



March 1, 2017

The Honorable Michael Dembrow, Chair
Senate Environment and Natural Resources Committee
The Honorable Ken Helm, Chair
House Energy and Environment Committee
900 Court St. NE
Salem, Oregon 97301

Senate Bills 557 and 748, House Bill 2135 and Legislative Counsel Draft 1242 – In Opposition

Dear Chair Dembrow, Chair Helm and committee members:

Thank you for the opportunity for Northwest Pulp & Paper Association (NWPPA) to provide testimony on the various cap and trade bills: SB 557, SB 748, HB 2135 and LC Draft 1242. On behalf of NWPPA, we'd like to share with the committee: a brief background of NWPPA and its members; information about the benefits the pulp and paper sector brings to reducing greenhouse gas (GHG) emissions, including early actions to reduce GHG emissions from fossil fuels; economic and jobs concerns with this proposal; a few thoughts on the concept of GHG "leakage"; and how this bill would disproportionately affect sectors like pulp and paper that are energy-intensive and trade-exposed (EITE).

Background

NWPPA is a 61 year-old regional trade association representing 11 member companies and 14 pulp and paper mills in Washington, Oregon and Idaho. Five of those NWPPA member mills are located in Oregon. As one of the members of Oregon's forest products sector (including private forest lands, public forest management, logging, manufacturing, wholesaling and transportation), pulp and paper mills help contribute approximately 4,482 jobs of the 20,244 primary forest products manufacturing job included in Oregon's 61,000 total forestry sector jobs (State of Oregon Employment Department 2015 data).^{1,2} Also Oregon's 2015 data shows almost 51,000 of the 61,000 forest-sector jobs were found in the private sector.

Many NWPPA members are located in economically stressed rural communities, these family-wage manufacturing jobs help sustain the local economy, with an accepted industry multiplier

¹ <https://www.qualityinfo.org/-/oregon-s-forest-sector-employment-totals-61-000-in-2015>

² http://oregonforests.org/sites/default/files/publications/pdf/OFRI_FactsFacts_1718_WEB.pdf

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effect of three to five jobs, approximately 20,000 workers are supported by this sector of our economy. For example in two counties with pulp and paper mills, the forestry sector average wages are around double the average county wages. The Oregon Employment Department explains that in 2015, "In Lincoln County, the average annual forest sector wage (\$71,200) was double that of all jobs (\$35,300). Forest-related jobs also paid nearly double the all-job average in Clatsop County (\$68,200 and \$35,100, respectively)."¹

NWPPA shares your goal of continuing to reduce GHG emissions in Oregon. We agree that we all have a moral obligation to protect our state's beautiful environment for future generations and preserve our state's air, water and other natural resources. However, we disagree with the approaches in these bills. There are better ways to create 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.³ 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 97.6% 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 2014, Oregon's pulp and paper sector's share of total state GHG emissions was less 3% [see Attachment A – showing the breakdown of Oregon's In-boundary GHG emissions for 2014 including the mills' emissions contributed from electricity]. 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.

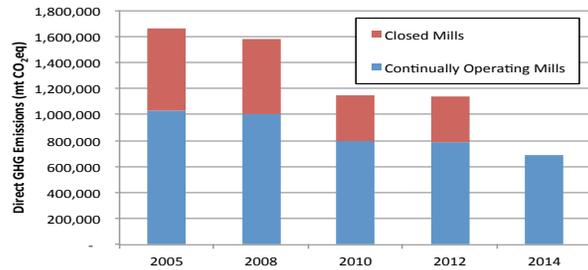
Early actions taken by Oregon pulp and paper mills to reduce GHG emissions from fossil fuels and the effect of mill closures

Since 2005 the Oregon pulp and paper sector's GHG emissions have been reduced through mill closures and early actions to reduce fossil fuel usage. On a mass basis, there has been a reduction of 58% in direct fossil emissions measured in metric tons of carbon dioxide equivalents (CO₂ eq.) from the Oregon pulp and paper sector, see Figure 1.

³ https://www.oregonlegislature.gov/bills_laws/lawsstatutes/2015orLaw0500.pdf

Figure 1.

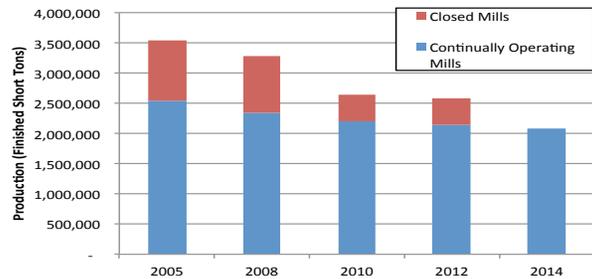
Direct GHG Emission Reductions for the Oregon Pulp and Paper Industry Mass Reduction of 58%



Looking closer at the production decreases in Oregon mills; Figure 2 explains there was a decrease of 978,000 short tons of production for closed mills and a 496,000 short ton reduction from continuously operating mills.

Figure 2.

Production Changes in the Oregon Pulp and Paper Industry 978,000 short ton reduction from closed mills 496,000 short ton reduction from continuously operating mills



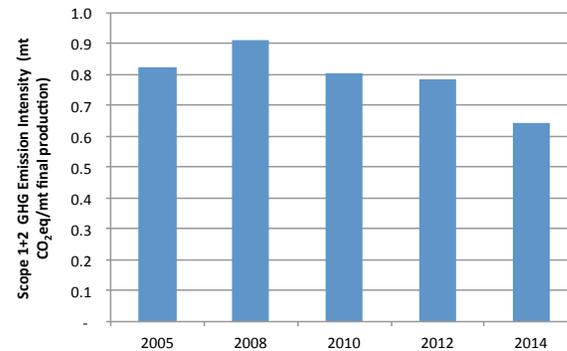
Setting aside the GHG emission decreases from mill closures and lower production, pulp and paper still has a GHG reduction story to tell that comes from investing in mill improvements.

Mills that have continuously operated between 2005 to present have reduced both their direct and indirect GHG emission intensity. This is a decrease in emission intensity as well the mass of GHG emissions measured in CO₂ equivalents detailed in Figure 1. Pulp and paper mill indirect emissions are defined as GHG emissions attributed to net purchased electricity, heat or steam.⁴

Between 2005 and 2014, Oregon mills have reduced their direct and indirect emission intensity by an average of 33% (Figure 3) and have achieved a 1.4 million metric tons of direct CO₂ emission reductions through process and capital improvements to increase energy efficiency, and through the shuttering of mills (a 834,000 metric ton reduction in Scope 1 and 2 emissions from continuously operating mills and 604,00 metric ton reduction from closed facilities).⁵

Figure 3.

Direct and Indirect GHG Emission Reductions for the Oregon Pulp and Paper Industry Intensity Reduction of 22%



⁴ From the GHG Protocol: <http://www.ghgprotocol.org/calculation-tools/faq>

⁵ These numbers are from industry data and represent about 75% of total Oregon P&P production. Total Oregon P&P reductions will be even greater.

Economic harm and potential job losses resulting from an Oregon cap and trade program

This proposed cap-and-trade and/or carbon tax legislation would cost Oregon pulp and paper manufacturers millions of dollars annually. We believe that there is not enough information to accurately calculate potential annual costs at this time because many assumptions would have to be made because so many important policy decisions are left to the rule writing process.

Unlike other sectors affected by this proposal, Oregon pulp and paper mills will have a difficult time passing increased compliance 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, state-based cap and trade programs 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 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,⁶ and the Spring 2016 closure of the SP Fiber Technologies/WestRock mill in Newberg,⁷ which displaced some 200-220 workers. 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 [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 the pulp and paper sector. Given the pulp and paper sector’s small share of Oregon’s GHG emissions (Attachment 1), this additional burden is not warranted.

GHG Leakage

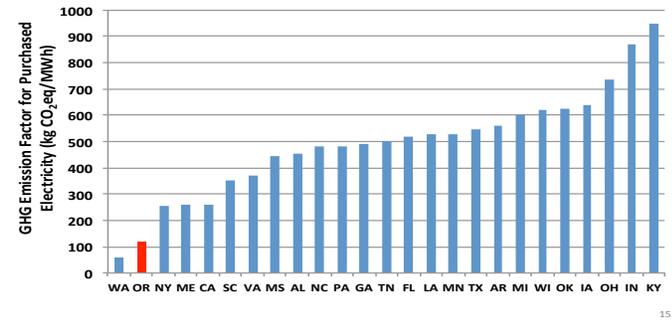
Since Oregon’s pulp and paper manufacturers operate under some of the most stringent environmental standards in the world, these mills have some of the smallest GHG footprints in the industry. The reason for the small GHG footprint is two fold. First, our predominant use of carbon-neutral biomass for combined heat and power (CHP) as demonstrated in Figure 3 on Oregon mill GHG emission intensity. Second, the GHG emissions for Oregon’s purchased electricity is one of the two lowest GHG emitting states – as compared to other states with paper manufacturing (Figure 4).

⁶http://www.oregonlive.com/oregoncity/index.ssf/2011/02/historic_oregon_city_paper_mill_to_close_losing_175_jobs.html

⁷http://www.oregonlive.com/business/index.ssf/2015/10/newberg_pulp_paper_mill_to_close.html

Figure 4.

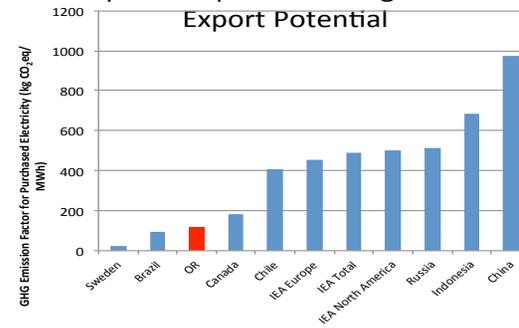
GHG Emission Factors for Purchased Electricity – Pulp/Paper Producing States



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 (Figure 5). This concept, known as GHG “leakage,” will worsen, not lessen global GHG emissions and serve to exacerbate the problem.

Figure 5.

GHG Emission Factors for Purchased Electricity - Select Pulp and Paper Producing Countries with Export Potential



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

Pulp and paper mills in Oregon and the Pacific Northwest continue to struggle with a recovering economy for our products and increased national and international competition for paper products. Pulp and paper manufacturers operate in an energy-intensive, trade-dependent (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 similar significant 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 or carbon tax like that proposed by these bills 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.

Conclusion

As noted above, there is a better way than a state-only cap-and-trade system or carbon tax to achieve future GHG emissions in Oregon. The pulp and paper sector has demonstrated their leadership and willingness to reduce energy use and carbon emissions.

For these reasons, NWPPA is opposed to a state-based GHG regulatory programs that puts Oregon facilities at a competitive disadvantage and would ask that you not advance these bills from your committees.

Sincerely,



Christian M. McCabe
Executive Director
Northwest Pulp & Paper Association

Attachments:

- A – Chart of 2014 Oregon in-boundary GHG emissions
- B – Pulp and paper mill closure list