposed to using them to assess the general reasonableness of the current risk classifications.
	+ There are two fundamental flaws in applying the studies in this fashion.
* First, the studies use data that cannot be reviewed and validated by anyone except the researchers themselves. In other words, the studies are a black box to all stakeholders, including CARB staff. This obviously raises serious concerns in terms of transparency and accountability.
	+ Second, CARB is attempting to use the studies to generate industry-specific assistance factors, which is a gross misapplication of the results.
* You don’t have to take my word for it on this point. Let me quote from the authors of the International Leakage Study, who state, “The natural next step is to translate these responsiveness measures to corresponding measures of market transfer and associated emission leakage. However, pushing on to this next step amounts to pushing up against the limits of the data. Given the noisiness of these estimates, we cannot estimate the transfer rate for any given industry with any degree of confidence.”
* This last sentence is a stunning statement that deserves to be repeated: “we cannot estimate the transfer rate for any given industry with any degree of confidence.”
* An author of the Domestic Leakage Study has made similar public statements, noting that the results of that study are not “useful” when it comes to assigning specific impacts to specific industries.
* This obviously begs the question of why CARB staff is attempting to apply these results to specific industries, especially when the researchers themselves have indicated that this is an improper application of their results? We understand the pressure to use these studies given that they took years to develop and required a substantial investment of tax-payer dollars.
* However, those are not good reasons to ignore the practical limitations of the studies, particularly given the inevitable real-world costs associated with CARB’s approach in terms of both job losses and emissions leakage.
* **Third**, CARB ignores the unique aspects of the cement industry in proposing an assistance factor that is unsustainable.
* For example, over half of the cement industry’s GHG emissions are from the process itself – that is, they are an unavoidable consequence of producing cement clinker, not burning fossil fuels.
* CARB’s proposed assistance factor together with further reductions from the cap adjustment factor will result in allowance allocations that fall below the level of process emissions. For a commodity product like cement that is sold on the basis of price, CARB’s approach will result in severe leakage.
* And, to be clear, the failure to minimize leakage will not just have direct consequences for the California cement industry, its employees, and the communities that it supports.
* It will have a negative impact on global GHG emissions, as locally-produced cement is displaced by imported cement that is manufactured using a more GHG intensive process and shipped half-way across the world.
* It will also have a negative impact on environmental equity, as every 10 percent of market share that is lost to imports will result in 40,000 more heavy truck trips through California’s coastal ports and roads, which are often located close to the state’s most disadvantaged and densely populated communities.

**THE ENVIRONMENTAL JUSTICE DEBATE IS INAPPLICABLE TO THE CEMENT INDUSTRY**

* This brings me to my third and last point. A recently-released advocacy paper contends that California’s cap-and-trade program has caused the cement industry to increase emissions in disadvantaged communities.
* The paper reaches this conclusion because disadvantaged communities tend to live closer to large emitters and because absolute GHG emissions in the cement industry increased after cap-and-trade went into force.
* The paper, however, does not provide the appropriate context for the emissions analysis which undermines its conclusion in relation to the cement industry.
* The paper reports the cement industry’s GHG emissions for two years prior to the implementation of the cap-and-trade program and two years after the cap-and-trade program. But here is what the paper does not say:
	+ It does not say that cement industry output declined by almost 40 percent in the aftermath of the Great Recession, bottoming out in 2011.
	+ It does not say that, according to the most recent emissions data released by CARB, absolute cement industry emissions are roughly 20 percent lower than prior to the recession.
	+ It does not say that, also according to CARB data, the cement industry’s emissions intensity has declined since the passage of AB 32 and the implementation of the cap-and-trade program.
* The paper also suggests that, generally speaking, large industrial facilities tend to be located close to disadvantaged communities. But here is what the paper does not say:
	+ It does not say that cement plants tend to be located in exceptionally remote and sparsely populated areas, especially relative to other large emitters.
	+ It does not say that if domestic cement is displaced by imports, it will result in a dramatic increase in GHG and criteria pollutant emissions associated with transporting cement through ports and on roads that are located within California’s most disadvantaged and densely populated communities.
* When considered in the appropriate context, this paper clearly misrepresents the cement industry’s performance under the cap-and-trade program and the cement industry’s relevancy to the environmental justice debate.
* The increase in the cement industry’s absolute GHG emissions between 2011 and 2014 is simply the natural result of an industry recovering from a deep recession, not the failure of the California cap-and-trade program.
* At the same time, the California cement industry has significantly decreased its GHG intensity without significant leakage, which is exactly what the cap-and-trade program is designed to do.
* Moreover, unlike other large emitters, California cement plants tend to be located in sparsely populated areas and far from disadvantaged communities, which suggests that more stringent regulation on the cement industry would simply exacerbate emissions leakage without delivering any real environmental justice benefits.
* Do our policy-makers really want to mandate emission reductions that permanently keep cement production at unsustainable recession-like levels, cause severe emissions and economic leakage from the displacement of California production with imports, force higher emissions into our most disadvantaged communities, and generate higher global GHG emissions?
* I appreciate the opportunity to present the views of the California cement industry at today’s workshop. Thank you.