To: Climate Change Commission

From: Wood Processors and Manufacturers Association

Date: 31 May 2024

Subject: **Draft advice on Aotearoa New Zealand's fourth emissions budget period; and**

Review on whether emissions from international shipping and aviation should be included in the 2050 target.

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1. Introduction

1.1 The Wood Processors and Manufacturers Association welcomes the opportunity to make a submission on the 'Draft advice on Aotearoa New Zealand's fourth emissions budget period' and the 'Review on whether emissions from international shipping and aviation should be included in the 2050 budget'.

1.2 As a general statement we write in support of the New Zealand Forest Owners Association submission, with the advice, and subsequent government decisions taken based on the Commission's advice having a significant and direct impact on the forestry and wood products sector and our ability to play a role in mitigating the impacts of climate change. Even draft advice has an immediate impact on investor confidence within our sector and commitments as we have seen previously.

1.3 Along with the development of the fourth emissions budget, we support revising the first three budgets on the basis of methodological, and significant circumstantial, changes. It is appropriate to maintain the level of commitment that was envisaged when the budgets were confirmed.

1.4 The inclusion of additional sources of emissions and removals requires an adjustment for good accounting practice. For forestry this includes higher rates of afforestation as well as the recognition of the contribution from pre 1990 forest management changes.

1.5 In assessing the advice, we agree with many of the conclusions that the Commission has reached including the overall trend in substitution, emissions reduction, and removals.

1.6 We have reservations with the statement on p.89 that the analysis in Figure 4.2 shows that domestic biomass supply would be able to meet energy demand until around 2050. From our perspective we are concerned that there is not enough biomass within New Zealand to meet the future demands of wood processors, for example for pulp and paper production, and for the perceived increased demand of biomass for biofuels and energy.

1.7 The proposal to double the amount of wood being diverted from landfill to other uses via a Product Stewardship scheme requires greater detail. We welcome the opportunity to work with government on this proposed initiative.

1.8 When it comes to international shipping and aviation the lack of clarity provided in the discussion document means that we are unable to provide a position statement. Until it is clear how e.g. emissions for international shipping are proposed to be accounted for, it is difficult to form a perspective.

2. Discussion

2.1 As a general statement, we agree with many of the conclusions that the Commission has reached including the overall trend in substitution, emissions reduction, and removals. Nonetheless, we consider that the transition will be slower, and more difficult, than the Commission is assuming. The reasons are:

- The 2050 target will become more ambitious over the next two and a half decades in line with similar commitments made by comparable international partners. As the Commission has noted in all of its consultation documents, this necessarily means that the budgets will have to be adjusted accordingly.

- The carbon price will not be allowed to play the role that it should, to drive investment decisions. The ETS has not performed as intended, and governments have demonstrated that they are prepared to ignore advice from the Commission in favour of shorter-term economic relief. As confirmation of this, the current Minister has recently stated that "*the climate portfolio is an economic one*".
- If the International transport emissions are included as we believe they will be then, again, the budgets will have to be adjusted as has been conceded by the Commission.
- There appears to be no appetite by government to review the free industrial allocations for trade exposed industries. Conversely, the government has signalled that it will review the methane target. Even a modest reduction in the methane target will have significant consequences for the emissions budgets and the government is unlikely to support the Commission's recommended reduction in livestock numbers.
- There is an over-reliance on electrification to achieve the very challenging 41% reduction in transport emissions within just the next 10 years.
- For multiple reasons, but especially, the on-going level of forest planting following the 2023 peak will be much lower than the Commission is anticipating. These include:
  - absolute land class limits on afforestation, significantly increased requirements on any planting that does take place, and a potential ban on overseas forestry investment in the ETS;
  - the cessation from the beginning of 2023 of the option of using the stock change approach;
  - The proposal by MPI to place two-thirds of the cost of maintaining the ETS on forest owners, and to apply this as an annual charge indefinitely. This is already causing some to reconsider their participation in the ETS;
  - A review of carbon-only forestry and the possibility of additional restrictions relating to this under the National Environmental Standards for Plantation Forestry; and
  - A permanent readjustment in the Chinese construction market.
- Because of a lower than projected level of afforestation there will also be a lower than projected level of methane reduction and biomass production.
- While the impact largely, but totally occurs after 2050, we continue to view the projections for native forest establishment as unrealistic.

2.2 As per the NZFOA's submission we have strong reservations about the CCC conclusion that we will have enough forestry to meet the targets, particularly as this conclusion is relying on projections of planting that may be lower than previous expectations but are nonetheless still abnormally high levels while current policy and market signals influencing investment, point in the opposite direction. As is stated, the emissions budgets must be "*technologically and economically achievable <u>in light of uncertainty</u>*". There is a very important acknowledgement that comes towards the end of the draft advice document on page 141 that states "*However, there remain areas where the Government has yet to clarify how its rules will work, including particulars of rules applying to forestry ……. The operation of these rules could materially affect the ambition of future budgets*".

<u>Future Biomass Availability</u>

2.3 Picking up on the discussion documents comments as reads: *The use of biomass, biofuels and other low carbon liquid fuels would be important for reducing emissions in some sectors, in addition to using electricity. For instance, solid biomass fuel is a key low-carbon option for*

process heat. Given the higher cost, in the EB4 demonstration path we assume the main long-term role of low carbon liquid fuels would be for sectors that are hard to electrify, such as some industry, long-haul aviation and shipping. Ensuring there is sufficient availability of these fuels would be important to meet demand. In Aotearoa New Zealand, the main source of biomass is from exotic forestry. In the EB4 demonstration path we assume biomass supply is met through wood waste or residues from forest harvest as well as pulp logs. While the emissions from international aviation are not included in Aotearoa New Zealand's emissions (or the EB4 demonstration path), the use of low carbon liquid fuels in the sector would place a competing demand on biomass. Our analysis in Figure 4.2 shows that domestic biomass supply would be able to meet both uses until around 2050.

2.4 As the Industry Association that represents the processors and manufacturers of wood products, we express trepidation with the conclusion that domestic biomass supply will be able to meet demand until around 2050. What has not been taken into consideration is the future demand from our pulp, paper and other commercial members who rely on biomass/fibre/pulp logs both for their energy requirements and for commercial production of end wood products, such as paper and pulp.

2.5 In NZ's move to renewable energy, woody biomass is seen as one of the solutions to replace coal and other fuel sources. As an industry association that supports renewable energy this is supported. However, feedback from WPMA members who are reliant on biomass and woody fibre for their daily business operations have expressed concerns that with the increase in demand there will be a future shortage, and/or a large price increase.

Key points raised by members are as follows:

- Wood residues supply is forecast to not be sufficient to meet future demand for fuel and processing production (there are some reports available with more details).
- There is not a need to find more use for the material, but the goal for NZ should be to ensure future availability for current users.
- Some of our members are forecasting that they will not have enough biomass in the future to grow with their customers – biomass includes wood chips, pulp logs and wood residues which are used to make pulp and container board.
- Wood is also used to generate energy at member processing plants – in some cases up to 100% of all energy.
- The sector must grow in an integrated way, not merely via uses for woody biomass. For example, the 'slash' issue can be mitigated by changes to harvesting practices.
- WPMA members are not convinced that new uses or small-scale mobile processing of biomass or other wood is likely to make a significant difference, environmentally or economically.
- We are of the opinion that fuels come last in the mix, even as the carbon price grows.

2.5 To tackle the future shortages for forecast biomass supply we must develop practical solutions. There is a need for government to work closely with wood processors, foresters, and wood contractors about how small changes in harvest practices might make more biomass available and to assess the costs of these changes.

2.6 We are also supportive of the need to find ways to extract unused forestry residues and strongly support initiatives to work with foresters on harvesting operations to recover more biomass.

Proposed Priority Product Scheme for Timber Recycling

2.7 The proposal to double the amount of wood being diverted from landfill to other uses via a Product Stewardship scheme requires greater detail. We welcome the opportunity to work with the Climate Change Commission and government on this proposed initiative.

International Shipping and Aviation

2.8 Until it is clear how e.g. emissions for international shipping are proposed to be accounted for, it is difficult to form a view. These are scope 3 emissions and could be accounted for by the exporter of goods, the importer or the shipping companies. Each of those options has different implications in terms of costs and accounting processes. They also affect our competitiveness in different ways. There is also a lack of clarity on how to avoid double accounting and how to ensure that we will have a robust and credible carbon accounting regime.

2.9 Given that different countries have different ETS systems (if any) and different prices associate with emitting a ton of carbon, how can we ensure a level playing field for exporters/importers in different countries? Will a European exporter selling goods to New Zealand have to pay carbon credits from the European scheme (at around $195/ton) or can they use NZUs at $55 a ton. And what if a NZ Exporter sends goods to Europe? As a final point how do countries that do not have an established price for carbon be included?

Wood Processors and Manufacturers Association

About us:

The Wood Processors and Manufacturers Association (WPMA) was established in 2014 through a merger of the Wood Processors Association and the Pine Manufacturer's Association. We are a voluntary funded industry association with a strong focus on promoting wood as the heart of a future zero-carbon economy.

Our members are leaders in the New Zealand wood industry converting harvested logs into a wide range of products including sawn lumber, pulp, paper, panels, laminated products, mouldings, and engineered wood, through to the development of bioenergy solutions.

Total sales of industry products both domestically and globally in 2023 were approximately $5 billion. The industry employs close to 30,000 staff, mostly in the New Zealand regions.

https://www.wpma.org.nz/