BEFORE THE

CALIFORNIA AIR RESOURCES BOARD

In Re:

CALIFORNIA AIR RESOURCES BOARD’S Notice of Public Hearing to Consider Amendments to The CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS

COMMENTS OF THE

NORTH AMERICAN INSULATION

MANUFACTURERS ASSOCIATION

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**COMMENTS OF THE NORTH AMERICAN**

**INSULATION MANUFACTURERS ASSOCIATION**

**ON THE CALIFORNIA AIR RESOURCES BOARD’S**

**“Notice of Public Hearing to Consider Amendments to**

**THE CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND**

**MARKET-BASED COMPLIANCE MECHANISMS”**

INTRODUCTION

The North American Insulation Manufacturers Association (“NAIMA”) has appreciated the opportunity to meet with and provide comments to the California Air Resources Board’s (“CARB”) and staff on the proposed amendments to the cap on greenhouse gas emissions and market-based compliance mechanisms. NAIMA is the association of North American manufacturers of fiber glass and rock and slag wool insulation products. NAIMA members operate four fiber glass insulation manufacturing plants in California and employ over one thousand workers.

NAIMA submits these comments in strong support of CARB’s decision to change the leakage risk classification for the mineral wool manufacturing sector (NAICS 327993).

As discussed more fully below, CARB’s decision is also strongly supported by the simple facts of geography that domestic leakage would be far more relevant than the leakage from foreign competition. As the map set forth herein demonstrates, multiple fiber glass manufacturing plants are located at or near California’s borders. The map presented a stark reality that there was immediate and very real danger of Trade Exposure (“TE”) – domestic leakage – much closer than foreign competitors.

NAIMA strongly urges the Board to adopt the CARB’s staff recommendation to change the leakage risk classification for Mineral Wool Manufacturing based on the clearly demonstrated risk of domestic leakage.

CARB HAS CORRECTLY ANALYZED TRADE EXPOSURE METRICS AND RECLASSIFIED THE LEAKAGE RISK CLASSIFICATION FOR MINERAL WOOL MANUFACTURING

NAIMA strongly supports CARB’s decision to reclassify the leakage risk for Mineral Wool Manufacturing. In support of its decision, CARB has offered a thorough and comprehensive analysis of both the original Trade Exposure (“TE”) data and newly available TE data. CARB’s decision is based on its analysis of newly available data on the TE metric for the Mineral Wool Manufacturing sector. CARB properly recognized that since the original TE analysis of the Mineral Wool Manufacturing sector, imports and exports have been rising relative to the total value of shipments such that the trade share given in CARB’s earlier equation had risen from a five year average of 17.5 percent to a five year average of 21 percent. CARB effectively illustrates this trend in Table 5 of Appendix B.[[1]](#footnote-1) Table 6 of Appendix B provides further substantiation for CARB’s reclassification by looking at the TE metric applied annually over an entire decade.

Based on this indisputable trend, CARB appropriately concluded that the demonstrated gradual change in trade share justified moving the Mineral Wool Manufacturing sector to a high TE categorization. It is important to note that the other two glass sectors were already included in the high TE categorization. CARB specifically noted: “The most recent TE, when combined per the strategy in Table 1 with the previously determined EI category of medium, results in a new leakage categorization for this sector of high.”

The credibility of CARB’s conclusion is strengthened by the fact that similar trends were not found in other sectors for which public data was available. CARB has not initiated a widespread TE reclassification, but has restricted it to this one instance where the data supported such an action.

NAIMA greatly appreciates the effort and work that CARB staff spent on its reanalysis of the TE data.

CARB’S RECLASSIFICATION OF THE MINERAL WOOL MANUFACTURING SECTOR IS CONSISTENT WITH ITS MANDATE TO MINIMIZE LEAKAGE

AB 32 mandates that CARB minimize leakage “to the extent feasible.” *See* California Health and Safety Code § 38562(B)(8). CARB’s technical appendices on leakage and allowance allocation seem to focus on international leakage (relocation of industry from California to other countries).  But the statutory definition of leakage is not restricted to the international context; rather, it includes any situation where “a reduction in GHG emissions within the state [] is offset by an increase in GHG emissions outside the state.”  Cal. Health & Safety Code 38505(J).  The main body of CARB’s “Initial Statement of Reasons” (or “ISOR”) for the Cap-and-Trade Program defines leakage in similar terms:  “If production shifts outside of California to a region not subject to GHG emissions-reduction requirements, emissions could remain unchanged or even increase.”

Therefore, CARB properly considered domestic leakage in determining that Mineral Wool Manufacturing merited reclassification of leakage risk. Prior to its reclassification decision, the Agency admitted that its methodology “may not be sufficient to accurately quantify the degree of exposure to competition for many sectors.”  *See* ISOR App. K at page K-27.

Indeed, CARB has appropriately recognized that it can be difficult to develop a one-size-fits-all approach to leakage analysis, and CARB expressed its willingness to accept any additional information and analysis NAIMA could provide.

THE INFORMATION PROVIDED BY NAIMA DEMONSTRATED A SIGNIFICANT DOMESTIC LEAKAGE RISK

CARB’s effort to stop leakage is really an attempt to reduce industry flight from California so as to ensure that emission reductions within the State of California are not offset by emission increases in other jurisdictions. The information and data provided by NAIMA is directly relevant and critically important in developing an accurate assessment of leakage risks associated with the Mineral Wool Manufacturing sector. That information and data establishes the following: 1) the potential impact of AB 32 on California insulation production; 2) the ability of existing insulation manufacturing facilities elsewhere in North America to increase or maintain their production to meet market opportunities in California; 3) the potential for transportation-related emissions to increase if in-state insulation manufacturing is replaced by insulation manufacturing in other jurisdictions; and 4) the absence of greenhouse gas regulations in relevant jurisdictions outside California.

All California fiber glass manufacturers have stated to CARB that products presently produced in California that are installed in California or are shipped out of California could be supplied from other fiber glass manufacturing plants located within the U.S., Canada, and Mexico. As the cost to produce the product in California increases, the economies of supplying the California market shift so that at some point it becomes more cost-efficient to supply the California market from facilities outside the State.

It is well understood that California environmental regulations tend to be more stringent than those in other states; this means that the fiber glass plants operating in California are among the top performing plants in the U.S. Since those California plants are the best performers, it provides yet another incentive for CARB to keep fiber glass plants operating in California. In fact, a production cost incentive to move more production to California facilities would have a net positive impact on total greenhouse gas emissions and California jobs.

Given these facts, CARB showed immense prudence in carefully reevaluating its earlier decision with both original and new data. These facts also add to the justification for CARB’s decision to reclassify Mineral Wool Manufacturing’s leakage risk.

U.S. Domestic Insulation Production Presents Genuine Leakage Threat For California

CARB’s decision implicitly recognizes that fiber glass insulation production capacity in other jurisdictions could adequately supply the California market, thereby increasing emissions in those jurisdictions. This fact is particularly relevant at the present moment because industry product resources are and will continue to be underutilized for many years due to current economic conditions and the downturn in the construction industry.

Any demand previously fulfilled by a California plant could be easily and economically supplied from other U.S. plants. This industry does not have to look to offshore facilities to supply the California market. In addition to the increase in greenhouse gas emissions per ton of fiber glass insulation produced at these plants located outside California, the transportation needed to get that material to California markets could have a further negative impact on greenhouse gas emissions.

A close look at the map of currently operating fiber glass plants in North America effectively illustrates why CARB was correct in treating fiber glass companies the same as the other segments of the glass industry and has given 100 percent assistance factors for all compliance periods through 2020. There are two fiber glass insulation manufacturing plants located right at California’s border in Arizona. Two additional plants in Utah also could easily take up the work of supplying the California market. There are also four manufacturing plants in Western Canada.

The fiber glass insulation plants in the states bordering California are far more relevant to assessing the potential for leakage in this industry than 20 plants in Europe or 10 plants in Asia. CARB is serious about preventing leakage from the State of California, so it has recognized the manufacturing potential, as illustrated on the above map of U.S. manufacturers, to create leakage. The presence of those 40-plus plants is the most compelling support for CARB’s decision to give fiber glass plants 100 percent assistance factors for all compliance periods through 2020.

The fiber glass insulation industry in California does face some competition from plants in Canada and Mexico. There have been some efforts by Chinese manufacturers to supply the U.S. market. However, the insulation produced was inferior to U.S.-produced product, and to date, China has not caught on as a source of supply for the U.S. market. A reduction of production in California could prompt a renewed effort on the part of Chinese manufacturers to supply this market.

Fiber Glass Companies Can Cover Production In California Plants

NAIMA has shared with CARB the fiber glass industry’s capacity to compensate for the closure of 1 or more of California’s fiber glass insulation manufacturing plants.

First, to effectively assess the ability of North American fiber glass and mineral wool insulation manufacturers to satisfy any gap in the production of fiber glass insulation created by the closure of California’s plants, it is necessary to assess the current production of California manufacturing facilities.

The following chart identifies the number of production lines available at the California fiber glass facilities:

|  |  |  |
| --- | --- | --- |
| **Company** | **Plant Locations** | **Number of Lines** |
| CertainTeed | Chowchilla, CA | 2 |
| Johns Manville | Willows, CA | 2 |
| Knauf | Shasta Lake, CA | 1 |
| Owens Corning | Santa Clara, CA | 2 |

The cumulative potential production capacity for the four California plants is 449,604 tons of fiber per year. The average utilization of this capacity in 2010 was 47 percent.

The CertainTeed, Johns Manville, Knauf, and Owens Corning facilities are producing residential and commercial insulation products that are used throughout the United States.

If any of the California plants were to close due to regulatory burden, fiber glass production facilities operating in the western part of North America could easily increase their production to serve the California Market. These plants currently produce residential and commercial insulation products that are equivalent to those manufactured at California plants; there is no reason why they would not be able to serve the California market. In addition, as the chart below demonstrates, these western U.S. producers have sufficient capacity to meet the demands of its current market plus anything west of its operation:

|  |  |  |
| --- | --- | --- |
| **Company** | **Plant Locations** | **Number of Lines** |
| CertainTeed | Redcliff, Alberta | 1 |
| Guardian | Kingman, AZ | 1 |
| Johns Manville | Innisfail, Alberta | 3 |
| Owens Corning | Eloy, AZ | 1 |
| Owens Corning | Nephi, UT | 2 |
| Owens Corning | Salt Lake City, UT | 2 |
| Owens Corning | Edmonton, Alberta | 2 |
| Roxul | Grand Forks, British Columbia | 1 |

The cumulative potential production capacity of these western North American manufacturing plants is 332,801 tons of fiber per year. The average utilization of this capacity in 2010 was 54 percent.

Many of these western North American manufacturers are currently underutilized because of the building downturn; therefore, these plants have sufficient existing capacity to meet the increased demand occasioned by the closure of one or more California plants. In addition, consistent with the westward migration of products described above, any challenge to meet market demands from these western manufacturing facilities could be met by those manufacturing in the middle region of the United States and Mexico:

|  |  |  |
| --- | --- | --- |
| **Company** | **Plant Locations** | **Number of Lines** |
| Aislantes Minerales | San Luis Potosi, Mexico | 1 |
| Amerrock Products | Nolanville, TX | 1 |
| CertainTeed | Kansas City, KS | 4 |
| Guardian | Albion, MI | 4 |
| Guardian | Mineral Wells, MS | 2 |
| Johns Manville | Cleburne, TX | 3 |
| Johns Manville | McPherson, KS | 2 |
| Johns Manville | Richmond, IN | 2 |
| Knauf Insulation | Shelbyville, IN | 6 |
| Owens Corning | Kansas City, KS | 3 |
| Owens Corning | Mexico City, Mexico | 1 |
| Owens Corning | Waxahachie, TX | 3 |
| Thermafiber | Wabash, IN | 2 |

The cumulative potential production capacity of these middle North American manufacturing plants is 1,304,137 tons of fiber per year. The average utilization of this capacity in 2010 was 57 percent.

As these charts demonstrate, the further east on the U.S. map, the greater the fiber glass insulation capacity. As illustrated above, the number of plants and the capacity of those plants are significantly greater. These simple geographic facts demonstrate that the current manufacturing capacity within the United States can, with a slight shift westward, accommodate the market demands created by the closure of three of the four California plants.

To further illustrate this point and bring it home, consider the chart below that lists the eastern manufacturing plants that also have the ability to meet any market demands created by the closure of California plants and the demand placed on plants in closer proximity to the California market:

|  |  |  |
| --- | --- | --- |
| **Company** | **Plant Locations** | **Number of Lines** |
| CertainTeed | Athens, GA | 3 |
| CertainTeed | Mountain Top, PA | 2 |
| CertainTeed | Ottawa, Ontario | 3 |
| Guardian | Inwood, WV | 2 |
| Guardian | Winnsboro, SC | 1 |
| Industrial Insulation Group | Phenix City, AL | 1 |
| Johns Manville | Berlin, NJ | 1 |
| Johns Manville | Defiance, OH | 13 |
| Johns Manville | Winder, GA | 2 |
| Knauf Insulation | Lanett, AL | 3 |
| Owens Corning | Candiac, Quebec | 2 |
| Owens Corning | Delmar, NY | 2 |
| Owens Corning | Fairburn, GA | 3 |
| Owens Corning | Lakeland, FL | 2 |
| Owens Corning | Mount Vernon, OH | 1 |
| Owens Corning | Newark, OH | 3 |
| Owens Corning | Scarborough, Ontario | 2 |
| Rock Wool Manufacturing | Leeds, AL | 1 |
| Roxul | Milton, Ontario | 2 |

The cumulative potential production capacity of these eastern North American plants is 1,705,758 tons of fiber per year. The average utilization of this capacity in 2010 was 49 percent.

The total cumulative capacity[[2]](#footnote-2) for North America is 3,792,300 tons of fiber per year. The total utilization of this capacity in 2010 was 52 percent. The numbers speak for themselves, and it is plainly evident that any market gap caused by closure of California’s plants could be quickly and easily satisfied by existing operations.

It is also worth noting that fiber glass insulation can readily be transported into California from other jurisdictions. Insulation can be shipped economically by truck or by rail (using intermodal trailers). It does not require any special infrastructure, and there are no hard and fast limits on shipping distances.

The above series of charts tell a story of an industry and its ability to supply and meet the North American insulation market demands.

The industry, as set forth below, has witnessed a downturn in the building market, and, hence, a correlating downturn in its business. Since 2005, annual new housing starts have decreased by more than two-thirds. In fact, 2008, 2009, and 2010 represent the three lowest annual housing start totals since 1959 (the earliest year for which statistics are available on the United States Census Bureau website. Although there has been some recovery, the housing starts remain weak.

|  |  |
| --- | --- |
| **Year** | **New Housing Starts[[3]](#footnote-3)** |
| 2005 | 2,068,200 |
| 2006 | 1,800,900 |
| 2007 | 1,355,000 |
| 2008 | 905,500 |
| 2009 | 554,000 |
| 2010 | 587,600 |

As a result, most of the fiber glass insulation plants identified above are operating on a reduced capacity; others have reduced the number of lines actually operating; and others have closed their doors and are waiting for a change in the market to resume manufacturing. All of these plants are eager to increase or return to full capacity, and are capable of doing so should market opportunities present themselves.

Potential Environmental Impacts and Regulations

Finally, NAIMA notes that most of the out-of-state manufacturing facilities likely to increase production in response to plant closures (or manufacturing slowdowns) in California do not face any cap on greenhouse gas emissions. For example, the four out-of-state manufacturing facilities closest (in terms of distance) to California are located in Arizona and Utah, neither of which has proposed to limit (much less reduce) greenhouse gas emissions. Put simply, if insulation production were to shift from California facilities to out-of-state facilities (whether as a result of California plant closures or manufacturing slowdowns), any emissions reductions achieved in California would almost certainly be more than offset by emissions increases in other jurisdictions.

In fact, it is entirely possible that if insulation production were to shift from California facilities to out-of-state facilities, overall greenhouse gas emissions would actually increase. California’s manufacturing facilities are among the most energy-efficient production in the Mineral Wool Manufacturing sector. The greenhouse gas emissions associated with transporting insulation products from out-of-state facilities to the California market could be high (and, like the greenhouse gas emissions from out-of-state production, essentially unregulated).

1. Appendix B: Leakage Analysis for New and Modified Sectors. [↑](#footnote-ref-1)
2. Specific facilities that produce fibers for the production of ceiling tiles, fire proofing products, or specialized insulation production – for example, automotive, aerospace, and battery separators – are not included in this total capacity calculation. This capacity specifically relates to building insulation in residential, commercial, and industrial applications. [↑](#footnote-ref-2)
3. 4 [www.census.gov/const/startsan.pdf](http://www.census.gov/const/startsan.pdf). [↑](#footnote-ref-3)