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:

The American Forest & Paper Association (AF&PA) and the American Wood Council (AWC) appreciate this opportunity to provide comments to the Senate Environment and Natural Resources Committee concerning SB 1574, "Healthy Climate Act of 2016" (the "Act" or "SB 1574"). For the reasons discussed below, AF&PA and AWC oppose SB 1574 as introduced.

Introduction

The American Forest & Paper Association (AF&PA) serves to advance a sustainable U.S. pulp, paper, packaging, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative - *Better Practices, Better Planet 2020*. The forest products industry accounts for approximately 4 percent of the total U.S. manufacturing GDP, manufactures approximately $210 billion in products annually, and employs nearly 900,000 men and women. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 47 states.

The American Wood Council (AWC) is the voice of North American wood products manufacturing, representing over 75 percent of an industry that provides approximately 400,000 men and women in the United States with family-wage jobs. AWC members make products that are essential to everyday life from a renewable resource that absorbs and sequesters carbon. Staff experts develop state-of-the-art engineering data, technology, and standards for wood products to assure their safe and efficient design, as well as provide information on wood design, green building, and environmental regulations. AWC also advocates for balanced government policies that affect wood products.

American Forest & Paper Association

AMERICAN WOOD COUNCIL

Forest Products Industry's Reduction of GHG emissions

The forest products industry produces and uses renewable energy for manufacturing operations and is a significant contributor to our country's existing base of renewable energy. In fact, paper and wood products facilities account for 62 percent of the renewable biomass energy produced by the total U.S. manufacturing sector.[1] On average, approximately 66 percent of the energy used at AF&PA member pulp and paper mills, and over 75 percent of the energy from AWC member wood products facilities are generated from carbon-neutral biomass.

The industry also strives to use all types of energy as efficiently as possible. The industry is a leader in the use of combined heat and power (CHP) technology, which is extremely efficient because it uses the same fuel to produce both thermal energy used in the manufacturing process and electricity, some used on-site and some sold to the grid. In 2012, pulp, paper, packaging, and wood products mills produced 30 percent of the CHP electricity generated by manufacturing facilities. In fact, over 96 percent of electricity produced by our members' pulp and paper mills was CHP-generated.

The use of CHP provides energy efficiencies in the range of 50 to 80 percent at forest products mills, far beyond non-CHP electrical stations such as utilities, which are only about 33 percent energy efficient. Unlike the CHP commonly used by utilities and other manufacturers, most of the CHP processes used in the pulp and paper and wood products industry are highly integrated into the manufacturing process. The biomass residuals from the manufacturing process – e.g., bark, spent pulping liquor, sawdust, shavings, trim ends, and paper residuals that cannot be used for products – are used as the primary fuel to power the mills and to provide electricity for the grid.

Our commitments to renewable biomass energy and energy efficiency, including our extensive use of CHP, have led to a dramatic decrease in the sector's use of fossil fuel and GHG emissions. Energy purchased by member pulp and paper mills -- most of which is fossil fuel-based -- has decreased 25.4 percent since 1990, 14.6 percent since 2000, and almost 9 percent since 2005 (making significant progress toward achieving AF&PA's *Better Practices, Better Planet 2020* goal of at least a 10 percent reduction in purchased energy). This has helped reduce GHG emissions intensity by over 23 percent since 2000. Beyond what the industry has already achieved, we have committed to reducing GHG emissions by at least 15 percent by 2020, from a 2005 baseline. Since 2005, AF&PA members' GHG emissions have been reduced by 14.5 percent — nearly reaching their 2020 goal of 15 percent five years early.

Moreover, the forest products industry is the largest producer and user of bioenergy of any industrial sector and has long-standing operations in the U.S. The creation and use of biomass energy in forest products mills is integral and incidental to the manufacture of products such as pulp, paper, packaging and wood products. Pulp mills, integrated

[1] The U.S. manufacturing sectors that use renewable biomass energy includes the paper and wood products industry, as well as the chemicals and bio-refineries manufacturing industries.

pulp and paper mills, and wood products mills convert biomass residuals to energy while manufacturing biobased products that are useful to society. There are substantial greenhouse gas (GHG) reduction benefits from using manufacturing residuals for biomass energy in the forest products industry. According to a study by the National Council for Air and Stream Improvement (NCASI), the use of biomass residuals each year avoids the emission of approximately 181 million metric tons of carbon dioxide equivalents (CO_2e).[2] (This is equivalent to removing about 35 million cars from the road.)

AWC member companies met almost 75 percent of their energy needs from renewable, carbon neutral biomass energy in 2012, the latest year data is available. The GHG reduction benefits of using biomass manufacturing residuals for energy by the wood products industry are equivalent to about 24 million tons of CO_2. This is equivalent to removing the emissions of approximately 4.6 million cars from the road each year. The current inventory of wood structures in the U.S. is estimated to store 1.5 billion metric tons of carbon, which is equivalent to 5.4 billion tons of CO_2. Using wood as a substitute product in construction could save 14 to 31 percent of global CO_2 emissions and 12 to 19 percent of global fossil fuel consumption.

Key Concerns

AF&PA and AWC believe that any program to reduce GHG emissions should preserve the competitiveness of American manufacturing and promote the GHG benefits of managed forests, forest products, and biomass-based renewable energy.

I. State Carbon Trading Programs May Be Ineffective and Harmful to the State Economy.

AF&PA and AWC members manufacture a wide variety of value-added forest products, such as paper, packaging, wood products, wood-based chemicals, and other innovative wood-based products in Oregon. Because they operate in a highly competitive global market and face fierce international competition, they cannot automatically pass on higher raw material and energy costs to their customers and still remain competitive. The forest products industry employs approximately 17,353 people in Oregon.[3] AF&PA and AWC members' facilities are located in Oregon's rural areas and provide high-

[2] *See* NCASI, *Greenhouse Gas And Fossil Fuel Reduction Benefits of Using Biomass Manufacturing Residuals for Energy Production in Forest Products Facilities*, Technical Bulletin No. 1016 (Rev. Aug. 2014), *available at* http://www.ncasi.org/Downloads/Download.ashx?id=9603; Gaudreault, C. and Miner, R., *Temporal Aspects in Evaluating the Greenhouse Gas Mitigation Benefits of Using Residues from Forest Products Manufacturing Facilities for Energy Production*. *J. of Industrial Ecology* 19(6):994-1007 (2015), at 1,004.

[3] This employment figure includes jobs at pulp and paper manufacturing, sawmills, veneer and plywood facilities. Oregon Forest Resources Institute, Oregon Forest Facts & Figures 2015-2016, at 33, *available at* http://oregonforests.org/sites/default/files/publications/pdf/OFRI_FactsFigures_2015-16.pdf.

paying jobs for those communities. Those jobs are a critical driver of the overall economic health of those oftentimes vulnerable communities.

A single state-based carbon pollution market program as proposed in the SB 1574 would put forest product mills in Oregon at a competitive disadvantage with respect to forest products manufacturers in other states and globally. GHG emissions are global emissions that cannot effectively be addressed on a local or state level. The program as proposed in the bill may result in leakage and displacement of Oregon forest products industry (and other sectors of the economy) to other states where GHG emissions will still be generated. This leakage actually could produce a net increase in GHG emissions because Oregon already has one of the least carbon-intensive economies in the world. The U.S. Energy Information Administration notes that "[i]n 2014, 73% of Oregon's net electricity generation came from conventional hydroelectric power plants and other renewable energy resources", compared to approximately 12 percent for the entire U.S.[4]

Oregon should consider the least cost approach when imposing a carbon trading program. The term "least cost" compliance should be broadly defined to include both the short- and long-term costs of electric power and natural gas to customers (including costs to maintain reliability and to build necessary infrastructure) as well as the broad impact of compliance-related decisions on the state's economy including job- and income-related impacts. Costs that should be minimized include the displacement of existing industries and the jobs they provide (such as those provided by Oregon forest products industry), as well as GHG leakage caused by the relocation of state manufacturing to other states.

This proposed carbon pollution market legislation will cost Oregon pulp, paper and wood products manufacturers approximately $18.5 million to $87 million in annual direct and indirect compliance costs starting in 2025, and by 2050, annual costs are estimated to be $57 million to $265 million.[5]

We recommend that the state perform a thorough study and analysis of employment and economic effects and net global GHG emissions impacts before considering the proposed carbon pollution market or another type of carbon trading program. A detailed study and analysis should be completed on the direct and indirect impacts to Oregon forest products manufacturing and other energy-intensive/trade exposed (EITE) industries before moving forward with a carbon trading program.

[4] U.S. Energy Information Administration, Oregon: State Profile and Energy Estimates, *available at* http://www.eia.gov/state/?sid=OR.
[5] Based on an estimated range of $12.71 to $60 per metric ton of CO_2. Indirect costs include the increase costs associated with purchased electricity.

II. EITE Manufacturers Should Be Exempt as Covered Entities.

As drafted, SB 1574 gives the Oregon Environmental Quality Commission broad discretion to determine which sources that emitted more than 25,000 metric tons of CO_2 per year would be considered "covered entities" under the carbon pollution market. If the bill moves forward, we believe that the applicability of the Healthy Climate Act of 2016 should exclude EITE industries such as the forest product industry or, at a minimum, provide a robust mechanism to mitigate competitiveness concerns via an adequate allocation of emission allowances.

If EITE sources are not exempt, we support the provision in Section 9(C)(c) that distributes free allowances to address leakage and Section 12(1)(b) in the Act that requires electric and natural gas utilities to apply the proceeds from the sale of allowances to bill assistance for energy intensive manufacturers. AF&PA and AWC believe that competitiveness and leakage largely can and should be avoided by exempting EITE sectors such as the forest products industry or by distributing, without charge or auction, a sufficient number of allowances to all covered EITE sources under the cap.

Unlike electric and natural gas utilities or other sectors subject to the Act, Oregon forest products mills will have a difficult time passing increased compliance costs on to their customers and will likely have to absorb those additional costs. Increased costs (both direct and indirect) from the proposed carbon pollution market program will adversely affect Oregon manufacturers of paper and wood products' competitiveness thereby affecting jobs, and the other economic and societal benefits the Oregon forest products industry provides to the rural communities where they are located. As costs for manufacturers increase, leakage of jobs, leakage of capital investment, and leakage of GHG emissions will occur as manufacturers look to relocate to other states or international jurisdictions with lower manufacturing costs.

Allocating such allowances is essential for maintaining a viable forest products industry in Oregon. AF&PA and AWC members manufacture a wide variety of value-added forest products, such as paper, packaging, wood products, wood-based chemicals, and other innovative wood-based products. In addition to direct emissions, indirect costs imposed on industry sectors should be taken into account when determining the apportionment of allocations.

Any price set for carbon emissions will elicit responses beyond just the emitting entities paying for those emissions. For example, a price on carbon will increase the demand (and price) for lower-emitting alternatives (e.g., natural gas instead of coal, or propane instead of heating oil). We will also encounter supply chain, purchased electricity, and product distribution costs related to the Act. These developments would increase the cost structure in our industry and put us at an even greater competitive disadvantage.

Free allowances should be allocated to help cover these costs until new technologies are available and competitiveness and leakage concerns are mitigated.

III. The Act Should Exclude Carbon Dioxide from the Combustion of Biomass.

If the bill moves forward, the Act should ensure that biomass energy is recognized as carbon neutral and exempt biogenic CO_2 emissions from the Act. Last year, the Oregon legislature recognized the carbon neutrality of biomass energy when it passed SB 752, that exempts from certain state regulation CO_2 emissions from combustion or decomposition of biomass except as required by federal law.[6] The bill was signed into law by Governor Brown on June 18, 2015.

Therefore, in addition to adhering to the least-cost principle discussed above, SB 1574 should contain an amendment to ORS 468A.020(3) that exempts CO_2 emissions from the combustion or decomposition of biomass from regulation under the Healthy Climate Act of 2016. ORS 468A.020(3) should be amended as follows:

> (3)(a) Except to the extent necessary to implement the federal Clean Air Act (P.L. 88-206 as amended), the air pollution laws contained in ORS 468A.025, 468A.030, 468A.035, 468A.040, 468A.045, 468A.300 to 468A.330, and all sections and amendments related to Healthy Climate Act of 2016 and adopted to the air pollution laws in chapter 468A do not apply to carbon dioxide emissions from the combustion or decomposition of biomass.

In addition, the Act should make clear that biogenic CO_2 emissions are exempt in the definition of "greenhouse gas" in Section 8(12) and from the 25,000 metric tons threshold in Section 9(1)(a)(B). These amendments are crucial to incorporating the legislature's and Governor's intent to recognize the carbon neutrality of biomass in Oregon's air pollution laws.

Conclusion

AF&PA and AWC member companies have a longstanding commitment to the sustainability of the forest products industry and reducing GHGs. AF&PA and AWC believe that any GHG program should protect American jobs, preserve industry competitiveness and recognize the critical role the forest products industry plays in addressing GHG emissions. In light of our concerns, AF&PA and AWC oppose the SB 1574, and we respectfully request that you not advance the bill from committee.

If further consideration of the bill proceeds, Oregon should complete the above-referenced economic, employment, and GHG studies and include an opportunity for public review and comment prior to moving forward. Furthermore, to address

[6] 2015 Or. Laws Chap. 500 (2015 Ed.)

competitiveness concerns, any GHG reduction programs should ensure that program costs are as low as possible for Oregon's manufacturing sector. The Act must include an exemption for CO_2 from the combustion of biomass and an exemption for EITE sources.

We thank the Committee for the opportunity to share our concerns. If you have any questions, please contact Terry Webber, Director, Government Affairs at Terry_Webber@afandpa.org or (971) 235-8816.