



ETS Review 2011 Consultation
Ministry for the Environment
PO Box 10362
Wellington 6143

6th April 2011

Dear Sirs

EMISSIONS TRADING SCHEME REVIEW 2011.

In response to the ETS Review dated 11th March 2011 the Bioenergy Association of New Zealand (BANZ) is pleased to make the following submission. As requested the submission responds to those questions set out in Section 6 of the Review:

Q2c. Whether the ETS has yet influenced your investment decisions.

- The ETS has not made any measurable difference to investment decisions made by members of BANZ.
- The ETS currently penalises owners of pre 1990 forests who wish to grow energy crops such as miscanthus despite the major advantage of miscanthus over forest in carbon sequestration.
- These items are addressed further in response to Q18

Q3c. Penalties for breaching ETS obligations

- As noted above the deforestation penalty penalises the introduction of carbon abatement solutions which have advantages over commercial forests in terms of CO₂ sequestration. The penalty arises because energy grasses do not comply with the NZ definition of a forest. It does however comply with the Kyoto definition of a forest. This can be dealt with in a number of ways as introduced in response to Q18.

Q6d. Any business opportunities and benefits that may arise (post 2012)

- The removal of the price cap at the end of 2012 will be important for the growing of energy crops, and using the resulting product to displace coal from heat and power generating plants. Removing the price cap effectively raises the price of coal and petrol/diesel, and assists biofuels to compete

Q6e. How you expect abatement technology to develop by 2015 and beyond

- BANZ sees significant development of abatement technologies through application of energy crops to displace coal in heat and power generating plants and displacing liquid fossil fuels if the price cap on carbon is lifted.

Q9. Do you agree with the Panel's assessment of the impacts of the ETS on Maori? If not why not

- **Biofuels**
 - o This is a new energy sector and involves the growing of biomass as a thermal fuel to displace coal in industrial process heat applications, and as feedstocks for liquid biofuels to supplement diesel and gasoline. Again this technology needs large areas of land for growing energy crops. Generally the land can be marginal and as already

noted can provide an alternative to forestry with the advantage of an annual income. The ETS has to a small degree assisted the development of this business by effectively increasing the cost of coal against which biomass as a thermal fuel can compete. However the deforestation penalty and the lack of recognition of the advantage offered by energy crops over commercial forest, in permanently sequestering CO₂ acts to prevent the development of energy crops as a contributor to the biofuels business.

Q10. In your opinion how will the ETS affect Maori Energy in longer term?

- With regard to biofuels and in particular energy crops the ETS will add significant difficulty as a result of the deforestation penalty.

Q18. Are there any other issues.....

BANZ wishes to use its response to this question to explain further, the issues raised in the above.

- Application of the Deforestation Penalty When Energy Crops (with Miscanthus as an example) is Grown in Place of harvested pre 1990 Forest. Miscanthus sequesters more CO₂ per ha per annum than commercial forest plantation, and also shows that the sequestration is permanent. The deforestation penalty to Miscanthus has been based on erroneous information: The following are three examples.
 - o MAF and MfE say, because an energy crop is grown and harvested each year and burnt (to displace coal), or processed to displace petrol/ diesel, and emits the CO₂ in the same year that it was absorbed, it does not absorb carbon over time. This is no different from a plantation forest. If a million trees are planted each year and million trees are harvested, each one emitting (under the ETS and Kyoto rules) all the CO₂ it absorbed over its lifetime, then the forest plantation is in the same position as an energy crop plantation, and therefore growing energy crops should not be treated differently. Further since the energy crop is only used to displace coal or liquid fossil fuels then the sequestration is permanent, which provides a significant advantage over commercial forest when, as is usually the case, the forest products are used for traditional purposes and not for displacing thermal fuels.
 - o MAF and MfE say that the key benefit of Miscanthus is accounted for and rewarded under the ETS because the fuel it is displacing, e.g. coal, has a CO₂ charge and since the biofuel does not, it has a price advantage. However, commercial forest timber is also sometimes used to displace coal but it does not suffer from the deforestation penalty. Further the price advantage gained by an energy crop in displacing coal, does not make up for the cost of the deforestation penalty so there is no case for using this CO₂ abatement technology.
 - o MAF and MfE note that Miscanthus (and other energy crops) does not meet the NZ definition of a forest. This is correct, but they do meet the Kyoto definition of a forest and therefore there is no barrier represented by the definition of a forest.
- BANZ believes that energy crops such as Miscanthus can by regulation or through an exemption, be relieved of the deforestation penalty. This will open up the way for an alternative use of pre 1990 forest land, one which sequesters more CO₂ and sequesters it permanently, and one that provides an annual income for landowners rather than an income based on a 25 year cycle.

Yours Faithfully

