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April 16, 2018

Ms. Rajinder Sahota  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

via e-mail at: [rsahota@arb.ca.gov](mailto:rsahota@arb.ca.gov)

Re: WSPA Comments on CARB's March 2, 2018 Workshop on AB398 Follow-up

Dear Ms. Sahota:

The Western States Petroleum Association (WSPA) is a non-profit trade association representing companies that explore for, produce, refine, transport, and market petroleum, petroleum products, natural gas and other energy supplies in California and four other western states.

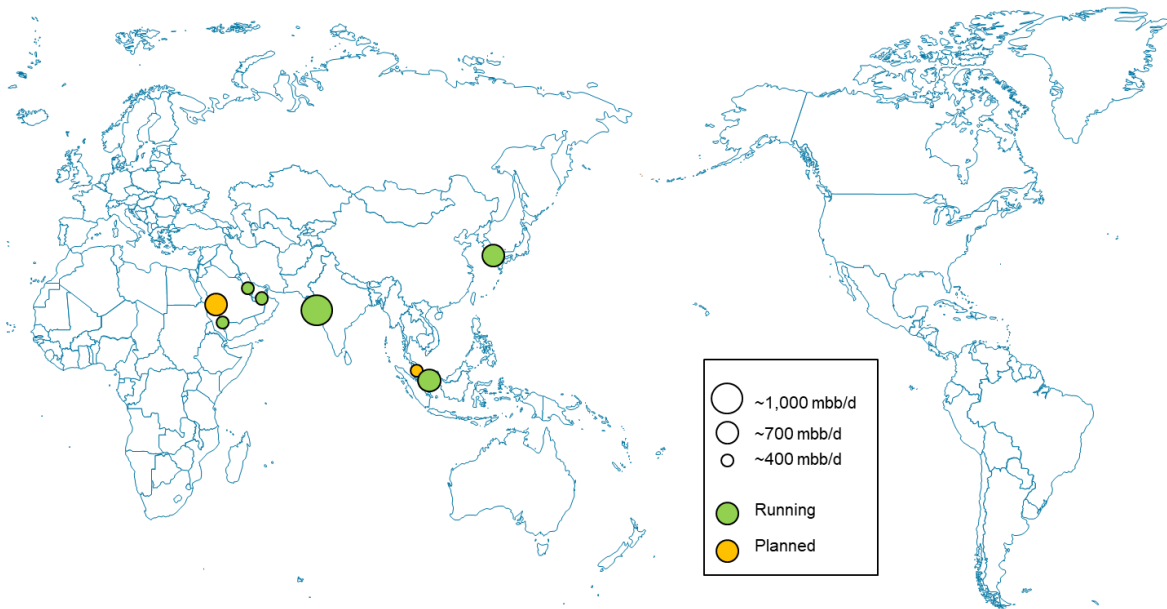
WSPA appreciates this opportunity to provide an additional set of comments on the California Air Resources Board's (CARB) March 2, 2018 workshop. The comments below provide more detail on our current thinking on third compliance period.

***Third Compliance Period IAF Is Necessary to Reduce Leakage Risk.*** As we pointed out in our previous comment letter on this issue, AB32 directs CARB to minimize leakage risk as they develop and implement California's climate policies. In order to guard against leakage, academics and economists have advised the state to consider, as part of the design of the cap-and-trade program, a system of allowance allocation that includes industry assistance.

Looking at California's program in isolation, as the cap continues to decline and opportunities for emission reductions become increasingly scarce and expensive, there is a greater need for industry assistance in emissions allocation to insulate in-state companies from the competitive disadvantage that would be created relative to out-of-state competitors who do not incur the same level of carbon pricing. From a global perspective, the need for industry assistance in California diminishes only when other jurisdictions implement carbon reduction programs that level the playing field within regulated sectors. As CARB is aware, the response from other jurisdictions has been slow and limited in scope. Furthermore, competition is changing.

The below graphic illustrates additional CARBOB production capacity added in refinery projects in Asia and East Africa since 2005. These refineries have the capability to supply Pacific Rim countries and states including California. This continues to demonstrate that the California refining sector is trade exposed. <sup>1</sup>.

## Refinery competitive landscape changes CARBOB Capable Refinery Capacity added after 2005



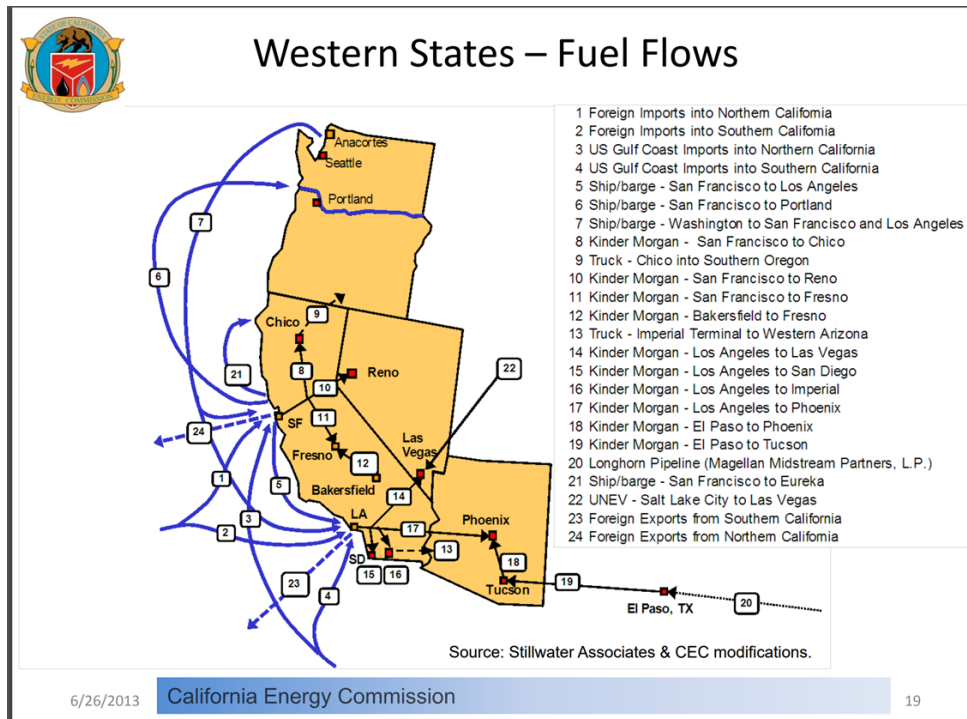
<sup>1</sup>References:

<https://www.wsj.com/articles/saudi-plans-to-be-second-largest-exporter-of-refined-oil-products-1424879035>

<http://www.ogj.com/articles/2016/06/petronas-updates-progress-on-malaysian-rapid-project.html>

<http://www.marketwatch.com/story/jazan-gas-projects-company-breaks-ground-on-worlds-largest-industrial-gas-facility-2016-07-14>

Additionally, the below graphic from the California Energy Commission (CEC) demonstrates the complexity and interdependence of petroleum product movements in the western United States. As shown in a presentation titled “The Transportation Fuel Supply/Demand Balances” for the CEC’s 2013 Transportation Energy Demand Forecast, CEC has illustrated how product moves between California and other countries, and between California and other states. California refineries compete with refineries in these other regions.



As these graphics demonstrate, California refiners still face competition from outside of the state. An indicator of this growing competition is the more than tenfold increase in gasoline exports from the PADD5 refineries between 2007 and 2017, indicating significantly increasing international market exposure.

Under cap-and-trade, California refiners may also be especially vulnerable to competition in the ability to produce and sell aviation jet fuel, marine diesel and marine fuel oil. Airline companies in their national and international routes can make fuel purchase decisions depending on the flight. They can choose to purchase jet fuel either while on the ground at a California airport that sourced the fuel from a California refinery and/or can refuel in other states or countries en-route. Similarly, marine shipping companies can purchase marine fuels while docked at a California marine terminal and/or in other states or countries en-route. The increasing cap-and-trade costs incurred by California refineries make it more difficult to compete internationally in producing jet fuel and marine fuels.

Thus, WSPA continues to support the CARB Board resolution to maintain the 100% industry assistance factor (IAF) in the third compliance period.

Thank you for your consideration of these critical points. We would be happy to further discuss any of the information included here. If you have any questions, please contact me at this office at (916) 325-3088 or email [troberts@wspa.org](mailto:troberts@wspa.org).

Thank you,

A handwritten signature in black ink, appearing to read 'Tiffany Roberts', with a stylized flourish at the end.

Tiffany Roberts

cc: Richard Corey – CARB  
Edie Chang – CARB