



West Coast Collaborative
Marine Vessels and Ports Workgroup
February 14, 2006 Teleconference Meeting Summary

The Marine Workgroup met by teleconference on February 14, 2006. This was a regularly scheduled meeting to report on workgroup initiatives and news; open a dialogue about ship emissions trading; and get general updates on Collaborative activities.

Marine Workgroup Updates

Executive dialogue report out

Dennis McLerran, Puget Sound Clean Air Agency, provided a report out on the executive dialogue sub-group's efforts. The executive dialogue sub-group has met monthly since November. In its research it has become clear that there is a window of opportunity to influence new ship builds with more than 700 ships currently on order. It also became clear at the recent Faster Freight Cleaner Air conference that others in the marine space are seeing the same need to address ship emissions. For example, the President of the ILWU had a press conference to call for a 20% emissions reduction from ships with support from the mayor of Los Angeles, who also named the Seattle and Oakland mayors as hopeful partners. Clearly, there are opportunities to partner with other stakeholders as we attempt to encourage environmentally friendly technologies on ships.

The executive dialogue group has learned about various technologies and options and has narrowed the focus to three areas:

- Engine specifications or engine emissions controls,
- Extra tankage (in order to allow for fuel switching in the expectation of SECAs), and
- Leaving space and weight to incorporate future retrofits, such as stack scrubbers or SCR

The current approach is to talk with various companies individually possibly leading up to a potential "face-to-face roundtable" meeting this summer. So far, the group has already had a discussion with BP, set-up by Dave Smith. This week, Dennis McLerran will visit with Evergreen Shipping in Tacoma to better understand their introduction of a "green" ship fleet. The executive dialogue sub-group will continue to meet and reach out to potential partners and will continue to report back to the full workgroup at full workgroup meetings.

Faster Freight Cleaner Air highlights

Bill Jones, EPA Region 9, shared his impressions from the Faster Freight Cleaner Air conference in Long Beach, California at the end of January. Many Workgroup members attended the three-day conference focused on reducing air emissions from the goods movement industry where the marine sector was particularly featured. Bill Jones highlighted the marine breakout sessions as very valuable and directed those not in attendance to particularly focus on the presentations that are to be posted on www.ffca2006.com. Two of the highlights included:

- Don Gregory, BP, presented on marine fuels (similar to the Bunkerworld conference in October 2005) and the SEAA T program in Europe (see below for more details)
- Wartsila and MAN B&W presentations on technologies, such as slide valves and SCR
- Baja, Mexico port expansion plans

Clearinghouse update/reminder

In late 2005, a sub-group volunteered to refine and propose a clearinghouse concept to the full Workgroup. Ports and air agencies are in the process of drafting project profiles to load into a technically focused, pilot project clearinghouse to be located on the West Coast Collaborative website. The deadline for project profile submission is March 1, 2006. Brewster Boyd, Ross & Associates, will connect with ports and agencies prior to the deadline to assess any needs or barriers to getting the clearinghouse established.

Ship Emissions Trading – Discussion of White Paper

Claire Schary, U.S. EPA Region 10, presented highlights from her recently composed White Paper titled “Emissions Trading in the Marine Sector”. The White Paper was prepared in response to Workgroup interest in exploring the concept of emissions trading. The paper is designed to inform further dialogue at the Workgroup level. The Marine Sector Workgroup’s interest is partly based on the early success of an emission trading pilot project in Europe administered by the Shipping Emissions Abatement and Trading (SEAA T) group, and an industry-based trading proposal from the Maritime Goods Movement Coalition (MGMC) in Los Angeles. The White Paper provides a basic level of understanding of the types of emissions trading programs that are currently being used in the U.S., reviews the similarities and differences in current marine related trading proposals in Europe and California.

Claire began by covering the major types of trading:

- **Cap and Trade:** The Acid Rain Program’s sulfur dioxide emissions trading program is the most well-known and successful example of a cap and trade type of trading program. South Coast Air Quality Management District’s RECLAIM program for SO_x and NO_x is another important example. These types of programs “cap” the total amount of emissions from a set of sources in the same sector and/or geographic area, with the cap set at a level that is a significant reduction from a previously higher level. Sources are given an allocation and can purchase additional allowances or sell allowances depending on their actual emissions compared to their allocation. Cap and Trade programs are effective to achieve specific and measurable environmental goals.
- **Open Market:** Under an open market or credit-based trading program, a source is able to create an emissions reduction credit by reducing their emissions more than required by a pre-existing regulation or some other benchmark. These pollutant-specific credits can then be sold to other sources who want to use them to comply with a regulatory requirement for that same pollutant. Depending on a specific open market trading program’s rules, the credits can be generated from temporary or permanent emissions reductions and in some programs are not required to be

used in the same time period that they are generated. A regulatory agency often scrutinizes trades which can raise transaction costs and lower the benefits of trading.

- Emissions averaging: Under a rate-based or emissions averaging program, a source can create a credit by demonstrating that the average of their emissions is below a fixed emissions performance standard, such as SO₂ tons of emissions/megawatt hour. A source whose average emissions exceed that performance standard is allowed to purchase those credits. Rate-based or emissions-averaging trading programs are less successful, however, in achieving an environmental goal when applied in industry sectors that have increasing levels of activity, since there is no fixed quantity on the total amount that can be emitted.

In comparing SEAA_T and the MGMC proposals, Claire offered the following are key attributes:

- SEAA_T is a cap and trade pilot project based in the North Sea set-up as a voluntary demonstration effort among approximately 50 ships (no stationary, land-based sources were included) working under the 1.5% sulfur limit of a SECA (which goes into effect in November 2007). Ships self-monitor and self-report to model trades amongst the players. Supply is created by ships installing scrubbing technology while buyers are those ships that choose to use fuel with sulfur content greater than 1.5%.
- The MGMC proposes a policy tool to meet an attainment goal; several pollutants would be eligible for trading across multiple sectors (sea and land based), but trading would be limited to targeted zones.

The Workgroup continued with several questions directed toward Claire based on the whitepaper:

Q: How does a fixed cap deal with growth?

A: In a true cap & trade program, there is a firm limit and additional sources (or emissions) can only happen by purchasing allowances from another source that reduces emissions below their own allocation.

Q: Are there examples of successes with multiple sectors?

A: Yes, the “opt-in” part of the Acid Rain program has incorporated some sectors in addition to electrical utilities. RECLAIM in southern California also allows for multiple sectors.

Q: What would the driver for trading in the Northwest be?

A: Currently, because there are no clear regulatory drivers, trading in the marine sector would likely be a voluntary program. In the future, a North American SECA could be a driver. In addition, new PM 2.5 rules could put parts of the Northwest out of attainment, which could be another driver.

Q: Could a nation that applies for a SECA request trading be part of the standards?

A: The understanding of participants on the call was that trading is not permitted under Annex VI, so a country implementing a SECA may not be able to unilaterally implement trading.

Some comments around trading included:

- Some interests felt trading would not be appropriate as a mechanism to meet requirements, but rather as a tool to encourage “beyond regulation” performance.
- Others suggested trading in the marine sector would be most appropriate in port areas and there may be a need for relatively insular zones to address specific problem areas rather than coast-wide trading.

The discussion was a good learning opportunity to better understand the developments in emissions trading in the marine sector. The overarching sentiment was that there was more to learn from existing efforts. In addition, many participants were interested in Annex VI developments related to trading and other amendments.

The next step will be to continue to discussion at the next full workgroup meeting in April focused on getting information from Europe on the results of the SEAaT pilot program and Annex VI.

President’s FY 2007 Budget Request

Peter Murchie, EPA, relayed information on the recent federal budget news related to diesel reduction and the West Coast Collaborative. On February 6, 2006 the President announced his proposed FY07 budget. The President’s budget included \$50 million for the Clean Diesel Initiative, which is also known as the National Clean Diesel Campaign, of which the West Coast Collaborative is a big part. The \$50 million includes Clean School Bus USA, SmartWay, and diesel retrofit grants and this is a \$35 million increase from last year. In the big picture, there was a 4% decrease in the budget, so the increase in diesel funding is especially notable. The diesel mitigation program is a highlight nationally and the West Coast Collaborative has been an important part of the momentum nationally.

In the past, the West Coast Collaborative has received a large portion of the national funds – the current \$3 million RFP represents 60% of FY 06’s national diesel retrofit funding. Success on the West Coast is fostering similar efforts in spawning other regional collaboratives. Consequently, while it is hoped that the West Coast Collaborative will have an increase in funding, it is not anticipated that the West Coast Collaborative will get the same majority share of the national funding.

EPA also recognizes that some Collaborative partners may have concerns with other aspects of the budget; in particular the President’s budget includes a \$35 million decrease in state funding. Of the \$35 million decrease, approximately \$17 million is reduced from PM fine monitoring network funding, \$17 million is reduced from 105 monies, and a smaller reduction comes from regional air partnerships. All those in the Collaborative believe and hope that state and diesel priorities can both be funded.

Dennis McLerran, Puget Sound Clean Air Agency, reinforced the significant challenges and problems at the state and local level that the President's budget has caused. He encouraged Collaborative members to continue to connect with their elected officials, especially those on the appropriations committee to advocate for full diesel funding without a reduction in state funding.

Conclusion

The next full Marine Workgroup Collaborative teleconference is scheduled for April 13, 2006, 10:00 – 11:30 a.m. PT.

Attendees

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