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I W L A

International Warehouse Logistics Association

December 15, 2010

Chairman Mary Nichols
California Air Resources Board
1 001 I Street
Sacramento, CA 95814

RE: Public Hearing to Consider the Regulation to Implement CA Cap and Trade

Dear Chairman Nichols:

The International Warehouse Logistics Association (IWLA) is a non-profit trade association representing the value-added warehousing and logistics industry, third-party logistics and warehousing service providers. IWLA members are committed to warehousing and protecting the free flow of products across international borders. Placing diesel fuel under a declining cap as part of the Cap and Trade Program in 2015 will cause warehousing in California irreparable harm.

Leakage of cargo and the associated value added services that California warehouse and supply chain partners provide to other ports, specifically Seattle, Houston, Panama and Canada do not improve overall carbon emissions. CARB must not adopt such an economically devastating regulation on California warehouse businesses without understanding the industry and careful economic monitoring through annual reporting back to this board. AB 32 requires CARB to adopt cost effective measures and the combination of a diesel Low Carbon Fuel Standard and placing diesel fuel under the cap in 2015 is an economically devastating scenario for California's economic recovery.

Our members have participated in a number of workshops held by the California Air Resources Board (CARB) regarding the LCFS and placing diesel fuel under the declining carbon cap. IWLA members have asked simple questions to which we have not received adequate answers and we have come to the conclusion that this regulation is not ready for adoption. California 3rd Party Logistics Providers (3PLs) are not only trade exposed – they represent California's international trade lanes.

Continuing on the current path and placing diesel fuel under a declining cap in California will do the following to the businesses left in a state:

1) Create volatile carbon prices that are recognized only in the California supply chain and require 3PLs to redesign shipping lanes and warehouse locations. California will be left with the trucks and the pollution from other states but none of jobs.
2) Repeat the state fuel crisis of 1993 and 1996, defined by a price shock in the beginning of the second compliance period negatively impacting overall allowance prices for the entire program.
3) Decrease actual volumes of low carbon fuel sold and burned in the state while increasing the ales of diesel fuel from other states created by the redesign of shipping lanes. The leakage in interstate fuel burned in the state will increase the criteria pollutants that have actual health impacts rather than symbolic carbon reductions from California.

4) Become a marketing campaign for the 2014 Panama Canal Opening creating speculative movement of freight out of California before the 2015 introduction.
5) Make diesel transportation users the highest cost sector for compliance under the scoping plan while ignoring the low cost method of engine efficiency standards. Fuel reformulation is not cost effective either through the low carbon fuel standard or the placement of fuels under the cap. Adopting them both in the same year is punitive to the transportation sector.
6) Drive up the allowance price for utilities and refineries leading to increased fuel prices and electricity prices. Commercial electricity users left behind in allocation of residential free allowances will shoulder increased rates caused by renewable energy mandates for utilities. Every commercial business in the state, including local warehousing, will be faced with increased electricity costs.

A $5.25 billion dollar project is underway that markets itself as the option to high priced California operations. When completed in 2014, the canal's capacity will be doubled and the largest containerships in service today, which only visit LA/Long Beach, will be able to transit the canal. Placing transportation fuels under the cap in itself is devastating to the economics of California 3rd party logistics providers, doing it in 2015 is foolish.

To avoid a program that is mired in legal challenges and economic harm to California, CARB must adhere to the statutory definition of cost-effectiveness. Applying the lowest cost means of achieving the goals of AB 32[1] is not an option it is a law. In plain English that means cost-effective is defined in terms of $/mt CO2e reduced yet, this regulation chooses to adopt the highest cost transportation fuels with full awareness that goods movement is a mobile industry.

ARB should develop and implement a more structured process for evaluating and adopting comparative cost-effectiveness of program measures. Picking and choosing the winners and the losers will hurt the state and serve as a reason the federal government does not follow California.

IWLA requests CARB abandon placing transportation emission under a declining cap but if you must move ahead against our counsel, we ask for the following safeguards be put in place so that CARB doesn't inadvertently cause significant damage to CA's economy and irreparable harm to California 3PLs.
IWLA is seeking:

1. Annual reporting of diesel prices of California and other port facilities including Washington, Texas, British Columbia and Panama.
2. Working to ensure a robust offset program to achieve compliance obligations post 2015and ensure linkage to other programs
3. Waiting until 2018 to place diesel fuel under the cap and reopening the discussion prior to 2015 of placing fuels under the cap to ensure a reliable, adequate, affordable supply of fuels to the consumers
4. Expanding offsets from 8% to 25% so that warehousing can engage in distributed energy solutions for dealing with climate change instead of expensive fuel mandates.

Thank you for the opportunity to provide meaningful comment. If you have further questions, please feel free to call me at (916) 718-1178.

Sincerely

Steph Will

Stephanie R. Williams
Executive Director

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[1] Section 38501 (h) and Section 38505(d) which defines cost-effective or cost-effectiveness to mean "the cost per unit of reduced emissions of greenhouse gases adjusted for its global warming potential

The Honorable Arnold Schwarzenegger, Governor
Susan Kennedy, Chief of Staff
Dan Pellissier, Deputy Cabinet Secretary
Linda Adams, Secretary, California Environmental Protection Agency
Cindy Tuck, Undersecretary, California Environmental Protection Agency
James Goldstene, Executive Officer, California Air Resources Board