



Emissions Trading Scheme REVIEW 2011

Cover letter from Jon Tanner

Submitter details

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Before answering the Consultation questions on the next page please take a moment to answer the questions below.

Publishing your name and details

	Yes	No
Do you agree to your name (and your organisation's name) and contact details being included in the summary of submissions?	X	
Comment		
Do you agree to your name (and your organisation's name) being included in the list of submitters on the website?	X	
Comment		
Do you agree to your name (and your organisation's name) and contact details being released in response to an official request?	X	
Comment		

Panel meetings with stakeholders

The Panel intends to meet with a selection of stakeholders after the deadline for written submissions. However, given the number of submissions, it is unlikely the Panel will be able to meet with all submitters. Please indicate below if you would like meet with the Panel if possible and which date would be most suitable.

Yes **No**

Do you wish to meet with the Review Panel in Wellington?

X

Which of these three dates would suit you best – 13, 15 or 20 April? **13 April**

We would be happy to discuss this with the Panel in conjunction with other members of the integrated forestry and wood products sector.

Submission of the Wood Processors' Association of New Zealand to the 2011 ETS Review Panel

Wood processing is a highly trade exposed industry, as well as an intensive energy user (albeit some members of WPA make extensive use of processing residues for bio-energy generation). Of the roughly \$5 billion in revenue the industry generates, approximately 50% is from export of wood products.

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The purpose of our submission is to provide some contextual overview on the industry and how the ETS impacts us, as well as raising a select few whole-of-industry concerns - we are aware that this is not a forum to relitigate the existence of the ETS.

At a time when global pressures on log pricing are posing a significant threat to the viability of many companies within the wood processing sector, the added costs created by the scheme are of significant concern to our members. We face rising input costs, at the same time as a competitive push from processors in foreign markets not subject to emissions regulation – particularly China.

Analysis of the climate change policies of countries that compete with New Zealand in global markets suggests that WPA members are competing not only against firms which are not impacted by an ETS-induced higher fuel cost, but also against manufacturers who are directly financially rewarded for use of biofuels. This rewarding of investment in biofuels under foreign regimes markedly contrasts with the approach adopted by New Zealand for reasons that ostensibly include the incentivised shift of the New Zealand economy to lower emissions on a per unit basis.

Partial NZU allocations to pulp & paper and medium density fibreboard (MDF) provide some sectoral relief from the added costs; however the flow on effects of the scheme in increased input costs (ie. electricity, transportation, among others) also negatively impact our members' businesses.

WPA would stress that, at a minimum, the current tools used to mitigate the economic impact of the ETS should remain in place beyond 2012 – specifically, the \$25 fixed-price option, and the one-for-two obligation.

When considering submissions from within the processing sector, we would ask the review committee to keep in mind that the industry is a tightly integrated one, with significant flow-on effects from decisions intended to target specific parts of the industry. This stems from the fact that, for each tree harvested, different parts are of value to different parts of the processing industry, i.e. pulp and paper producers use chips created as a by-product of structural timber processing. As an example, recommendations from this panel which decrease the viability of pulp and paper production in New

Zealand will have a corresponding effect on saw millers, who would not then enjoy a strong market for the residue from their logs. The same applies across the rest of the sector, including panels, plywood, et cetera, and even to foresters who would see value lost in the arisings (tree tops too small to saw).

Whilst the stated purpose of the ETS includes both delivering emissions reductions in the most cost-effective manner and maximising the long term economic resilience of New Zealand, it seems a significant oversight that engineered wood products (such as laminated veneer lumber, LVL) receive less recognition than their primary competitors (steel and concrete), despite the engineered wood resulting in a significantly lower carbon-footprint than either alternative and, indeed, providing a carbon sink for the lifetime of the structure. Engineered wood products constitute a field of significant innovation in wood processing and products, and the ETS as it is currently structured disadvantages an innovative sector.

Our members had already taken significant steps to move to a low-emissions process prior to the introduction of the scheme. Had they not done so, they would be eligible for significantly higher allocation than currently available.

WPA submits that an equitable solution to recognise the carbon-efficient status of wood products, to encourage innovation in wood and to avoid penalising processors for their pre-ETS conservation efforts, would be to calculate the eligibility of products for allocations by including the heat raised through the use of bio-fuel as if it were defined fossil fuel for eligibility purposes¹. This should see LVL products go from no allocation to a full 90%².

We note that the review is particularly interested in ETS outcomes for Māori. It is worth noting that a large number of the 18,000 employed in wood processing are from rural areas with a high Māori population, and as such, measures that damage the wood processing sector may have a disproportionate impact on the Māori population.

Recent Treaty settlements have included the transfer of forest land ownership to Māori in recognition of past injustices. It is reasonable to extrapolate that the ongoing viability of the forestry and wood products sector will be of great significance to those recipients, and consequently Māori in general.

We submit that the panel should remain cognisant of the fact that the worth and yield of Māori forestry assets will be influenced by the health or otherwise of the domestic processing sector, and any Māori interest in developing a domestic ‘value add’ capacity to the

¹ This would parallel the electricity provisions of the ETS wherein eligibility is determined at 1.0 tCO₂/MWh, but allocations are based on 0.52 tCO₂/MWh.

² The allocation received would then be calculated on actual emissions, not by treating bio-fuel heat as if it were coal. That methodology is only proposed for calculating eligibility.

output of these forests could be constrained by costly domestic policy settings, including the ETS.

WPA supports the development of an ETS that is fair to all New Zealanders and assists us on our path to a thriving, low-emissions, sustainable economy. However, the best way to achieve this goal is to reward those who do the most towards such an end, including the forestry and wood products sector. Wood processing is an integral part of forestry – as much as 65% of New Zealand’s plantation forestry exists primarily to supply the sector. This is an enormous carbon sink, which the processing businesses make viable.

We hope this submission will be of use to the panel when considering recommendations.

A handwritten signature in black ink, appearing to read 'Jonathan Tanner', written over a thin horizontal line.

Dr Jonathan Tanner
CEO
Wood Processor’s Association of New Zealand.