WOOD PROCESSORS & MANUFACTURERS
ASSOCIATION OF NEW ZEALAND

To: Ministry for the Environment

From: Wood Processors and Manufacturers Association

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Subject: **New Zealand's second emissions reduction plan**

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1. Executive Summary

1.1 The Wood Processors and Manufacturers Association welcomes the opportunity to make a submission on the discussion document 'New Zealand's second emission reductions plan' known as ERP2. Reducing our emissions at least cost by minimising the overall cost to the nation by 2050, is a logical and sensible policy.

1.2 We support New Zealand's net-zero carbon target. Climate change is a global problem. New Zealand contributes to this problem and has a responsibility to address it. Our businesses have a crucial role to play in achieving the reductions sought under the Paris Agreement.

1.3 The chapter in the discussion document focussed on 'boosting wood processing' outlines key policy settings that will enable increased carbon storage, along with growth and investment within wood processing. We submit that the government takes actions on these policy initiatives, particularly on addressing regulatory barriers to enable building with wood, harvested wood products, and improving the consenting framework for wood processing.

1.4 The 'Building for Climate Change' programme and the 'Lowest carbon procurement policy' for new government buildings are not mentioned in the discussion document. We are very supportive of these programmes continuing, i.e. targets of reducing carbon emissions in all new buildings. We submit that the government in cohesion with industry, creates the policy settings needed to enable these programmes to continue.

1.5 The wood processing and manufacturing industry is a major electricity user. Fuel scarcity and escalating price increases, as currently illustrated in the gas and electricity market, is running the real risk of deindustrialisation on a large scale, and with it, job losses, supply-chain disruptions, weakened investment and wider macro-economic and fiscal implications. Continued scarcity will also impede the Government's goals to double exports, improve economic growth and reduce inflationary pressures.

1.6 Recent announcements of a market-led solution to short-term gas scarcity in the electricity sector, involving contractual arrangements compensating demand response of already contracted gas, represents a positive development and offers some relief to the electricity market. However, New Zealand's energy balance is currently imbalanced, evidenced by a clear shortfall in energy supply and high prices. Addressing this shortfall, to ensure affordable energy to meet our targets, requires additional investment across all fuels, including a continued and strategic role of natural gas

1.7 On the ETS settings and Land Use we submit that careful thought is taken prior to making any final regulatory setting decisions. Advice, and subsequent government decisions will have 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.

1.8 This submission provides comments, recommendations and possible actions on the general commentary, energy, and forestry and wood processing chapters within the plan. We look forward to continuing to work with officials and the Government to ensure the plan's success.

SECTOR PLANS – DISCUSSION

2. Wood processing and manufacturing

2.1 Wood processing and manufacturing enables an entire tree to be utilised by processing the higher grades of timber for sawmilling, panels and engineered wood products, lower grades for pulp and chipping, and the residue for biomass. Domestic processing of logs provides multiple benefits to foresters, sawmillers, secondary processors and manufacturers, the construction industry and to New Zealand through increased employment, export earnings and our climate change contribution via carbon storage. As an example, forecasting by Deloitte indicates that changing market share in construction to wood by 25 percent would result in an additional 920,000 tonnes of CO2 being sequestered annually.

2.2 We support the statement that forestry and wood processing have a vital role in meeting New Zealand's climate targets and that they remove carbon from the atmosphere to reduce our net emissions and produce high-value products in place of more emission's intensive products, such as concrete and steel.

2.3 Forests and wood products are the main removal strategy, while encouraging wood processing to store carbon longer is a rationale strategy.

3. Improving the consenting framework for wood processing

3.1 Wood processing investments are capital intensive and long lived. Once established the 'sunk cost' and "make good" implications can be considerable, meaning that much of the focus of WPMA members has been on renewing and upgrading existing operations, with excessive cost and uncertainty resulting in less focus on new and innovative investments that would benefit increased carbon storage from harvested wood products.

3.2 New Zealand's resource planning regime is not fit-for purpose. Obtaining consent for a new project often takes far longer than building a new development. A timely and cost-effective consent process will be needed to encourage investment within the wood processing industry. The Government's RMA reforms are a significant step in the right direction to ease consenting barriers. We refer to the Wood Processors and Manufacturers Associations submission supporting the Government's reform agenda and the introduction of a Fast-track Approvals Bill. Our submission provides several suggestions to improve the Bill, ensuring there are clear and transparent decision-making principles in the Bill given the significant power provided to Ministers, as well as wider considerations that should be included.

4. Building and Construction – addressing the settings to support building with wood

4.1 It is encouraging to read the government's intention to support green building practices (p.57), and to explore this topic further as a part of ERP2.

4.2 We are very supportive of this government adopting the Building for Climate Change (BfCC) programme, i.e. targets of reducing carbon emissions in all our new buildings by 50 percent by 2030. We submit that BfCC is taken forward as a core means of reducing emissions within the building and construction sector. The Building for Climate Change programme will

provide support and benefit to the forestry and wood processing sector, which in turn will increase NZ's contribution towards decarbonisation.

4.3 Tools are available to report and reduce embodied carbon, it can be fiscally neutral for the government and industry, and the climate benefits are substantial. Since 2020 the momentum for mass timber use in construction has increased within the design and engineering community. This momentum needs to continue. We have observed that the cement industry has developed a low carbon road map, and the steel industry has begun decarbonisation investments in preparation for BfCC requirements.

4.4 Although the BfCC programme is not material specific, the government needs to be conscious of the broader benefits to New Zealand for encouraging demand for and investment in wood processing and manufacturing.

4.5 Government regulatory settings are needed to embed the BfCC programme, and this action is strongly recommended.

5. Long-Lived Harvested Wood Products

5.1 We agree (p.80) that boosting wood processing will result in more long-lived wood products that can store carbon in their lifetime. With the right regulatory settings, such as Building for Climate Change, there are significant growth opportunities for growth in products such as engineered wood products in construction, which will lead to increased carbon storage.

5.2 To improve the carbon storage and the investment environment for wood processing and manufacturing, WPMA supports implementation of a scheme where the carbon value of Long-Life Harvested Wood Products (LLHWPs) is made available to wood processors to reward current investment, plus incentivise future investment in the sector.

5.3 We are cautious about further amendments to an already complex ETS. However, the provision of an incentive in line with the value gained from domestic manufacture of long-lived wood products in the ETS would make a meaningful difference in encouraging wood processors and manufacturers to invest in expanding processing capacity, and in new advanced manufacturing equipment that in turn creates greater levels of higher-value wood products and carbon storage, in particular panels and mass engineered timber products.

5.4 Increasing the production of LLHWPs has support from all major political parties and aligns with the objective of increasing carbon storage in forests and forest products, thus meaning greater domestic sequestration to achieve NZ's Paris Accord commitments. In addition, it supports a wider programme to increase the productivity and competitiveness of New Zealand's wood processing and manufacturing sector.

6. Energy

6.1 We agree (ref p.49) that New Zealand's energy supply is reliable and highly renewable, but we disagree that it is affordable. At the time of writing this submission there is an 'energy crisis' occurring, with wholesale prices for electricity in manufacturing escalating by 600

percent since 2021 to the point that it has led to the temporary shut-down of several wood processing and pulp mills throughout New Zealand.

6.2 Our challenge that we put to the Government in cohesion with ERP2 is for the development of energy solutions that are affordable and provide our members the opportunities for future investment and sector growth.

6.3 The cost of electricity and gas has become a significant threat to the global competitiveness of New Zealand manufacturers, particularly those with higher energy demand (process heat). This is affecting exporters, and those competing with imports in the domestic market.

6.4 Electricity generators have made decisions to invest in some new energy outputs to enable them to exit higher cost generation with no additional generation capability being added, the result being a tight demand/supply balance that will keep prices at elevated levels.

6.5 Despite the clear outlook of electricity supply representing a large portion of total energy supply, the affordability and availability of energy across multiple fuel types, not just electricity, will be vital for achieving New Zealand's climate targets. This will include easing barriers beyond the electricity sector, in geothermal, biomass, natural gas, biofuels and hydrogen. Keeping these fuel options open and reducing supply-side friction to its delivery is important.

6.6 Recent announcements of a market-led solution to short-term gas scarcity in the electricity sector, involving contractual arrangements compensating demand response of already contracted gas, represents a positive development and offers some relief to the electricity market. However, New Zealand's energy balance is currently imbalanced, evidenced by a clear shortfall in energy supply and high prices. Addressing this shortfall, to ensure affordable energy to meet our targets, requires additional investment across all fuels, including a continued and strategic role of natural gas.

6.7 Despite the task of electrification being clear, the challenge lies in synchronising these investments through regulatory frameworks over time. Investment must be ahead of the curve, ensuring capacity is available to meet consumers' decisions. While we support enabling more proactive investment, we acknowledge the delicate balance between affordability and covering the necessary expenses in vital transmission and distribution infrastructure.

7. The role of natural gas

7.1 As highlighted within the BusinessNZ submission, gas demand is declining, and fields are entering their decline phase. But natural gas will still play a vital role during the transition to a less carbon intensive economy.

7.2 Gas supply constraints, experienced over the last few years, are rapidly becoming severe. Available supply is less than anticipated and businesses have found it difficult to source sufficient gas to meet demand. Scarcity is disrupting production, applying serious pressures to the commercial viability of operating in New Zealand and the ability to meet our climate targets if energy prices remain high.

7.2 Reaffirming the role of gas, the role of alternatives like biogas and hydrogen, including what the Government will do, and not do, and when this will happen, will be useful in clarifying the emission reductions needed, while improving certainty in a sector where the direction of travel is blurred by uncertainties. In particular, the role of Government policy over time and across Governments.

7.3 Options to reduce sovereign risk must aim to achieve multi-party agreement on key fundamentals across both the sector and the political spectrum. We support calls for the Government to work with opposition parties to reduce long term uncertainty in the energy sector.

8. The role of bioenergy and future biomass availability

8.1 As highlighted in the Wood Processors and Manufacturers submission to the Climate Change Commission on '2024 Review of NZ's 2050 Emissions Reduction Target' the statement on p.55, i.e. 'Supply of bioenergy is a key constraint, and in some regions could be outstripped by demand in the future', is supported. What also needs to be 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.

8.2 In NZ's move to renewable energy, woody biomass. i.e. bioenergy, 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.

8.3 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.

8.4 We are of the opinion that fuels come last in the mix, even as the carbon price grows. To tackle the future shortages for forecast biomass supply we need to develop practical solutions. There is a need for government to work closely with wood processors, researchers, foresters, and wood contractors about how small changes in harvest practices might make more biomass available and to assess the costs of these changes.

8.5 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, such as shorter planting rotations, to recover more biomass.

8.6 To ensure the demands for biomass can be fulfilled, additional supplies of wood chip and residues need to be secured. This could come about through the investment in additional sawmills, altering silvicultural practices (shorter growing time), or by extracting slash and woody waste from forests.

8.7 As a favoured option the most cost-effective, scale, and consistent source of the residues for these industries, as well as the pulp, paper and packaging industry, is sawmill residue.

8.8 By increasing the investment in wood processing, this in turn will generate the additional biomass required for bioenergy, biomass and pulp and paper expansion.

8.9 Biomass development also has the potential to provide long-term solutions for the use of forestry slash. WPMA seek further investigation into slash solutions, such as providing it to pulp and paper plants.

9. Multi-party agreement on an overarching framework for the energy sector

9.1 More certainty in policy direction over the long term is important for all forms of generation and fuels. Infrastructure has long lead in times. This requires strong signals and certainty that these signals and policy settings will remain over time. Expectations on the direction of travel and demand is necessary for planning necessary investment. Significant changes to pathways may impact investment pathways, and as a result supply chain development and workforce planning requirements. This is particularly accurate for the delivery of transmission and distribution infrastructure. Both the System Operator and Electricity Distribution Businesses require clear signals to undertake investment.

9.2 We are supportive of the development of a long-term whole-of-energy strategy to decarbonise New Zealand's transport, industrial, primary, commercial, and residential sectors, developed in conjunction with business. We agree private sector leadership and action will be vital to achieve our low-emissions future which is why we believe collaboration with industry will be critical for the strategy to be successful.

9.3 All New Zealand's energy sources and energy demand management options are in different stages of maturity and will play different roles in the future. Critically, if they were integrated, all parts of the energy value chain – both on the supply side and demand side – would benefit from seeing a sequenced plan of how the energy sector can deliver emission reductions.

10. Forestry, ETS and Land Use

10.1 It is promising to see the value placed on forestry and wood processing, plus the important role the sector will have in offsetting climate change recognised within the second emissions reductions draft plan.

10.2 New Zealand's 1.75 million Ha production forest estate sequesters more than half our nation's annual carbon dioxide emissions and is arguably one of the most effect tools we have available to mitigate the effects of climate change.

10.3 The Government's efforts to stabilise the Emissions Trading Scheme (ETS) will go a long way to restoring both grower and investor confidence in the ETS and ensuring there is incentive to plant more trees.

10.4 Afforestation – whether productive, permanent or native trees - will be crucial for ensuring New Zealand meets its 2050 climate change targets.

10.5 Along with NZ Forest Owners' Association, WPMA supports Government's desire to incentivise increased forest cover, however, care needs to be taken around limiting whole-farm conversions to forestry. Doing so on the suggested basis that forests are displacing 'highly productive farmland' is misinformed and counterproductive to achieving improved climate outcomes for New Zealand.

10.6 Any change in regulations for afforestation should recognise that integrated forest processors need to expand their estates so they can control silviculture regimes that align with their processing requirements. The ETS has incentivised forest owners with no investment in processing to change silviculture regimes to maximise the volume of standing trees which does not align with the needs of processors.

10.7 Forestry is four times more productive per hectare than sheep and beef farming, with the added benefit of reducing both agricultural emissions and carbon dioxide emissions. The rate of forest planting has, historically, not been at such a level where food production is displaced.

10.8 Constricting the conversion of farming to forestry for businesses wishing to offset their emissions will hinder the need for increased planting and remove an effective avenue for reducing agricultural emissions.

10.9 It's important to note the positive impacts generated by forestry's presence in these rural regions too – providing jobs for thousands of people across the tree's 25-plus year life cycle and generating important economic activity that supports the local community.

10.10 As per NZFOA we would like to see more detail on the proposed afforestation restrictions and look forward to continuing this conversation with Government to ensure the implications for rural landowners, the surrounding community and planting efforts are fully understood.

11. Crown land and private tree planting

11.1 The proposal to partner with the private sector to plant trees on Crown Land is problematic from a wood processors perspective should the trees require future harvesting. To make it economic any planted forests on Crown land must be within economic cart distance of mills. Based on the location of Crown land this proposal would not be feasible for most of the country.

12. Global initiatives for New Zealand to consider joining as incentives to decarbonisation

<u>Increased timber in construction pledge at COP28</u>

12.1 This is a Global initiative for greening construction with sustainable wood. A coalition of 17 countries – Commonwealth of Australia, Canada, Republic of Congo, Republic of Costa Rica, Republic of Fiji, Republic of Finland, Republic of France, Federal Republic of Germany, Republic of Ghana, Japan, Republic of Kenya, Republic of Korea, Kingdom of Norway, Islamic Republic of Pakistan, Kingdom of Sweden, United Kingdom of Great Britain and Northern Ireland, United States of America – have endorsed the following statement:

"'Recognizing that wood from sustainably managed forests provides climate solutions within the construction sector, we commit to, by 2030, advancing policies and approaches that support low carbon construction and increase the use of wood from sustainably managed forests in the built

environment. Such policies and approaches will result in reduced GHG emissions, and an increase in stored carbon.'"

12.2 This initiative promotes increased use of timber in construction as a vital decarbonisation tool. New Zealand has reputational risk in our absence from this pledge given our alignment with other participants on climate change and trade policy.

12.3 We recommend NZ join the construction pledge, which will also increase confidence in our commitment to reducing our emissions through climate solutions in the construction sector.

Forest and Climate Leaders Partnership

12.4 The Forest and Climate Leaders Partnership (FCLP) is a coalition aimed at halting and reversing forest loss and land degradation by 2030, launched at COP27. The FCLP, launched at the inaugural Forest and Climate Leaders' Summit at COP27, is a voluntary partnership of 32 countries and the European Union committed to delivery, accountability and innovation following the Glasgow Leaders' Declaration on Forests and Land Use. Key countries include:

I. United States
II. United Kingdom
III. Germany
IV. France
V. Ghana
VI. Colombia
VII. Democratic Republic of the Congo

12.5 This partnership, chaired by the United States and Ghana, encompasses a broad range of regions, major forest areas, and key centres of commerce and finance.

12.6 The collaboration involves leadership and innovation in various action areas, such as sustainable land use, mobilizing finance, and supporting indigenous peoples' initiatives. New Zealand is notable in its absence from this partnership given our trading and policy relationships with other participants.

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/