



Submission

- to -

Draft Energy Strategies
Ministry of Economic Development
PO Box 1473
Wellington
nzes@med.govt.nz

Draft New Zealand Energy Strategy And Energy Efficiency and Conservation Strategy

New Zealand Forest Owners Association Inc

Level 4, 85 The Terrace
Wellington 6140
Tel 04 473 4769 Fax 04 499 8893

www.nzfoa.org.nz

2 September 2010

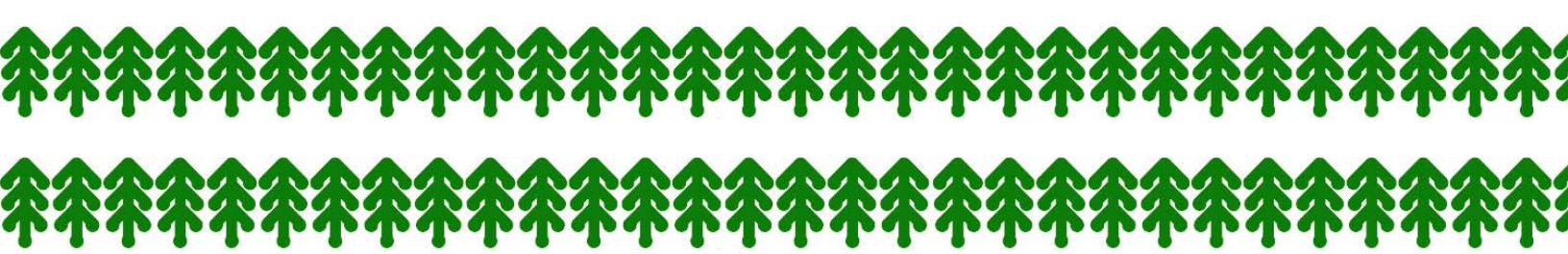


TABLE OF CONTENTS

1. Introduction	3
Draft New Zealand Energy Strategy.....	3
2. Developing Resources.....	3
3. Secure and Affordable Energy	6
4. Efficient Use	7
5. Environmental Responsibility.....	7
Energy Efficiency and Conservation Strategy	9
Transport	9
Electricity System	9

1. Introduction

- 1.1 This Submission has been prepared by the NZ Forest Owners Association (FOA), on behalf of the New Zealand forest industry.
- 1.2 The industry welcomes this opportunity to make submissions on the Draft New Zealand Energy Strategy "Developing our Energy Potential".
- 1.3 The FOA is a voluntary organisation representing the interests of commercial forest growers, facilitating co-operation and co-ordination within the forest industry. FOA member companies collectively manage around 1.4 million ha of rural land, 80% of which is planted in plantation trees. Total harvest for the June 2010 year was just over 22.2 million m³, with the capability to increase to around 30 million m³ pa in the near future if market conditions and the competitive domestic operating environment allow. Approximately 6 million m³ of the harvest is processed in New Zealand for New Zealand consumption. A further 6-7 million m³ is processed then exported. The remainder of the harvest is exported in log form.
- 1.4 The Draft Strategy document proposes a strategic focus on four priorities with areas of focus identified under each priority. This submission refers to those priorities which FOA considers affects or has the potential to affect New Zealand forest owners.

Draft New Zealand Energy Strategy

2. Developing Resources

2.1 Develop renewable energy resources

The strategy correctly identifies that there are some outstanding examples of wood being used for energy for large-scale industrial energy production. However, there is potential to greatly increase the amount of energy produced from wood.

Forest and wood processing residues could provide a genuinely renewable means of meeting New Zealand's base load thermal energy (including electricity) requirements and contribute to New Zealand's liquid fuels requirements.

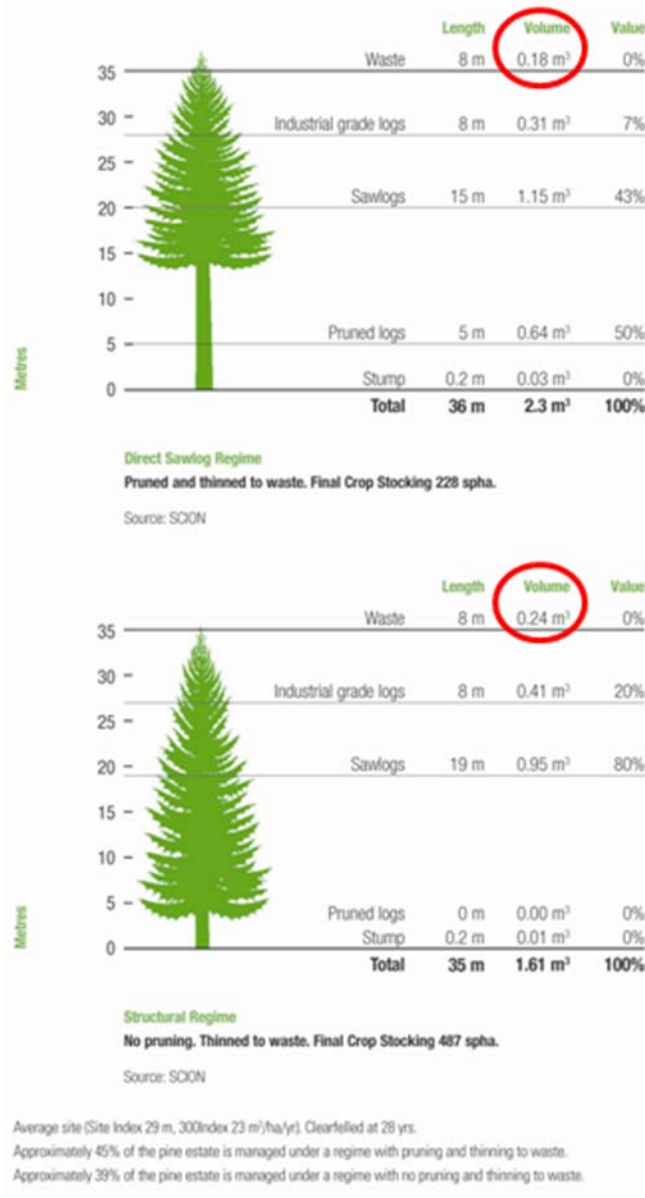
Currently, energy would be considered at best a bi-product of wood processing investment, with solid and processed wood products the primary motivation for commercial silvicultural investment. Development of a dedicated forest based fuel resource will require a greater degree of confidence in government's interest in renewable energy and/or some form of technological breakthrough.

Currently the majority of energy produced from wood is produced from residues as a by-product of wood manufacturing. This includes using sawdust, shavings, chip and so on.

Largely untapped is the waste left lying in the forest which has been either unwanted or uneconomic to harvest.

Figure One

TYPICAL LOG OUT-TURN



The volumes identified in figure one as waste (0.18m³ per tree for a pruned stand and 0.24m³ per tree) for an unpruned stand are largely unutilised in New Zealand forests and are usually left to rot. This equates to 41m³ – 116m³ per hectare. With an annual harvest area in excess of 30,000 ha per annum this suggests 1.3 million m³ – 3.7 million m³ of waste is left on the cutover every year which could be available for energy production.

Currently the logistics systems are not available in New Zealand to access this resource on any scale. Only minor volumes are accessed in the central North Island. However, technologies have been developed and deployed overseas to access this type of resource on a large scale.

The energy policy states that the government could play a role in encouraging industry and market development for viable proven technologies with low uptake, positioning New Zealand to take advantage of new emerging technologies.

FOA would encourage the Government to promote the development of logistics systems to economically access this largely untapped resource. This could take the form of seeding funds to import machinery for pilot operations, or promotion of suitable overseas operations to New Zealand managers.

Care must be taken not to induce a policy-driven demand for wood fibre for fuel, causing a consequential short term increase in the price paid for such fibre by traditional wood processors. This could have perverse economic and environmental consequences. Significant capital investment has been made in pulp mills and panel plants. The economics of these plants are dependent upon a suitably priced feedstock. Policy that incorporated subsidies, resulting in short - medium term price increases for the residues that typically feed these plants could make these operations uneconomic and must not be allowed to occur.

Development of the logistics chain to economically harvest in-forest waste, currently not utilised, would not risk resource supply to existing residue users (pulp and panel mills).

Greater use and development of wood residues than at present is dependent upon perceptions of long term economic viability. The strategy needs to be clear that government commitment to alternative fuels such as those based upon wood residue will be maintained and perhaps underwritten over a long period (10-15 years?).

Recommendation:

- 1) Develop the "in-forest" supply chain for "forest waste";
- 2) Ensure that development of forest residue for its biofuel value does not result in unanticipated risks, including residue price and quality issues;
- 3) Any strategy or policy must be structured to deliver a long-term benefit.

2.2 Embrace new energy technologies

FOA supports the statements to "Prioritise research funding to areas based on New Zealand's resource strengths" and "Research in areas of bioenergy and geothermal energy are also priorities".

As previously detailed, there is currently a very large unutilised, in-forest residue resource which just requires development of the supply chain to access economically (requires research into in-forest collection technologies).

In addition, large areas of under-performing farmland could be converted to "energy forests" if the right economic drivers and investment criteria were in place. Large scale new plantings for energy will require research into suitable regimes, tailored to the production of energy as opposed to current regimes which maximise wood volume and quality. Advances in technologies for the conversion of wood to fuel, and stable policy are required to get large scale energy forests being planted in New Zealand.

Recommendation:

- 1) Research into developing pure energy regimes (target regime product is energy, not sawlogs);
- 2) Research into wood to liquid fuel technologies.

3. Secure and Affordable Energy

Competitive energy markets deliver value for money

3.1 Reliable electricity supply

Approximately two thirds of New Zealand’s forest harvest has until recently been processed in New Zealand. A profitable and growing New Zealand based wood processing sector is essential to the economic wellbeing of the forest sector in New Zealand. The domestic market has traditionally been less volatile and risky than the export market, which exposes manufacturers to exchange rate and variable shipping cost risk. The two markets are often counter-cyclical, and give a measure of stability to the wood products market.

The two areas of focus, “Competitive energy markets and reliable energy supply”, are essential in enabling wood processors to operate economically in a competitive market. Surety of supply and price is essential for New Zealand to be able to market forest products internationally. The option to reduce production during times of high energy cost can destroy market relationships, while the option to continue to produce at a loss to protect market access is only an option for companies with sufficient financial resources. Rationing of energy through pricing does not produce a stable production environment. A stable, sure energy market encourages investment.

The energy strategy needs to foster a stable investment climate as this is conducive to long-life capital intensive developments, and will lower risk thereby encouraging the right investments to be made (by both the supply and demand-sides) at the right time. This relates to consistent energy pricing and particularly to stable policy.

Recommendation:

- 1) Develop an energy system that delivers surety of supply and pricing;
- 2) A stable investment climate through consistent, stable policy.

4. Efficient Use

An energy efficient transport system

- 4.1 Strongly agree with the statements “The Government will focus on improving energy efficiency, promoting efficient fleet management for commercial fleets”, and “The Government expects local authorities, through their transport and urban planning roles, to improve transport networks and layoutsso freight can move about more easily and more energy efficiently” .

The recent legislation changes to Vehicle Dimensions and Weights will result in significant efficiencies if local authorities and central government address infrastructural constraints such as sub-standard bridges.

Additional changes are required to Road User Charge (RUC) legislation to stop sub-optimal vehicle configurations being selected for New Zealand roads due to the need to minimise RUC's.

Recommendation:

- 1) Local authorities and government to address infrastructural constraints to implementation of recent changes to Vehicle Dimension and Weight regulations;
- 2) Review RUC's to encourage adoption of vehicle configurations that maximise transport efficiencies.

5. Environmental Responsibility

5.1 Best Practice in environmental management for energy projects

The strategy notes “The environmental effects of smaller scale energy developments including distributed generation will be clarified, so that local authorities and industry bodies can enable acceptable smaller scale projects to go ahead without undue delay and administrative cost.”

The wood processing sector has produced electricity from small scale generation over the last twenty years, at a variety of sites throughout New Zealand. All struggle to be economically viable as electricity producers. To encourage “distributed generation” energy pricing policies will need to be reconsidered. Note: current carbon charges via the ETS are insufficient to make distributed generation via wood residues economically viable.

Recommendation:

- 1) Investigate and remove constraints to distributed generation.

5.2 Reduce energy-related greenhouse gas emissions

The strategy states that the New Zealand Emissions Trading Scheme (ETS) will be the primary means to reduce emissions in the energy sector, and all other sectors across the economy.

Forest Owners strongly support this position with the following suggestions.

All sectors must be brought into the scheme to ensure a robust carbon market develops and to send a greenhouse gas reduction signal to all greenhouse gas producers. There is still considerable uncertainty regarding future policy in this area and government needs to convince all greenhouse gas producers that in the short to medium term they will be included in the ETS. It is essential government fosters a stable policy environment for this initiative as this is conducive to long-life capital intensive developments, and will lower risk thereby encouraging the right investments to be made (by both the supply and demand-sides) at the right time.

Recommendation:

- 1) Reduce uncertainty around future policy with regard to the ETS;
- 2) All sectors, all gases.

Energy Efficiency and Conservation Strategy

Transport

As noted in the Energy Strategy submission, recent legislation changes to Vehicle Dimensions and Weights will result in significant efficiencies if local Authorities and central Government address infrastructural constraints such as sub-standard bridges.

Additional changes are required to Road User Charge (RUC) legislation to stop sub-optimal vehicle configurations being selected for New Zealand roads due to the need to minimise RUC's.

Not mentioned in the strategy, is the removal of infrastructure constraints to the utilisation of railways and ports. A shortage of wagons and locomotives has prevented the use of rail options from Wairarapa to Centreport. The lack of rail into Northport, space restrictions for log storage at ports, combined with draft restrictions at Nelson and Gisborne, lead to sub optimal transport solutions.

Recommendation:

- 1) Local authorities and government to address infrastructural constraints to implementation of recent changes to Vehicle Dimension and Weight regulations;
- 2) Review RUC's to encourage adoption of vehicle configurations that maximise transport efficiencies;
- 3) Address infrastructural constraints relating to rail and ports

Electricity System

Support all policy actions.

FOA requests the opportunity to be heard in support of our submission



David Rhodes
Chief Executive

For further information please contact:

Glen Mackie, Senior policy Analyst

Telephone: 04 473 4769

Mobile: 0274 450 116

Glen.mackie@nzfoa.org.nz