



Northwest Pulp & Paper
ASSOCIATION

February 2, 2016

The Honorable Chris Edwards
Chair
Senate Environment and Natural Resources Committee
900 Court St. NE, S-411
Salem, Oregon 97301

Re: Senate Bill 1574 – In Opposition

Dear Chair Edwards:

Thank you for the opportunity for Northwest Pulp & Paper Association (NWPPA) to provide testimony on the Senate Bill 1574. On behalf of NWPPA, we'd like to share with the committee the following information relative to the impact of SB 1574 on Oregon's pulp and paper sector.

Background

NWPPA is a 60-year-old regional trade association representing 13 member companies and 16 pulp and paper mills in Washington, Oregon and Idaho. Five (5) of those NWPPA member mills are located in Oregon. NWPPA members produce over 8 million tons of paper products each year. In Washington, Oregon and Idaho, the pulp and paper manufacturing sector provides approximately 14,000 predominantly union jobs that pay an average of more than \$74,000 a year, plus benefits. Total annual payroll for the pulp and paper sector in Oregon, Washington and Idaho is approximately \$1.08 billion. As one of the members of Oregon's forest products sector (including private forest lands, logging, sawmills, plywood, furniture, wholesaling and transportation), pulp and paper mills help contribute approximately 4,693 jobs of the 53,693 total private sector forestry jobs based on Oregon Forest Resources Institute data¹. Because many NWPPA members are located in economically stressed rural communities, these family-wage manufacturing jobs help sustain the local economy, with each mill supporting 3-5 additional jobs in the community.

NWPPA shares your goal of continuing to reduce GHG emissions in Oregon. We agree that we all have an obligation to protect our state's beautiful environment for future generations and

¹ http://oregonforests.org/sites/default/files/publications/pdf/OFRI_FactsFigures_2015-16.pdf

preserve our state's air, water and other natural resources. However, we disagree with SB 1574. There are better ways to create and sustain a healthy climate and a healthy economy.

Benefits of pulp and paper/forest products industry in reducing GHG emissions

Forest products and pulp and paper jobs are the original green jobs. Our preliminary analysis shows that in 2014 over 61.3% of the onsite fuel needs for Oregon's pulp and paper mills were met by the use of renewable, carbon-neutral biomass.² The pulp and paper sector is a leader in using combined heat and power systems, known as CHP, to efficiently meet its energy needs and supply green power to the electricity grid. Pulp and paper CHP systems simultaneously generate steam and electricity at overall efficiencies of 50-80%, in contrast to non-CHP electrical generation. Over 93% of electricity produced by the pulp and paper sector in 2013 was CHP generated.

Oregon pulp and paper mills also exceed the national average for using recycled material, helping to conserve fiber and energy resources. In addition, Oregon pulp and paper mills are some of the most highly regulated and permitted facilities in the state, meeting tougher air quality, water quality and other environmental standards than our counterparts in other parts of the country and the world.

In 2012, Oregon's pulp and paper sector's share of total state GHG emissions was less than 5% [see Attachment A – showing the breakdown of Oregon's in-boundary GHG emissions for 2012]. Non-inclusion of biogenic emissions puts that figure at less than 1%. Through innovation, energy efficiency, and technology advances, Oregon mills are striving to reduce their environmental footprint in order to be a part of Oregon's manufacturing future.

Early actions taken by Oregon pulp and paper mills to reduce GHG emissions from fossil fuels

Since 2000 there has been a 52.5% reduction in direct fossil fuel emissions from the Oregon pulp and paper sector. Of the 836,000 metric tons of carbon dioxide (CO₂) emission reductions, 715,000 metric tons of CO₂ emission reductions were achieved through the closure of five mills (Figure 1), representing 1.83 million short tons of production (Figure 2). Mills that have continuously operated between 2000 to present have reduced their direct GHG emission intensity by 11.1% between 2000 and 2014, and have achieved 122,000 metric tons of direct CO₂ emission reductions through process and capital improvements to increase energy efficiency.

² https://www.oregonlegislature.gov/bills_laws/lawsstatutes/2015orLaw0500.pdf

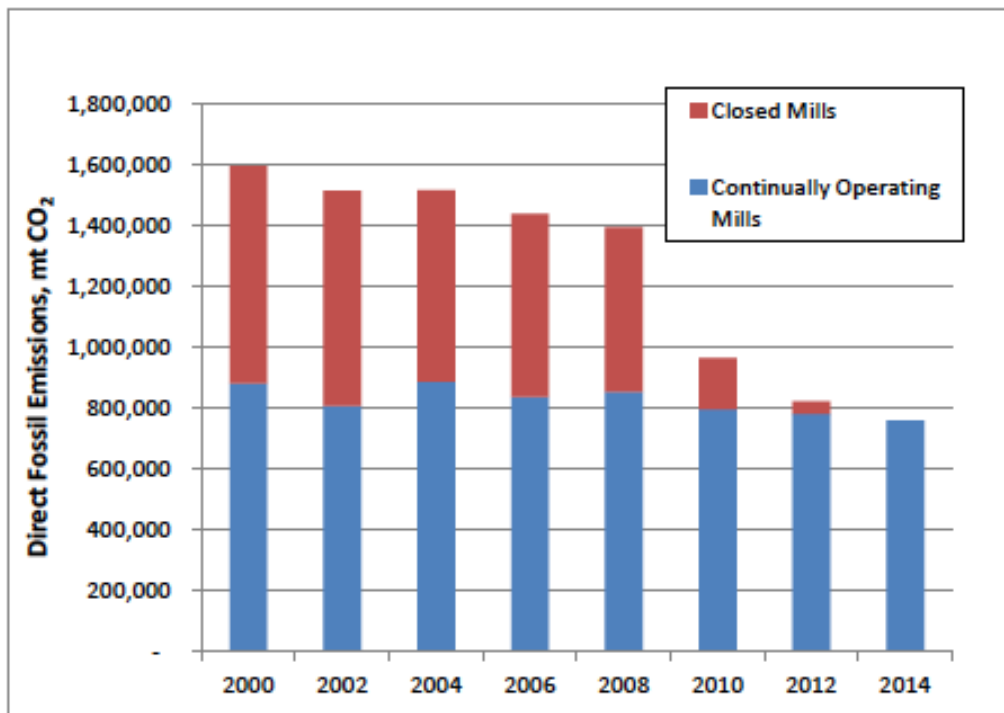


Figure 1. Reductions in Direct Fossil CO₂ Emissions from the Oregon Pulp and Paper Sector between 2000 and 2014

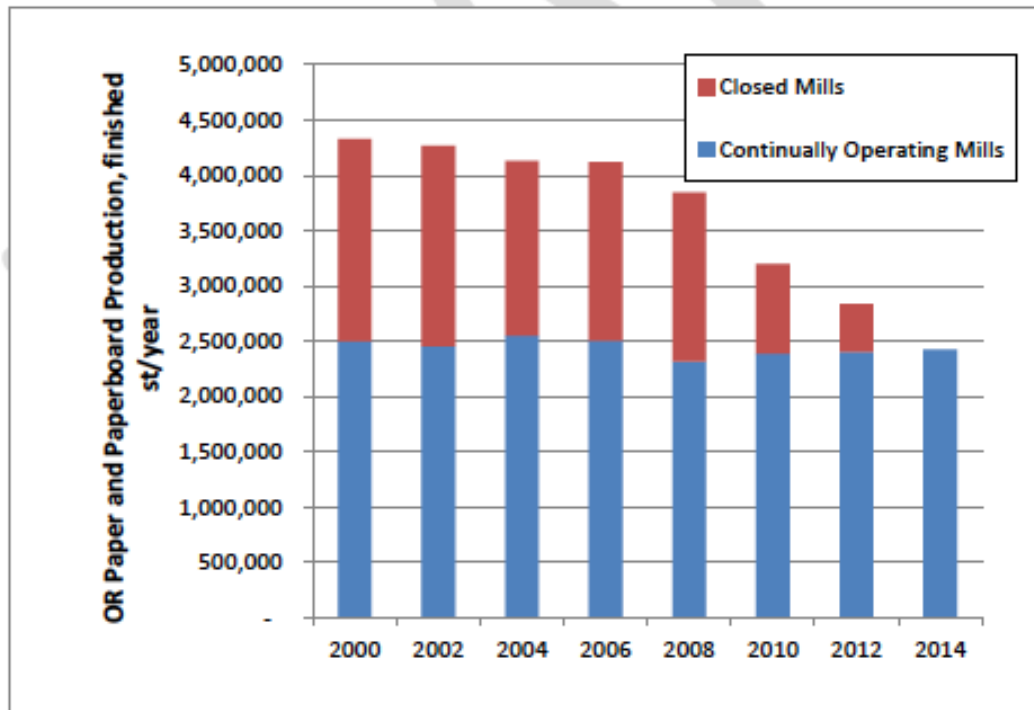


Figure 2. Oregon Paper and Paperboard Production between 2000 and 2014

Costs of compliance and potential job losses resulting from SB 1574

There are great uncertainties surrounding potential compliance costs with this legislation due to the lack of detail in the bill and the broad delegation of authority for rule development to the Department of Environmental Quality and the Environmental Quality Commission. For example, these agencies are charged with the authority to set a price on carbon, which is unknown at the time of today's hearing in your committee on the bill. As such, we've had to make a handful of assumptions relative to cost. We estimate that in year 2025 with a cost range of carbon from \$12.71 to \$60.00 per metric ton, the potential cost impacts to Oregon pulp and paper mills would be \$15 million to \$70 million annually. In 2050 we estimate the costs using the same range of \$12.71 to \$60.00 per metric ton to be \$37 million to \$430 million annually.

Unlike other sectors potentially affected by this proposal, Oregon's pulp and paper mills are energy-intensive and trade-exposed (EITE) and will have a difficult time passing these massive new regulatory costs on to their customers and will likely have to absorb those additional costs, if possible. Given the intense national and global competitiveness of the pulp and paper marketplace, SB 1574 will likely cause the closure of mills or a significant reduction in jobs and workforce. This, in turn, will put tens of thousands of Oregon's working families and small rural communities in serious economic jeopardy.

The plight of the pulp and paper sector in Oregon the Pacific Northwest is real and well known. The most recent casualties were 2011 Blue Heron mill closure in Oregon City, which cost 175 jobs,³ and most recently the November 2015 idling of the SP Fiber Technologies/WestRock mill in Newberg⁴ which displaced some 200-220 workers. In California, the last chemical pulp mill closed in 2008. Since 2002, 15 mills have closed in California, and current pulp and paper production is 44% of what it was in 2002 [See Attachment B, pulp and paper mill closure list].

The market and environmental regulatory challenges facing the pulp and paper sector in our state, region and country are very real and very challenging. The proposed cap-and-trade legislation would significantly compound those challenges for pulp and paper manufacturers in Oregon. Given the pulp and paper sector's very small share of Oregon's total GHG emissions, this additional burden is not warranted.

Pulp and paper mills are energy-intensive and trade-exposed (EITE)

As noted above, pulp and paper mills in Oregon and the Pacific Northwest continue to struggle with a recovering economy and increased national and international competition for paper products. Pulp and paper manufacturers operate in an energy-intensive, trade-dependent

³http://www.oregonlive.com/oregoncity/index.ssf/2011/02/historic_oregon_city_paper_mill_to_close_losing_175_jobs.html

⁴ http://www.oregonlive.com/business/index.ssf/2015/10/newberg_pulp_paper_mill_to_clo.html

(EITE) marketplace. Being EITE, Oregon's pulp and paper mills use large amounts of energy for individual manufacturing processes. These mills also compete in highly competitive global marketplaces. As such, unlike many of our competitors in other parts of the United States and around the world (who would not be subject to these significant new regulatory costs) Oregon's pulp and paper mills will not be able to pass increased production costs on to consumers, which greatly impacts competitiveness in the global marketplace.

A stand-alone state regulatory cap-and-trade system like that proposed by SB 1574 would put NWPPA members in Oregon state at an extreme competitive disadvantage with respect to pulp and paper manufacturers in other parts of our country and globally.

GHG Leakage

Since Oregon's pulp and paper manufacturers operate under some of the most stringent environmental standards in the world, these mills have some of the smallest environmental footprints in the industry, again, due to the predominant use of carbon-neutral biomass for combined heat and power (CHP). Closure of any of these Oregon facilities would shift that manufacturing to other places that likely operate under less stringent environmental standards, thereby increasing GHG emissions for manufacture of the same product. This concept, known as GHG "leakage," will worsen, not lessen global GHG emissions and serve to exacerbate the problem.

Conclusion

There is a way to balance a healthy climate and a healthy economy. But SB 1574 isn't it. A cap-and-trade system will increase prices, drive jobs to other states and harm the goal of reducing global greenhouse gas emissions. With its predominant use of carbon-neutral biomass and combined heat and power (CHP) systems, Oregon's pulp and paper sector has demonstrated its leadership and willingness to reduce energy use and fossil fuel-based greenhouse gas emissions: again, these mills have reduced emissions 52.5% since 2000. As such, Oregon's pulp and paper sector should be rewarded – not penalized – for these significant capital investments and process improvements and be seen as part of the solution, not the problem.

Accordingly, NWPPA supports a national solution to continue reducing GHG emissions, where all pulp and paper mills in the country would be required play by the same set of rules.

For these reasons, NWPPA is opposed to SB 1574 and would ask that you not advance this bill from your committee.

Sincerely,

A handwritten signature in black ink, appearing to read "Christian M. McCabe". The signature is fluid and cursive, with the first name being the most prominent.

Christian M. McCabe
Executive Director
Northwest Pulp & Paper Association

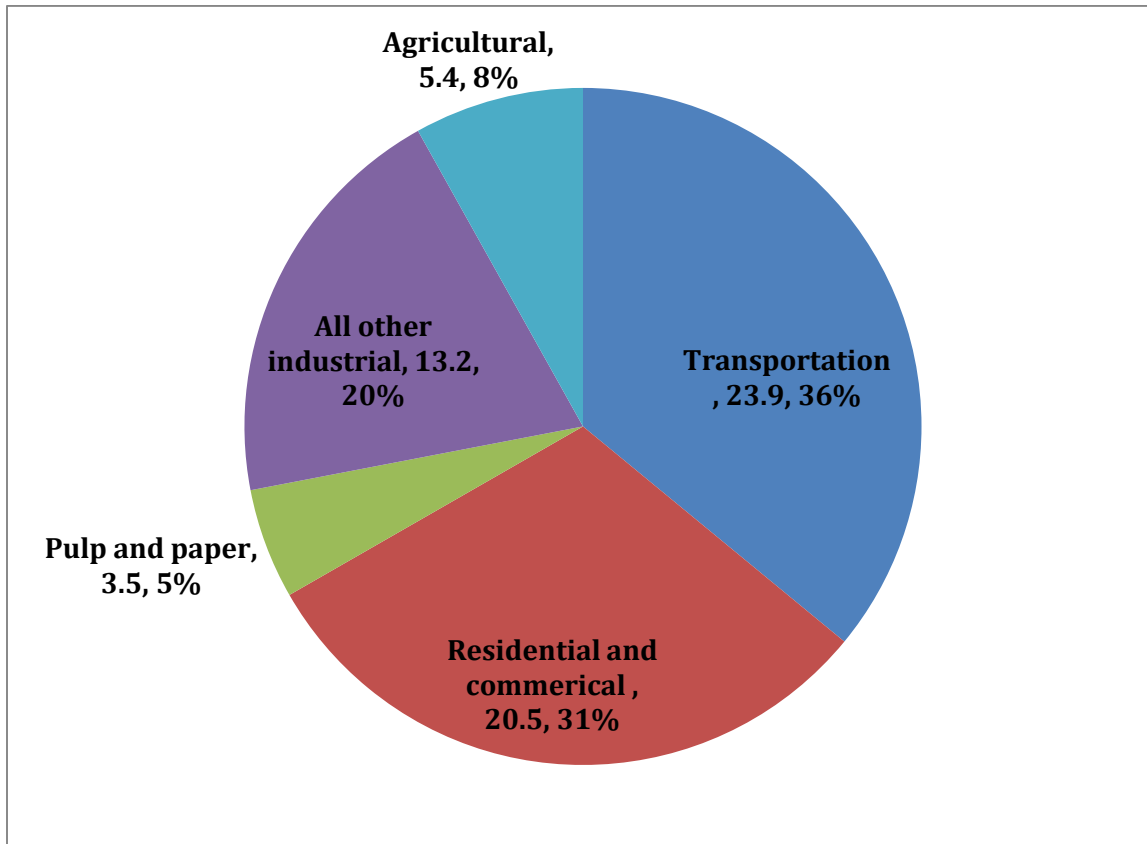
Attachments:

- A – Chart of 2012 Oregon in-boundary GHG emissions
- B – Pulp and paper mill closure/idling list

Attachment A

Oregon In-Boundary Greenhouse Gas Emissions, 2012

Pie chart numbers are in metric tons of CO2 equivalents



Attachment B

Pacific Northwest Pulp and Paper Mill Closures; 1993 – present

- 1993 Alaska Pulp Corporation, Sitka, AK
- 1995 Pope & Talbot's Puget Mill Co. in Port Gamble, WA
- 1997 Ketchikan Pulp Company, Ketchikan, AK
- 1997 Rayonier in Port Angeles, WA
- 1999 International Paper, Reedsport, OR
- 2000 Abitibi in Steilacoom, WA
- 2002 Ponderosa Fibers in Wallula, WA
- 2003 Weyerhaeuser Pulp mill, North Bend, OR
- 2007 Georgia-Pacific in Bellingham, WA
- 2008 Boise Cascade/Boise Inc.'s pulp and paper mill, St. Helens, OR
- 2009 International Paper in Albany, OR
- 2011 Abitibi in Ponderay, WA
- 2011 Blue Heron in Oregon City, OR
- 2012 Kimberly Clarke in Everett, WA
- 2014 Harbor Paper/Gray's Harbor Paper in Hoquiam, WA
- 2015 SP Fiber Technologies in Newberg, OR was idled in November.

California Pulp and Paper Mill Closures; 2002 – present

- And, the last chemical pulp mill in the State of California closed in 2008.
- Since 2002, 15 mills have closed in California and current pulp and paper production is 44% of what it was in 2002.