



19 February 2016

Submission

- to -

NZ ETS Review Consultation
Ministry for the Environment
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Email: nzetsreview@mfe.govt.nz

**Submission on the New Zealand Emissions Trading
Scheme Review 2015/16
Priority issues**

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The Wood Council of New Zealand (the Wood Council) is a pan-industry body which represents the common interests of the forestry and wood processing and manufacturing sectors.

The Wood Council was successfully incorporated under the Incorporated Societies Act 1908 on 2 March 2006.

The Wood Council members are the following associations:

1. Forest Owners
2. Wood Processors & Manufacturers
4. Farm Forestry
5. Forest Industry Contractors

As such it considers the impact of government policy across the entire forest industry value-chain.

The Wood Council welcomes the opportunity to provide input in to the public consultation process on this important issue.

A number of the individual entities comprising the Wood Council will make their own submissions. This submission reflects a high level of commonality between those entities on key over-arching issues.

Introduction

The forest sector contributes positively to a lowered C emissions goal both in terms of the growing forests and the wood products that are delivered. The entire industry is based on a sustainable and infinitely renewable resource. As well as other environmental benefits, one of the strong unique characteristics of the industry is the absorption and storage of carbon as well as large scale use of energy from wood to replace fossil fuels.

Concurrently, the Emissions Trading Scheme is the government's self-stated primary tool for achieving the reduction in greenhouse gas emissions.

Given these two facts, it would be reasonable to conclude that the ETS would recognise and encourage the forest industry. We do not believe this recognition is adequate to achieve what we all need from forestry and wood processing.

Through being an early adaptor of bioenergy and other energy saving technology the wood processing sector has effectively been penalised, vis a vis assistance to other large industrial sectors including those that manufacture steel, cement and aluminium, all being construction

products that compete with processed wood. The international recognition of the value of carbon in wood has not been passed on to the sector and the price of C has been allowed to drop to where it has been measured in cents rather than dollars.

The ETS is sending signals to the forest sector, but not the right ones.

1 for 2 Subsidy

The Wood council considers that it is appropriate for the 1 for 2 level of protection to be removed. The measure was introduced at a time when the economic environment was significantly worse than now and the 1 for 2 relief was always intended as a temporary measure.

The independent panel convened by the government recommended the 1 for 2 relief should be phased out and that is consistent with New Zealand's medium and longer-term emissions reductions targets.

Maintaining consistency in policy settings is particularly important for the forest industry with its long-term investment decisions. Investor confidence in new planting has been significantly undermined in recent years and deforestation has been encouraged by the lack of a market signal that recognises the importance of maintaining the carbon storage of trees.

Forest growing and wood processing are co-dependent. It is very important for the ongoing viability of the industry that the wood supply is not eroded by policies that inadequately value the forest resource.

An unfortunate irony of the Emissions Intensive Trade Exposed (EITE) process is that the solid wood processing and wood re-manufacturing sector is not in the higher emissions intensity group that the producers of competing products, such as steel and concrete are, simply because the successful drive to reduce emissions pre-dates the introduction of the ETS. Wood panels, which are included as EITE, only receive a 60% allocation. For energy efficiency and waste management reasons the industry is now one of the highest bioenergy users and consequently has a relatively low carbon emissions footprint. . The higher level of protection (90%) provided to competitors who are more intensive polluters, is making the wood products sector relatively less competitive at a time when it should be benefitting.

For these reasons the Wood Council requests that officials review the application of the EITE rules to those parts of the wood processing sector that do not at present have the necessary high level of protection available to producers of competing products displaying poor environmental profile.

Another example of this lack of recognition is the failure of the ETS to recognise the value of the carbon stored in wood products. This has been recognised internationally since the

international climate change meeting in Durban in 2011. New Zealand benefits from being able to account for this storage, but the forest and wood products industry does not.

Related Policy

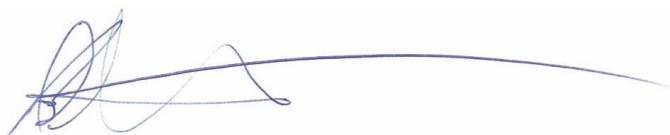
Notwithstanding that the government has said it is not prepared to enter in to any discussion on agriculture, the Wood Council requests that officials report back on our opposition to its continued exclusion from the Emissions Trading Scheme.

By continually reinforcing that agriculture will face no obligations despite independent and neutral advice to the contrary, government policy is ensuring that the cost to the country is more expensive and our measures less effective than they need to be.

Agriculture, and dairy farming in particular, does have a range of well tested technologies available to it to reduce emissions. Facing a token level of liability and transitioned out over 70 years at 1.3% per annum (as recommended by the independent panel) is not exposing the sector to an unreasonable cost. If not then all other emitters, wood processors included, are having to make that much more effort. More importantly, it sends a signal to investors in productive land uses that agriculture will not face any costs and this artificially inflates the value of agricultural land over other productive uses such as forestry. By agriculture entering the ETS farmers will be encouraged to take action to mitigate emissions before international consumers inevitably demand that NZ farming improve its environmental performance.

It is not credible to have an 'All Sectors, All Gases' Emissions Trading Scheme that leaves out half of the country's emissions. If the price of carbon rises at a rate modelled to drive emissions' reductions, then continuation of any subsidy to agriculture comes at a cost that the taxpayer cannot afford and at a significant opportunity cost to our health, welfare and education systems.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brian Stanley', with a long horizontal flourish extending to the right.

Brian Stanley
Chair