American Forest & Paper Association

February 2, 2018

Committee on Climate Change
7 Holbein Place,
London SW1W8NR

Dear Committee on Climate Change:

The American Forest & Paper Association (AF&PA) appreciates the opportunity to respond to the call for evidence by the Committee on Climate Change. Our comments below respond to questions 3(b) and 3(c).

Question 3(b). **What evidence is there that wood pellet production displaces other uses of forestry products in North America?**

The evidence shows that the subsidies provided to UK power plants using wood pellets from the U.S. South to generate electricity distort wood fiber markets for higher value users of the wood fiber, and the magnitude of the market distortions will grow over time.

First, multiple studies show that the overwhelming majority (roughly 89% or more) of pellet feedstocks come from pulpwood grade roundwood and clean woody manufacturing residuals that could be used to make pulp (for paper and packaging), as well as oriented strand board (OSB) wood panels. For example, a study by Forisk Consulting (attached) estimates that roundwood accounted for 54% of pellet feedstocks in 2014, with nearly all of the remainder coming from clean mill residues valuable for pulp and wood panels. The Forisk study projects that by 2020, 72% of pellet feedstocks will be roundwood and the remainder largely mill residues; it does not include any logging residues. (p. 10, Chart 9 and attached PDF file).

Even more problematic, the Forisk study shows that the vast majority of the growth in pellet feedstocks is coming from softwood pulpwood – rising from 4.9 million tons in 2014 (35% of total pellet feedstock demand of 14.1 million tons) to 16.9 million tons in 2020 (61% of the growing total pellet feedstock demand of 27.9 million tons). Softwood pulpwood is in increasing demand by the traditional forest products industry – including to manufacture packaging materials to meet growing e-commerce needs and to make OSB panels to meet increasing housing demand.

A study by the consultancy RISI (attached) estimates that 72% of pellet feedstocks in the U.S. South is obtained from softwood and hardwood pulpwood, 17% from clean mill residuals, and 11% from forest biomass. These results are not materially different from

the Forisk study, and the forest biomass in the RISI study also could be used to produce energy at traditional forest products mills.

The Forisk and RISI findings are confirmed by a COWI study on behalf of the European Commission (Link: http://www.aebiom.org/wp-content/uploads/2016/08/DG-ENVI-study-imports-from-US-Final-report-July-2016.pdf), which states that "roundwood that can feasibly be debarked (pulpwood sized roundwood or larger), typically comprises at least roughly three-quarters of the feedstock volume or more of a large industrial pellet facility." (p. 96) Individual company AF&PA members have asked the pellet industry in the U.S. South to share with us where they are actually receiving logging residues as we continue to believe that the pellet industry is not using such products but rather roundwood and pulpwood. Requesting companies have not received a response.

Second, while some have claimed that wood pellet producers in the U.S. South are not displacing but rather are "replacing" demand from the traditional forest products industry, this is contrary to expert analysis. RISI projects wood fiber consumption in the U.S. South from the traditional forest products industry will increase by 13 million dry short tons from 2014 to 2019 (188 million to 201 million dry short tons, a 6.9% increase) (p. 18, Table 6).

Third, it has been alleged that wood pellet plants are being located in fiber baskets vacated by the shutdown of pulp, paper and wood products mills. As the heat map in the Forisk study shows, operating and proposed wood pellet plants often are located in proximity to existing pulp, paper and OSB mills in the U.S. South taking advantage of existing infrastructure and directly competing for wood fiber (p. 10, Figure 8). Indications are that the price of softwood pulpwood in some of these wood baskets has risen significantly in recent years, despite more modest pricing in the larger region.

Finally, pellet exports from the U.S. South would not be economically viable absent the high subsidies being provided by the UK. The RISI study showed that, if the subsides received by UK utilities are passed along to pellet mills in the South, the pellet plants can afford to pay up to $26 per green short ton of stumpage (the price a landowner receives for his timber) at breakeven under the Renewables Obligation subsidy scheme, which is significantly more than the average price of stumpage in the South of approximately $10 or less per green short ton currently being reported by TimberMart-South (Link: http://www.timbermart-south.com/prices.html.)

Under the new Contracts for Difference subsidy scheme, pellet plants will be able to pay up to $53 per green short ton of softwood stumpage, nearly 5 times the average price in the U.S. South. Without a subsidy, UK utilities would operate at a loss of $26 per green short ton if they burned wood pellets imported from the U.S. South to generate electricity. (See p. 22, $/green short tons)

Question 3(c). **What are the most likely alternative/ counterfactual uses of forestry products used for pellet production?**

The most likely alternative uses for wood used to produce pellets for export to the UK include domestic production of wood pulp to make paper packaging, paper towels, tissue, communications papers and other consumer products as well as various panel

products, such as OSB and other composite panels. Domestic bioenergy generation is another potential end use. Finally, any true forest biomass residues (i.e., logging residues) that cannot be used to produce higher-value products, such as pulp and OSB, could be used to generate energy in traditional forest products mills.

The bottom line is that substantial volumes of wood fiber could be diverted from traditional products, such as pulp and paper and OSB, to the wood pellet sector. The COWI study indicates that by 2025, European demand for wood pellets "could equate to roughly 20% of the pulpwood currently used for paper production in the southeast…." (p. 10). The long-term effect of such subsidies can be significant because any increase in investment in tree planting that may be stimulated by higher prices will take a significant period of time to contribute to meeting higher demand for timber and could be highly uncertain.

Referencing the December 2014 U.S. Forest Service study, "Effects of Policies on Pellet Production and Forests in the U.S. South," some have claimed that subsidized wood pellet demand is expected to have only a short-term pulpwood supply and price effect in the U.S. South and that, in any event, short-term increases in prices will induce increased forest owners' response by expanding forest planting. We think that increased demand should lead to more intensive forest management (e.g., fertilization and thinning as well as more planting) and expanding their wood basket, but we disagree with the timeliness and magnitude of the planting response, which is highly uncertain. As the Forest Service study notes:

> "The demand for timber is relatively price inelastic, indicating that the quantity of demand will not decline proportionately with increases in prices. In addition, pellet producers, to date, have not indicated that logging residues will be a significant part of their current or anticipated feedstock (Forisk Consulting 2014), which will likely increase the demand for timber. The supply of timber is also relatively price inelastic in the short run, indicating that the quantity supplied will not increase proportionately with increases in price. This means that the market will be slow to adjust to rapid increases in the demand for timber used for renewable energy. This will likely lead to some type of leakage or displacement in the market in the short run; i.e., either demand will be met by imports from another region or country, or mill production will be reduced due to the high feedstock prices." (p. 6).

Even if UK wood biomass subsidies end by 2027, traditional forest products manufacturers in the U.S. South could be irreparably damaged by what has been mischaracterized by some as short-term competition for pulpwood and woody mill residues. This could also cause U.S. pulp and paper companies to hold off or eliminate capital expansion or capital improvements in their mills.

In conclusion, the renewable energy subsidies provided by the UK and other EU Member States distort U.S. markets for wood biomass and should be removed or minimized so they do not materially affect the wood biomass market in the U.S. South and the existing pulp, paper and wood products industry.

We appreciate your careful consideration of these comments. If you have any questions, please contact Jake Handelsman at Jake_Handelsman@afandpa.org or (202) 463-2446.

Best regards,

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