Bioenergy Association of New Zealand

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Clerk of the Committee
Finance and Expenditure Select Committee
Select Committee Office
Parliament Buildings
WELLINGTON

Submission on:
Climate Change Response (Moderated Emissions Trading) Amendment Bill

1. Executive Summary

1. The Bioenergy Association of New Zealand (BANZ) supports the development of an Emission Trading Scheme (ETS) provided that there are other complementary mechanisms to support the objective of reducing carbon emissions. It is critical that the ETS is structured to provide business with long-term surety of policy on which to base planning decisions. This is not currently the case.

2. AS NOTED IN OUR ORIGNIAL SUBMISSION (dated 27 February 2009), bioenergy offers multiple benefits such as regional and sustainable job creation, energy resilience, a healthier forestry industry, more carbon sequestration, lower embodied carbon in New Zealand exports, a lower cost base for New Zealand organisations etc.

3. Bioenergy can also contribute significantly towards achieving the goals of the ETS and the Kyoto agreement to which the New Zealand Government is committed. The strategies must foster the widest use of a fuel resource that is plentiful and sustainable.

4. The ETS alone – as a 'stick' mechanism – will not be effective in helping New Zealand to realise the multiple benefits that bioenergy can deliver. Complementary 'carrot' mechanisms are also essential to achieving greater uptake. The main three we favour were noted as follows:

   - ***A Contestable Grant Scheme*** - A contestable capital grant system, similar to the Wood Energy Programme could provide a ready-made conduit through which more funds could easily and quickly be channeled to stimulate energy infrastructure projects and create jobs. The current cap of $200,000 per project (in the WEP) would need to be raised significantly.

   - ***Pilot Schemes*** - The roll-out of more pilot schemes, similar to the Renewable Heating for Schools programme run by EECA, are an excellent way to get real projects out into the communities. Similar Pilot schemes at Hospitals, Prisons,

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Schools etc. would be a major stimulus to encourage other wood energy projects in the vicinity, providing sustainable local jobs and a boost to the local forest industry. EECA already has the team in place and the in-house expertise to quickly roll-out further pilot schemes.

- ***Accelerated Depreciation Provisions*** - Accelerated depreciation provisions for renewable energy investment to encourage their uptake.

5. In this regard, the changes proposed in the Amendment Bill show no sign of mechanisms supportive to investment in new renewable energy generally nor mechanisms that could facilitate the uptake of bioenergy specifically. It only sets up part of the mix of mechanisms that would allow the ETS to work well for New Zealand.

6. The ETS should include specific provisions to facilitate initiatives to increase the amount of forestry and to grow fuel crops. These initiatives will provide a raw material for future development of ethanol and other second-generation bio-energy products.

7. In this regard, the changes proposed in the Amendment Bill are supported but do not go far enough to give the certainty that is necessary for investors in bioenergy facilities, which by their nature are long term investments and thus need long term known benefits

8. With the right mix of policies significant penetration of biomass fuels, displacing fossil fuels, can be achieved using partial Government finance to overcome the private sectors reluctance to invest at this time, thereby unlocking significantly more private investment to fund such infrastructure projects. This would deliver construction-related jobs as well as ongoing jobs in the wood fuel supply chain in local communities.

9. Further, with the right blend of the ETS and complementary schemes, New Zealand has the natural resource and expertise to put together its own New Green Deal to use this time of economic crises to begin the transition to a more robust, lower carbon and lower cost economy.

10. Overall, the Amendments proposed do not, in our view give confidence that the complementary mechanisms we proposed in our original submission have been included in a revised ETS.

11. Further, we note that the amendments now proposed also **<u>fail to deliver the following</u>**:

    - **A strong Carbon Price Signal** - BANZ is concerned that the amendments do not provide the strong carbon price signal that is needed to encourage investment in new renewable generation generally and in bioenergy specifically.
    - **Certainty needed for Investment** – BANZ is also concerned that the amendments do not provide the certainty that we believe is needed to encourage investment in new renewable generation. There appears to be little, if any, bi-partisan agreement, which compounds the uncertainty. This is a major concern for BANZ.

- **A consistent regulatory approach** – BANZ is further concerned that the amendments proposed appear to be somewhat out of step with the current review of the electricity market.

2. Introduction

12. This submission is made by the Bioenergy Association of New Zealand (BANZ), which was established in 2001. BANZ represents a broad range of stakeholders who have a commercial interest in bioenergy, including foresters, wood processors, large energy companies, specialist service providers, energy users, equipment manufacturers, renewable energy proponents and well established sector consultants.

13. BANZ promotes the broad use of bioenergy to industrial heat users and often encounters barriers that inhibit increased investment in bioenergy facilities. BANZ members are active in the conversion of wood and other organic wastes, municipal biosolids/industrial by-products and dedicated crops, to competitive energy resources. The content of this submission reflects some eight years of BANZ's collective experience and significantly more when individual members' experience is considered.

14. Specifically of note, several BANZ members are active in the conversion of wood waste to energy which eventually may also involve the cutting of forests for use as a feedstock for production of transport fuels. Other members are dedicated to growing fuel crops on previously deforested or marginal land.

15. While bioenergy by no means offers the entire solution to New Zealand's growing emissions profile it does have a role to play in a package approach. Currently, many opportunities remain untapped. The amendments proposed in the Bill have done nothing to change that view, lacking as they do in a strong carbon price signal and the certainty required for investment.

3. Specific Comments on the Amendments Proposed

15. **<u>Carbon Price Signal has been weakened</u> -** The decision to provide a 50% allocation to emitters, cap the price of emissions and delay the entry of the electricity sector into the ETS is a combination that is likely to strongly diminish, or at least delay, the carbon price and investment signals to the electricity sector.

16. The previous scheme ensured that all generators faced the full cost of all of their carbon emissions. It provided a strong incentive for generators to make long-term investment decisions to reduce future emissions as well as to take immediate action to offset current emissions.

17. The proposed amendments will see the Government (i.e., taxpayers) take responsibility for 50% of electricity sector emissions. This obligation will be met through the purchase of offsets and not through any investment that

will reduce NZ's emissions in the long term. The offsets from overseas markets purchased by the Government and emitters will facilitate clean technology investment in other countries, while viable, relatively low-cost action in New Zealand will be delayed. New Zealand is well placed to develop and exploit its own natural resources for long-term gain. The complementary measures that we proposed in our original submission highlighted these opportunities from a bioenergy perspective.

18. While the proposed amendments are expected to reduce the initial impact on householders' electricity bills, the economy will still face the full cost of all emissions. Meanwhile delaying investment in renewable generation, which is recognised as being the lowest-cost option for new generation in the long term, could result in higher than necessary electricity bills in years to come.

19. **Ongoing uncertainty leads to missed opportunities -** A further review of the ETS is noted for 2011, well before the end of the transitional period for the electricity sector. Without a cross-party agreement between National and Labour, there remains the risk that new opportunities in renewable energy will continue to be delayed until investors are sure that generators will indeed face the full cost of their emissions beyond 2013. Further, there appears to be little, if any, bi-partisan agreement, which compounds the uncertainty. This is a major concern for BANZ.

20. **Inconsistent with electricity sector policy -** Reducing emitters' obligations also seems out of step with the review of the electricity market currently being undertaken by the Energy Minister. This review seeks to ensure that all market participants are exposed to the full risk, and cost, of their market position - in particular the risks around hydro generation.

21. Inconsistent treatment of the electricity sector under climate change policy, with the ETS protecting thermal generators from the full risk and cost of emissions, could hamper rather than encourage renewable generation and distort the operation of the electricity market.

22. The implications of the ETS for the electricity sector are disappointing given the wide recognition that renewable energy provides a readily available, relatively low-cost option for reducing rising emissions from the electricity sector. The electricity sector is New Zealand's fastest growing source of greenhouse gas emissions - increasing 123% since 1990 according to the Ministry of Economic Development's latest Energy Greenhouse Gas Emissions report. Addressing this trend will be critical for achieving any meaningful reduction in emissions.

23. **Implications for Bioenergy** - Finally, BANZ is concerned that the amendments as proposed do not provide the strong carbon price signal that is needed to encourage investment in new renewable generation and in particular bioenergy opportunities. We are also concerned that the amendments are inconsistent with electricity sector policy and do not provide the certainty that we believe is needed to encourage investment in new renewable generation. Bioenergy and wood in particular presents an ideal, low cost and often local opportunity to heat generation and fuel production that is currently poorly exploited.

24. BANZ will continue to voice its view that an ETS can only be effective if supported by complementary mechanisms of the nature presented in our original submission. In its final form, the ETS must send a clear signal to encourage investment in new renewable generation.

4. BANZ Recommendations

25. In its original submission BANZ made a number of recommendations that could compliment an ETS. The Amendment Bill in our view has failed to consider the need for additional and complementary measures to ensure long term success of the Scheme. We have reproduced these measures in the following paragraphs and reiterate the need for mechanisms to support renewable energy generation and maximize New Zealand renewable energy resources. The potential contribution that renewable energy has to offer as part of an emissions abatement solution is, as yet, clearly unrepresented.

26. Carbon charge: It is recommended that the ETS is used to incorporate a carbon charge across the New Zealand economy that reflects the economic and environmental costs of the carbon emitted by the combustion of hydrocarbon fuels or other causes of emissions.

    This may be subject to transitional arrangements to protect economic activity where required, but in all cases a clear signal should be sent that supports the uptake of abatement measures such as switching to biomass as a fuel.

27. The boosting of funds available for contestable capital grant schemes that foster renewable energy uptake, such as the Wood Energy Programme already being administered by EECA with an expert industry panel of advisors.

28. The roll-out of further pilot schemes targeting other heat-using sectors, to capitalize on the success of the EECA scheme "Renewable Heating in Schools".

29. Accelerated depreciation provisions for renewable energy investment to encourage their uptake. Bioenergy plant is capital intensive, but generally has low operating costs. The upfront capital cost is a barrier compared to lower cost, higher operating cost fossil fuelled plant.

30. R & D grants for activities focused on new technologies related to green energy and to the establishment of new fuel supply initiatives including the growing of fuel crops.

31. Fuel crops: It is recommended that the existing ETS scheme be amended to remove the obligation to pay a carbon charge associated with de-forestation where the forests are replaced by the growing of fuel-crops; subject to demonstration that the sum of the carbon sequestered in the ground and the carbon reductions from the use of the crop to displace fossil fuels is greater than the carbon sequestration benefits of the growing of forest this replaces.

An appropriate mechanism for verification and certification is available under Landcares' CEMARS (certified emissions measurement and reduction scheme) scheme which can measure/audit the carbon impacts on an intensity basis.

5. Damaging Delays

16. The longer that policy decisions are delayed the more difficult it becomes for "New Zealand Inc" and for industry to be competitive in the carbon-constrained world into which we are headed. In this respect, even though detailed decisions regarding the post 2012 world cannot be made at this time, there needs to be strong signals to stakeholders, to the effect that emitters will be facing a considerable price for carbon emissions after 2012. What we do need are clear decisions ideally with cross-party buy-in and clear and strong messages to all stakeholders.

17. The Amendments proposed introduce yet more opportunities for delays and uncertainties. In particular we note the proposed delayed entry of the electricity sector into the Scheme and a proposed 2011 review.

The Association would like to be heard in regard to this submission.

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