

## Indirect Source Rules

### Emission Caps Threaten Competitiveness of State Freight System

#### Summary

Commerce and goods movement are the backbone of California's economy. The ability to bring goods in and out of California as well as transport them throughout the state are an integral part of our economy. In recent years, there has been a push by the environmental justice community as well as certain environmental groups to limit the number of truck trips in and out of facilities, as well as a call on state regulators to adopt a cap on emissions for any one hub. These caps, often referred to as Declining Facility Caps or Facility Performance Targets, or Indirect Source Rules (ISRs), would place emission caps on a facility—such as a port or railyard—measured by all the emission sources serving the facility. An ISR typically targets the mobile source emissions created by trucks, transportation refrigeration units, cargo equipment, locomotives, ships and harbor craft serving the hub.

#### Background

On July 17, 2015, Governor Edmund G. Brown Jr. issued Executive Order B-32-15, calling for multiple state agencies to develop an integrated sustainable freight action plan (Action Plan), which was adopted in July 2016. The order called on the agencies to establish three clear targets for California's freight system:

- Improve freight efficiency;
- Transition to zero-emission technologies;
- Increase the competitiveness of California's freight system.

This Action Plan evolved throughout a year-long process that included meetings and input on draft plans from the environmental, labor, industry, and local and regional government stakeholders. The plan covers each part of the freight transportation system, including shipping, rail, ports, trucking, freight, warehouses, distribution centers, airports, and final mile deliveries. Certain stakeholders, especially the environmental justice community, pushed for ISRs throughout the Action Plan process as many of the communities surrounding ports, railyards and logistics centers are in the top 25% of disadvantaged communities in the state as identified by CalEnviroScreen. In the end, the final version of the Action Plan did not include the adoption of ISRs.

Although the final version of the Action Plan did not include the adoption of ISRs, environmental justice communities continued to advocate for ISRs. In March 2017, the California Air Resources Board (CARB) adopted resolutions 17-7 and 17-8, as well as an addendum to those two resolutions, directing the CARB staff to report back to the board within 12 months on concepts both for ISRs for seaports, railyards and warehouse/distribution centers, and alternative approaches that could achieve similar levels of emission reductions from those facilities.

#### Environmental Improvements from Freight Sector

Goods movement emissions have decreased by more than 70% since 2005 and freight emissions will continue to decrease in the future. During this last decade, air quality benefits from the freight sector have improved while collaboration continues on efforts such as implementing Proposition 1B and the Action Plan.

California has, by far, the toughest mobile source emission standards in the nation. Over the last 30 years, as a result of new engine and fuel standards, incentives and regulations, emissions from mobile sources of pollution have been reduced greatly. Freight equipment emission reductions have advanced dramatically in recent years as well, with the advent of advanced emission controls, voluntary reduction programs, and greater efficiency.

These remarkable improvements, however, have come at great expense to the freight industry and supply chain. For instance, air quality regulations imposed on seaport operations alone were estimated by the state to cost more than \$5 billion. California-only costs have significant impacts on the ability of the sustainable freight system to compete when California is losing market share and facing unprecedented competition from neighboring countries as well as from states around the nation. Adding regulations to achieve limited environmental benefits will have a severe impact on the competitiveness of the state's freight system.

#### Impacts on Commerce

Imposing ISRs or similar measures will limit investment in California's transportation infrastructure, reduce jobs, hurt the competitiveness of California's freight system, increase vehicle miles traveled and overall emissions, especially greenhouse gases, decrease freight system efficiency, and ultimately delay emission reductions.

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Placing an emissions cap on a facility will limit the vehicles coming in and out of that facility. When that facility is close to its cap, it will have to turn away additional vehicles that have emissions associated with them. This will ultimately increase vehicle miles traveled as the vehicle turned away has to find a new facility to go to, leading to an overall increase in emissions (especially greenhouse gases), decreased freight system efficiency, and a delay in developing and deploying advanced technologies. If there is no guarantee that a facility will be able to grow over time because of limitations on the amount of cargo that can move through it, fewer investments will be made in advanced technology.

Recent studies have suggested that carbon emissions are lowered by locating freight facilities closer to the populations they serve. Limits on freight facilities throughout California will drive distributors further from the state's population centers. Already, California ports are seeing a loss of market share in the form of discretionary cargo that can enter the United States through alternative ports. This can lead to increased greenhouse gases as shippers send goods through other gateways outside of California because of anti-freight policies like ISRs.

What else will ISRs do?

- Divert goods to competing out-of-state ports and regions;
- Discourage new development, particularly warehousing, in California;
- Squander existing infrastructure and capacity investments due to vacancies in existing warehouses and underutilized facilities;
- Eliminate many logistics jobs;
- Increase congestion, vehicle miles traveled, and overall emissions, especially greenhouse gases;
- Delay manufacturing schedules;
- Lead to increased perishable cargo spoilage due to delays;
- Increase demands for overnight truck parking.

ISRs will decrease the competitiveness of the California goods movement system. Fewer investments in new facilities will be made if investors cannot be assured that the facility will be able to grow over time and be profitable. Any facility emission reduction targets pursuant to an ISR will further drive up the cost for goods movement and products throughout the state.

### Anticipated Action in 2018

In response to resolutions 17-7 and 17-8 and the direction to CARB staff to report back on concepts for ISRs, it is expected that CARB staff will present a report entitled "Update on Approaches to Further Reduce Health Impacts from Freight Facilities" at the March CARB meeting. The report will include a retrospective detail on the multiple approaches used in California to significantly reduce freight pollution since 2005, as well as characterize the current activities, emission sources and seaports, railroads and warehouses/distribution centers, as well as the associated health impacts. In addition, data gaps will be presented along with efforts to obtain additional data.

Concepts for sector- and facility-based measures as well as concepts for ISRs will be presented for discussion.

### CalChamber Position

Any emissions goals or targets must be balanced with clear, specific and measurable economic targets, and there must be engagement with industry stakeholders in developing these targets. California's freight transportation system is responsible for one-third of the state's economy and jobs. Any new rules or regulations must be transparent, reasonable and contain meaningful off-ramps if compliance proves unworkable in the future. Rules and regulations should be technology-neutral, technologically feasible and cost-effective. In order to effectuate the goals contained in the Action Plan, the state must develop long-term, dedicated funding sources for freight infrastructure.

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