

29 April 2016

Submission to:

NZ ETS Review Consultation  
Ministry for the Environment  
PO Box 10362  
Wellington 6143

Email: [nzetsreview@mfe.govt.nz](mailto:nzetsreview@mfe.govt.nz)

## **New Zealand ETS Review 2015 / 16**

### **Introduction**

The Wood Processors and Manufacturer's Association of New Zealand (WPMA) welcomes the opportunity to make a second submission on the ETS Review 2015/16 as set out in the Discussion Document of 24 November 2015 and the Forestry Technical Note of March 2016. Please note that the WPMA has also made a submission on the ETS Review via the Wood Council of New Zealand.

Through WPMA's discussions with officials over the past months it has been made clear that this consultation is just at the start of a process of climate change policy overhaul in New Zealand. We have been assured by departments that more in-depth discussion with industry will ensue over the coming months. We are appreciative of the discussion to date with government and this has helped us develop the position we present in this submission. Given the stage of policy development that we are at we have decided to provide feedback at a high level; outlining the principles we regard as important. Detail will come later through the formation of government/industry working groups examining particular issues.

As an overarching objective for this review we would like to re-iterate what we said in our February 2016 ETS Submission. It is WPMA's view that the overhaul of the ETS must deliver on national economic, social and environmental objectives. It can do this by better supporting the wood industry as one of the few industries in New Zealand operating at world scale that is already delivering these objectives from smart, green enterprise and technology.

There is international consensus that forests and the wood industry represent one of the few, large scale and cost effective means to mitigate against climate change (see Royal Society

of NZ, 27 April 2016). It is fortunate then that the vast majority (86% according to PEFC) of the world forests are in public ownership and can therefore be controlled by governments to provide maximum environmental benefits. In addition to owning the forests, overseas governments also naturally have a strong supporting hand in the related wood processing and manufacturing sector.

Whilst, overall, it is assumed that this pattern of public ownership and support will yield a climate change dividend it also has a significant downside in terms of international trade competitiveness. A recent report published the Wood Council of New Zealand (March 2016) demonstrates how public sector support for the forest and wood industry in competitor countries manifests itself in subsidies to industry and the placement of a range of direct and indirect non-tariff barriers to trade. The report concludes that non-tariff barriers are now the biggest impediment to the New Zealand wood export sector and therefore are blocking government export growth targets. We therefore strongly recommend that this ETS review look wider to how it can help strike a rebalance in international trading conditions. Greater policy coherence is called for here.

We made the point in our February 2016 submission that a mere tweaking of rules to assist with NZ's international carbon accounting and trading will continue to mean the scheme falls far short of supporting the growth and competitiveness of NZ's low carbon economy. It is our view that whilst the ETS may have helped NZ meet international emissions accounting commitments, it is failing in its objective of lowering NZ's economic dependence on emissions intensive activities.

For WPMA members, security of supply of raw material (ie logs) is the main threat to the viability of their businesses and an impediment to re/investment. Far from the ETS driving an increase in afforestation and therefore encouragement of local processing through increased log supply we have actually witnessed an average of 10,000 ha net annual deforestation over the past 10 years. In addition to the business uncertainty caused by carbon market volatility, regulatory change etc to be ranked amongst the world's deforesting countries is damaging to our international market reputation as a producer of sustainable and legal forest products and the country's 'clean green' branding.

The WPMA thus urges the government to continue to work closely with the industry to develop climate change regulation that can specifically support the economic competitiveness of forest and wood processing and thereby enhance the environmental protection associated with sector.

To this end WPMA looks forward to working with government on an option described in the Forestry Technical Note (p11) as: *"the benefit of deferring the liability for Harvested Wood Products could be devolved domestically outside of the NZ ETS, by expanding existing programmes such as the Afforestation Grant Scheme or through a new initiative."*

WPMA supports the idea that the financial benefits derived from implementation of the new Harvested Wood Regulation be managed by government to establish a funding pool to provide for industry good. Providing an industry good fund from the government proceeds arising from environmental benefits provided by the forest industry would go some way towards redressing the international imbalance in trading relations described above.

It is proposed that funding be targeted at specific pan-sector good activities that are consistent with enhancing increased processing capacity and on-shore processing in line with government's objectives and the Wood Council's Strategic Action Plan 2012.

Such activities could include, but are not limited to:

- In-market activities to combat the imposition of the substantial non-tariff trade barriers that have been identified as impacting on wood exports;
- Revision of industry standards/codes, international standards harmonisation and support of third party certification schemes to guarantee product quality compliance and sustainability of production systems;
- Research in to high value manufacturing and solid wood, biochemical and bioenergy packaging with the potential to reduce carbon emissions;
- Toolkits and training in the use of new wooden products for engineers, architects and builders;
- Construction of demonstration buildings utilising engineered timber products including industry competitions;

Whilst remarking on the Harvested Wood Product Regulation it is important to add that the WPMA does not support policies that favour a particular product mix (based on differing half-lives) as these will undoubtedly have a distorting influence on the supply chain. The wood supply chain in New Zealand is complex and yields a wide range of products. The long run economic viability of the supply chain depends upon the interdependence of products and residues. Policies which upset the balance risk undermining the sustainability of the supply chain. The relative importance of distinguishing between wood products is minor in comparison with distinguishing between wood versus non-wood products. The approach proposed retains a wood versus non-wood market signal.

WPMA remains very concerned that agriculture is exempt from the ETS. This exemption distorts land values and therefore seriously undermines forestry investment. Around half of our greenhouse gas emissions are associated with pastoral agriculture and these costs must be internalised if a revised ETS is to have the desired, behavioural change impact. WPMA considers that it is important to send the signal that investors in agriculture will face an orderly and appropriately transitioned price signal. The illogical exclusion of agriculture from the ETS will continue to disincentivise tree planting on farms – the very technology (trees) that is already on hand to enable farmers to become carbon neutral.

WPMA looks forward to taking up the invitation from officials to now be closely involved at the start of a process leading to a climate change strategy that delivers on our international commitments and also creates jobs and economic growth in New Zealand's regions.

Yours sincerely



Dr Jon Tanner  
Chief Executive