

3 June 2015

Submission

- to -

Climate Change Consultation Contribution
Ministry for the Environment
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New Zealand's post-2020 climate change contribution under the United Nations Framework Convention on Climate Change

Introduction

The Wood Processors and Manufacturer's Association of New Zealand welcomes the opportunity to make a submission on New Zealand's Climate Change Target and to provide general views on questions asked.

The wood processing sector delivers multiple benefits for New Zealand. It is one of the few sectors that align, simultaneously, the government's economic, social and environmental objectives.

Expansion of the planted forest resource is very important to wood processing investors. Continued commitment to, and expansion of, domestic processing will be heavily influenced by access to input supply. Achieving economies of scale will help the sector make the necessary long term and large scale investment to grow the share of processing carried out on-shore.

The location of that resource will be important in order that it can deliver on its regional development potential. Targeted afforestation can also deliver additional gains, in particular reducing the cost of achieving government targets for water quality improvement in various catchments.

WPMA, its members and sector value

WPMA advocates on behalf of a broad membership spanning the whole wood supply chain. WPMA represents one of New Zealand's biggest manufacturing sectors. Our sector epitomises the low carbon/high value manufacturing economy that the nation is striving towards. Our members turn a commodity – logs – into high value, end products marketed in New Zealand and internationally.

WPMA members handle in excess of 85% of the wood processed in New Zealand. We produce pulp, paper, sawn lumber, panels, laminated products and mouldings. Increasingly our members are producing, or have the potential to produce, new construction systems, biochemicals, biofuels, textiles and bio composite material.....protecting the environment and creating jobs simultaneously.

The wood processing and manufacturing sector in New Zealand:

- Delivers \$2 billion GDP.
- Is the 3rd biggest export sector at \$2.5 billion per annum.
- Provides 20,500 regional jobs directly and 10,000 indirectly.
- Is one of these most productive manufacturing sectors showing a 40% rise in output per worker over the last 10 years. This is twice as fast as all manufacturing and 2.5 times as fast as the whole economy.
- Wood processors generate in excess of 70% of their own energy from residues avoiding an estimated \$1.1 billion per year in energy costs which means that this sector uses a higher proportion of renewable energy than any other manufacturing sector.
- The forests that supply logs to the wood processing and manufacturing sector have been estimated to generate in excess of \$12 billion per year in ecosystem services.

Submission Points

Objectives for the contribution

1a. We have set the following three objectives for our contribution:

- it is seen as a fair and ambitious contribution – both by international and domestic audiences
- costs and impacts on society are managed appropriately
- it must guide New Zealand over the long term in the global transition to a low emissions world.

Do you agree with these objectives for our contribution?

✓ Yes

1b. What is most important to you?

WPMA believes that all three objectives should have equal weight in assessing New Zealand's contribution.

- *it is seen as a fair and ambitious contribution – both by international and domestic audiences*
 - In the domestic context, cross-party support (of at least the major parties) should be sought on the target and on the extent to which the target will be achieved through domestic emissions reductions.
 - This would then provide a sound foundation to de-politicise the stringency settings of the primary domestic policy – the NZ Emissions Trading Scheme (ETS).
 - We submit the absence of internationally agreed rules brings challenges. The rules around accounting of forestry sinks and emissions are crucial to New Zealand, yet their complexity brings risks. New Zealand's contribution needs to be transparent on such rules in order to be "*seen as fair and ambitious*" but any advocacy of certain rules that may benefit the Crown should also support both wood processing and afforestation, and must avoid perverse outcomes such as incentivising raw log exports over domestic processing and manufacturing.

- *costs and impacts on society are managed appropriately*

Wood processors and manufacturers will form a key part of a future low carbon economy. The Government's cost estimates do not appear to account for the benefits of more investment in this sector. We submit the management of impacts on society needs to better balance encouraging investment in low carbon sectors with transitioning high carbon sectors to face the costs of emissions.

Wood processors and manufacturers however, like many New Zealand businesses, cannot pass emissions costs to consumers. At present some processors receive assistance under the NZ ETS as Emissions Intensive Trade Exposed (EITE) firms. Some do not and:

- Such firms are likely to continue to be exposed to risks well beyond 2020 even if an international agreement is reached
- Other nations' domestic policy has continued to extend support to energy intensive sectors through allocation or other mechanisms in addition to direct subsidies for low carbon wood processing activities
- Any phase-out of support will need to be in parallel with those of competing nations
- The government should recognise that a more stringent target may necessitate additional domestic support

- *it must guide New Zealand over the long term in the global transition to a low emissions world.*

Whatever the target the NZ Government should, with stakeholder input, develop a strategy to achieve it. This strategy should be based on a system-wide approach to managing land use – an Integrated Land Use Strategy.

Around half of our greenhouse gas emissions are associated with agriculture and WPMA considers that it is important to send the signal that investors in agriculture will face an orderly and appropriately transitioned price signal. We do not want to see afforestation continue to be undermined by inflated land values created by not including agriculture in the ETS.

Given that the new target applies to the period between 2020 and 2030, forestry can help. The WPMA considers that an integrated approach to land use offers a sustainable solution that reduces business and environment risk as well as emissions. As discussed, we consider the discussion document is overly focussed on the costs and does not adequately cover the economic, environmental and social dividends from new, green enterprise and technology.

An Integrated Land Use Strategy should identify regulatory, technical and commercial obstacles and opportunities to be addressed. Further developing the example above, the exemption of the agricultural sector from the NZ ETS is illogical and counterproductive. The result has been to distort land use choices and patterns of use. It has resulted in investors seeking to maximise the capital value of land for livestock production for reasons including securing GHG emissions rights, the value of which will increase in response to increasingly stringent international restrictions on emissions.

It is clear that without an Integrated Land Use Strategy it is unlikely that the target will be achieved at least cost.

What would be a fair contribution for New Zealand?

2. What do you think the nature of New Zealand's emissions and economy means for the level of target that we set?

There is clear and strong evidence that NZ faces specific challenges which must be recognised in any assessment of a fair contribution:

- In the energy sector it is clear that NZ does not have the scope of other nations e.g. the US in switching from coal to gas as the primary emissions reduction tool which has resulted from fracking technology.
- The discussion paper correctly identifies the impact of a low population density on Transport emissions.
- NZ's already high renewable electricity generation reduces scope that other nations have e.g. Germany's high reliance on coal for power generation (43% in 2014).

Equally we see the uniqueness of New Zealand's wood products industry overlooked to date as an example of low carbon manufacturing sector operating at world scale. In particular, the

use of bioenergy by the sector is uniquely high and our existence as an industry with a low GHG emissions profile needs to be taken into account.

How will our contribution affect New Zealanders?

3. What level of cost is appropriate for New Zealand to reduce its greenhouse gas emissions? For example, what do you think would be a reasonable impact on annual household consumption?

WPMA has no view on the specific level of costs that are appropriate or on the optimal value for the INDC. That said, we urge the government to look to a reduction in net emissions necessary to hold global CO₂ concentrations at or below the level that will cause 2 degrees centigrade of warming.

We think that it is most important that an international agreement is reached with all nations taking on obligations. If no agreement is reached yet NZ unilaterally commits to a target then NZ households will see costs but not the benefits of climate change mitigation which would accrue from lower adaptation costs. If an agreement is reached but NZ takes on an inequitably over- stringent target, then the burden will fall unfairly on NZ households.

WPMA believes that New Zealand should seek least cost abatement through policies that provide a fair market for land-use activities, principally, and even if this requires purchase of units offshore with commensurate verifiable offshore emissions reductions.

4. Of the opportunities for New Zealand to reduce its emissions (as outlined on page 15 of the discussion document), which do you think are the most likely to occur, or be most important for New Zealand?

There is a strong role here for wood processing. The industry has powerful sustainability credentials. The role of growing trees has had insufficient recognition, but is becoming more widely appreciated. The contribution of the wood products sector is even less appreciated domestically despite being internationally recognised. Greater wood use has a calculable fiscal value to New Zealand in meeting its international commitments which could and should incentivise its greater use within domestic construction as well as enhancing export opportunities for wood products. The current use of wood in domestic construction is at a sub-optimal level given the societal benefits it delivers and there are examples elsewhere internationally of how this can be supported.

WPMA supports the use of accounting rules which will smooth out cyclical forestry emissions. However, as discussed in question 1b above, adoption of such rules, particularly into domestic policy, should only be done following rigorous analysis. WPMA believes there are risks of perverse outcomes - such as distorting log prices, arbitrage opportunities, and unproductive administrative burdens.

Moreover, we also caution against NZ adopting international rules that may form a template or precedent for domestic policy settings. We recognise there can be a distinction between international rules and domestic policy, and this appears to be the case currently, but

consideration must be given to the risks of future governments mirroring international rules in the medium to long term¹.

Summary

5. How should New Zealand take into account the future uncertainties of technologies and costs when setting its target?

- An uncertain setting calls for a 'no regrets' approach. WPMA submits that a contribution based on stronger policies to encourage investment in forestry and wood processing will fit this requirement. A growing wood sector will bring economic gain with little environmental risks.
- In setting the target it is important to be clear about the accounting setting so a significant proportion of the required emissions reductions are known. Considerable care is needed when defining or negotiating the accounting rules.
- Assessment of technology uptake rates must take into account existing asset life.
- It is important to set clear long term signals and to provide certainty, preferably via cross party agreement, to encourage confidence in climate change policies and investment in low carbon sectors.

Other comments

6. Is there any further information you wish the Government to consider? Please explain.

- ETS Review should not be concluded until the outcome of the Paris agreement is known.
- Political interference in ETS settings should be minimised to reduce sovereign risk of climate policy for businesses seeking to make emissions reduction and other investments.

Yours sincerely



Dr Jon Tanner
Chief Executive

¹ Translating Kyoto rules into domestic settings appeared to be the approach of the previous Labour Government when designing the original NZ ETS in 2006 to 2008.