Westland Milk Products
Hokitika · New Zealand

Yili

Sunday 8th March 2020

2009 Industrial Allocation Consultation
Ministry for the Environment
PO Box 10362
Wellington 6143
By email: etsconsultation@mfe.govt.nz

Dear Vanessa

SUBMISSION ON THE DISCUSSION PAPER REFORMING THE NEW ZEALAND EMISSIONS TRADING SCHEME: PROPOSED SETTINGS

Westland Milk Products appreciates the opportunity to make a submission on the Discussion Paper Reforming the New Zealand Emissions Trading Scheme: Proposed Settings.

Please find attached a submission for your consideration.

Yours faithfully

Toni Brendish
Chief Executive
Westland Milk Products

SUBMISSION ON THE DISCUSSION PAPER REFORMING THE NEW ZEALAND EMISSIONS TRADING SCHEME: PROPOSED SETTINGS

Introduction

The discussion document on proposals to reform the New Zealand Emissions Trading Scheme describes the provisional emissions budget as ambitious and feasible. Westland Milk Products agrees the budget is ambitious but comes with risks. Most at risk, in our view, is the economic viability of communities on the West Coast which rely on a strong and viable milk processing industry.

Implementing two parallel policy settings – reform of the New Zealand Emissions Trading Scheme settings and Accelerating Renewable Energy Efficiency – could have the opposite effect of the outcomes the Government is seeking, effectively robbing Peter to pay Paul. This is because Westland Milk Products will find it extremely difficult to fund both our ETS liabilities and invest in emissions reductions while remaining financially sustainable.

We have outlined our proposals to work with Government to achieve an accelerated reduction in our emissions in our submission on Accelerating Renewable Energy and Energy Efficiency. Increasing the rate of fuel switching from fossil fuels to renewables in an industrial processing plant such as Westland Milk Products is desirable and possible. Our customers demand sustainably produced products and switching to renewables is part of our core business planning.

Given Westland Milk Products' limited access to reliable alternative energy sources, the particular circumstances of our climate and geography that restrict these options and increase our conversion costs, and the significant investment burden of transitioning to a fuel such as biomass that our particular circumstances impose, our transition to renewable energy must be planned carefully.

Ideally, planning to accelerate our transition to renewable energy sources should be done in partnership with the sector and through government policy that takes these factors into account, rather than relying on blunt financial instruments and an impartial market that could be subject to financial speculation.

To do otherwise would slow down rather than accelerate our progress as a nation to reducing our emissions by 2030.

About Westland Milk Products

The dairy industry has a 150-year association on the West Coast, and Westland's history is intrinsically part of that community. Many of our farming families have worked alongside us since our beginnings in 1937. In 1968, spray drying of skim milk started at the Hokitika Milk Powder Factory. From 1961 to 2001 Westland products were exported globally as part of the New Zealand Dairy Board. In 2001 Westland began developing and marketing our own products. In 2004, Westgold butter launched internationally, and we assumed full ownership of EasiYo™, the iconic make-at-home yoghurt brand in 2010. Westland launches the WestPro Nutrition range of infant and toddler nutrition ingredients in 2012, opening our first offshore office in Shanghai, China, in 2014. In 2019, Westland was acquired by Yili, the No. 1 dairy manufacturer in China. Now Westland has offices in China, and a distribution network in more than 40 countries globally, as well as two milk manufacturing plants. The plant in Hokitika, with a boiler powered by coal, is where the bulk of our export production occurs, and there is a smaller plant in Rolleston, with boilers powered by gas and diesel. Most of the 404 suppliers we collect milk from are located on the West Coast (374).

Westland Milk Products' position

Westland Milk Products supports the Dairy Companies of New Zealand submission on New Zealand Emissions Trading Scheme Settings. In particular, we make the following points:

Q1.1 Requiring large energy users to report their emissions and energy use annually and publicly amounts to a name-and-shame file which could potentially target long-standing industries with significant historical capital investment as well as social capital and who, by virtue of geographical and climatic conditions, have limited access to reliable alternative sources of electricity generation.

Q8: We agree that an auction reserve price floor of $20 for the period 2020-25 should be set as long as this price is set in line with credible international units so that our international competitiveness is not affected.

Q9: DCANZ points out there are more risks than certainties associated with the suggested pricing mechanisms. The proposal to increase the fixed price option to $35 would be a significant barrier for Westland Milk Products' plans to transition from coal-generated power to energy sources such as biomass. We support the DCANZ recommendation that the Government set a price equivalent to the average international price as a mechanism to link the New Zealand and international markets without unnecessary financial risk.

Q10: Westland is extremely concerned that a price ceiling trigger of the cost containment reserve at $50 for the 2020-25 period is too high and a potential market signal to speculators seeking to profit from pricing. The consequences of high pricing would critically affect our ability to operate sustainably.

Conclusion

For want of a better option, Westland has little choice but to continue to rely on fossil fuel in the short to medium term to power our boilers at our Hokitika and Rolleston factories. But our future has to include a transition to a reliable source of renewable energy because this is what our customers demand.

Our energy investment decisions are long term and require long lead times. Our geographical and climatic circumstances mean we need to plan our transition to renewable energy carefully.

For Westland, the lack of certainty surrounding current renewable and ETS policy, and the potential likely costs outlined in this discussion document being imposed in the near future, means that it's extremely difficult to envisage that future, let alone plan, develop and budget for it. Consequently, the price mechanisms proposed by these ETS policy settings could potentially delay, rather than accelerate, our planning.

Westland, a company with significant historical investment and social capital in the West Coast, would welcome support from the Government and the opportunity to accelerate the pace of our change.

We ask that the Government be an enabler of change and collaborate with the sector, rather than acting punitively with policy mechanisms which, collectively, will have a direct impact on the viability of regional communities such as the West Coast of New Zealand.

We ask the Government to consider the following:

- The ability of Westland Milk Products to fund both our ETS liabilities and invest in emissions reduction while remaining financially sustainable.
- The fact that Westland has few available options to access other energy sources such as gas and that a consistent and readily available supply of biomass in the volumes we need to displace our coal does not exist.
- The fact that an emissions budget which is blinded to the particular circumstances industry face in managing emissions will cause unintended policy consequences.

Westland Milk Products is committed to planning and investing in emissions reductions. But we cannot walk this path alone. Planning for our sustainable future needs to be done in conversation with the sector, and the government, and not left to the devices of market pricing.