



Beyond the Boundaries

**Oji Fibre Solutions**

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## **NZ ETS review priority issues – submission from Oji Fibre Solutions (NZ) Ltd**

Thank you for the opportunity to provide a submission on the priority issues outlined in the discussion document on the New Zealand Emissions Trading Scheme Review 2015/16.

Oji Fibre Solutions (NZ) Ltd (Oji FS) is a New Zealand pulp, paper and packaging products processing company with substantial direct investment in the New Zealand economy. Oji FS makes a significant contribution to New Zealand's foreign exchange earnings, primarily by way of exported pulp and paper products, but also in the form of avoided imports of paper and packaging utilised by New Zealand's agricultural and horticultural industries, which are themselves export focused. Oji FS exports to global markets, predominantly in Asia, with major competitors based anywhere from Australia to China to Russia to USA to Chile. Oji FS is a substantial employer, with the majority of that employment being regionally based.

Oji FS has been a leader in reducing greenhouse gas emissions by taking early action to reduce its emissions intensity. Since 1990 its emissions have been voluntarily reduced on an absolute basis while production has increased by approximately 50%. This has been a combined function of significantly improved energy efficiency together with substantial capital investment to increase utilisation of renewable energy sources, including biofuels and geothermal energy.

Moreover, as part of the forest fibre industry in New Zealand, our activities are able to form a crucial element in the future low carbon economy as a producer of an expanding range of high-tech value added products (hence the change in emphasis from pulp and paper to fibre solutions in our new company name) from sustainable raw materials and renewable energy.

To enable us to compete effectively in the international arena, it is vital that we are not put at a disadvantage with respect to our competitors through carbon related energy charges.

In addition, as a manufacturing business, our raw material is sourced from forests and from solid wood processing residues and it is even more important that we have access to this material within an economically viable distance from our processing facilities in the central North Island. The prospect of further investment in our business is reduced if the forest estate in the Central North Island continues to shrink and local solid wood processing is not increased.

We submit this would be a missed opportunity given we now have an owner who is determined to develop beyond pulp and paper products and has publicly signalled a desire to further invest in New Zealand. Put another way, deforestation has a double impact – it increases New Zealand's net emissions; and creates a considerable barrier to investment in low carbon business across the whole wood processing sector.

We intend to submit on forestry and other issues in a later submission.

This submission covers the priority issues only i.e. should we move to a full surrender obligation for the liquid fossil fuels, industrial process, stationary energy and waste sectors and if so how and when this should be implemented.

<i>Question</i>	<i>Response</i>
<p>3. Should the NZ ETS move to a full surrender obligation for the liquid fossil fuels, industrial processes, stationary energy and waste sectors?</p>	<p>In light of the successful conclusion of the Paris Agreement a move to a full surrender obligation by 2020 is supported but implementation should be subject to ratification of the Paris Agreement.</p>
<p>4. What impact will moving to full surrender obligations have on you or your business?</p>	<p>Moving to full surrender will have immediate and direct impacts in a numbers of areas.</p> <ul style="list-style-type: none"> <li>• Moving to full surrender will double our direct liabilities which at present are offset to a significant degree by allocation as a large proportion of our production is energy intensive trade exposed. It will of course increase significantly the “value at risk” of our allocation and make it much more important that when allocation comes up for review that a full and complete assessment of our position with respect to our international competitors is carried out at that time. It will be crucial at this time to bear in mind the effects of renewable energy subsidies and similar supportive measures our competitors receive, particularly as other countries develop their GHG mitigation policies – we will need to compare our ‘stick’ with others’ ‘carrots’.</li> <li>• Indirect costs will probably increase, generally in line with the overall NZ wide impact of the surrender change and which we would be unable to pass on. One aspect in particular that is likely to result in significantly more than normal operating cost increases is transport. Annually, we pay for road and rail transport of more than 5 million tonnes of raw materials (logs, chips, woodwaste) to our mills and product (Pulp, Paper and packaging materials) to local customers and export ports.</li> <li>• Although we receive an allocation, since that allocation is based on production and not energy usage, the ETS does incentivise us to improve our energy efficiency. To date, the ETS has had minimal impact on consideration of long term, large scale energy efficiency projects mainly due to uncertainty with regard to the longer term wider ETS policy settings which results in discounting of the potential impact of the ETS on longer term energy costs/benefits. This also impacts on long term strategic wood processing investment decisions which are an obvious potential contributor to the low emissions economy the ETS is intended</li> </ul>

	<p>to incentivise.</p> <ul style="list-style-type: none"> <li>• The higher NZU prices evident in 2010-2011 did have an initial positive impact on our shorter term energy efficiency improvement focus and this emphasis has continued. However, the duration of the ~\$20/t price level was too short to discern any measurable trends or to predict what might happen if the price rose to the \$50/T mark, other than to note that such a carbon charge would result in our effective energy cost levels rising by approximately 20% and, as for any other cost increase, would stimulate further cost reduction activity. However, some reasonable level of confidence in future carbon pricing would be necessary for even this level to have full impact.</li> </ul> <p>A potential indirect and long term positive impact of a higher carbon price is to bring deforestation to a halt and further to encourage new planting.</p> <ul style="list-style-type: none"> <li>• This would help to ensure long term viability of our business through greater confidence in future wood fibre supply and assist in achieving the low emissions economy the ETS is intended to incentivise.</li> <li>• We note from the technical paper by Professor Bruce Manley recently released, these levels are approximately \$7/T and more than \$15/t respectively. However, we suspect other measures would be necessary, given the inequity caused by the exclusion of agriculture and the lack of market signals for other environmental externalities (e.g. water quality).</li> </ul> <p>The wood processing industry in general, and the pulp &amp; paper industry in particular, should be considered a low carbon industry so, in theory, if there was a proper global market, a higher carbon price should lead to more investment in this sector. Unfortunately the lack of consistency coupled with transitional settings means that higher carbon prices in the NZ ETS may give rise to perverse incentives, particularly if increased carbon prices mean some sectors face higher costs while others don't.</p>
<p>5. If full surrender obligations are applied, when should this be implemented?</p>	<p>A phased approach is recommended as it would:</p> <ul style="list-style-type: none"> <li>• Allow for ratification of the Paris Agreement and Rules in the forest accounting area to be clarified before NZ moves to a full surrender obligation.</li> <li>• Allow time for an additional NZU supply mechanism (auctioning) to be established. We consider that the establishment of an auctioning system prior to commencement of full surrender implementation would provide for a smoother price path and hence reduce the risk of price shocks and volatility in carbon prices.</li> <li>• Allow for businesses to incorporate the expected impact in their annually based forward budgeting.</li> </ul> <p>A mid-year change in surrender obligation would create significant additional administrative burden for firms without significant additional GHG-reduction benefit and is therefore not favoured:</p> <ul style="list-style-type: none"> <li>• This was demonstrated in 2010 when for the stationary energy and liquid fossil fuel sectors reporting requirements were imposed, with the</li> </ul>

	<p>1<sup>st</sup> half having a zero surrender obligation and the second half having a 50% surrender obligation.</p> <ul style="list-style-type: none"> <li>• Allocation was similarly impacted by half and full year reporting requirements.</li> </ul>
6. If the NZ ETS moves to full surrender obligations, should potential price shocks be managed?	Yes. See comments above
7. If potential price shocks associated with moving to full surrender obligations should be managed, how should this be done?	<p>In a closed domestic market the risk of volatile price movement is high. A combination of actions to manage price shocks and minimise carbon pricing uncertainty over the transition period is recommended.</p> <ul style="list-style-type: none"> <li>• The introduction of an auctioning system prior to commencing phase in.</li> <li>• Phase in the full surrender obligation over a 2-3 year period</li> <li>• Maintain the fixed price option at \$25.</li> <li>• Consider adjusting or removing the fixed price option once auctioning has matured and international linkage has been re- established.</li> </ul>
8. If the \$25 fixed price surrender option value should change, what should it change to and why?	Refer above

Thank you for this opportunity to make a submission on this topic that is of great importance to us. We are happy to meet with you to provide any further clarification you may need.

Yours sincerely



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