

29<sup>th</sup> April 2008

Greenhouse Gas Reduction Scheme  
Transition Review  
Department of Water and Energy  
GPO Box 3889  
Sydney NSW 2001

### **Submission to the Greenhouse Gas Reduction Scheme Transition Review.**

#### **In response to: *Transitional arrangements for the NSW Greenhouse Gas Reduction Scheme: Consultation Paper.***

Norske Skog (Australia) Limited appreciates the opportunity to provide input to the Department of Water and Energy in response to the Consultation Paper. Norske Skog commends the Department and the NSW Government for actively working towards its commitment to cease the NSW GGAS scheme at the commencement of a national scheme. We believe this process sets an example for a number of other energy and greenhouse related programs at state and federal level that should review their operation and objectives in light of a NETS being introduced. We look forward to a continued consultation process with the Department on the transition as the legislation and regulations for the NETS scheme are revealed.

The Norske Skog Albury Paper Mill has been a benchmark participant in the Greenhouse Gas Reduction Scheme since it commenced in 2003. Norske Skog is also an accredited certificate provider, generating large user abatement certificates (LUACs) since 2005. Background information on the Australian operations and environmental commitment of Norske Skog can be found in Attachment 1 on page 6. Norske Skog is a member of the Australian Plantation Products and Paper Industry Association (A3P), which has a representative (Miles Prosser) on the GGAS-NETS Transition Working Group.

#### **Summary and Recommendations**

- Norske Skog acknowledges the reality of climate change and supports the need for action to mitigate the associated risks. The important role industry must play in this challenge is recognised, with the company setting a global target of an absolute emissions reduction of 25% by 2020, against 2006 emissions<sup>1</sup>.
- Norske Skog supports the broad objectives outlined in section 3 of the Consultation Paper. Further to these we suggest that:
  - The objectives of the transition plan need to recognise the different design elements, coverage and levels of liability between the two schemes in developing transitional arrangements.
  - A clear objective of the transitional measures should be to ensure that the number of credits eligible for conversion into the NETS is not greater than the liability expected under GGAS up to 2012 to maintain the integrity of the NSW scheme.

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<sup>1</sup> As published in the Norske Skog 2007 Annual Report (Sustainability),  
<http://www.norskeskog.com/Investors/Investors-English/Reports/Annual-reports.aspx> (accessed 10/4/2008).

- Norske Skog supports the proposed treatment of large user abatement certificate providers. We are not likely to be disadvantaged by these measures.
- Norske Skog believes the proposed transition options for unused credits would not satisfy the objective of ‘minimising avoidable impacts... on both the NGAC and NETS permit markets’. We believe that:
  - A tonne for tonne recognition of NGACs in the NETS would be an overly generous treatment whether done via conversion or an offset. This would have a substantial avoidable impact on the NGAC permit market.
  - A value based conversion would be difficult to implement and that more details of such an option that are robust and transparent would need to be available and further consultation would be required before it could be supported.
  - Alternative options should be considered. We suggest an option for consideration, one that recognises the relative effective liability levels experienced by participants under the two schemes as a basis of transitional arrangements for unused credits.

### **Norske Skog input into development of the transition process**

Norske Skog Albury Mill’s input to the review is detailed below. Our input focuses on several areas of the Consultation Paper. We consider and comment on the broad objectives for a transition plan (section 3), the treatment of large user abatement certificates (section 4.2.5) and the transitional options for unused NGACs (section 4.3).

#### *Section 3*

Norske Skog supports the objectives for providing a smooth transition of the NSW GGAS to the National Emissions Trading Scheme that are outlined in section 3 of the consultation paper. We suggest that a primary consideration of the transitional arrangements should be the different design principles, coverage and levels of liability imposed by the two schemes. Below are some examples of the differences that should be acknowledged in the transitional arrangements:

- The NSW GGAS as a benchmark and trade scheme, the NETS is proposed to be a cap and trade scheme.
- The NSW GGAS covers only the stationary electricity sectors with offsets possible from uncovered sectors, the NETS will include many more covered sectors.
- Under NSW GGAS the liability to surrender credits is experienced only above a benchmark level. The ‘benchmark’ approach under NSW GGAS means that for each MWh of electricity used a liability of approximately 0.28 NGACs need to be surrendered<sup>2</sup>. Under the NETS, the indirect liability to electricity users will be 0.89 credits per MWh<sup>3</sup> or approximately three times the liability. In addition to this, under the NETS, there will be liability for onsite stationary combustion, process emissions and transport emissions.
- The point of liability will be different. For the NSW GGAS emissions associated with electricity generation is with electricity retailers and elective large users of electricity. Under the proposed NETS the point of liability will be with the generators (the point of emission).

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<sup>2</sup> Calculation based on NSW GGAS ‘Key Factors’ for 2008. These are published on the following website [http://greenhousegas.nsw.gov.au/benchmark/key\\_factors.asp](http://greenhousegas.nsw.gov.au/benchmark/key_factors.asp) (accessed 24 April 2008).

<sup>3</sup> The factor for scope 2 indirect emissions is taken from the draft technical guidelines for the National Greenhouse and Energy Reporting Scheme, published January 2008.

Norske Skog believes that in developing transition options for unused credits, as well as for certificate providers, the Department should seek to maintain the supply demand relationship of the scheme. While we agree that some of the recent easing of NGAC prices is due to uncertainty associated with the introduction of a NETS<sup>4</sup>, the underlying reason is the supply and demand relationship of the market up to 2012. This was largely due to an unexpectedly large number of demand side abatement credits being created. To maintain the integrity of the NSW GGAS from an environmental and market perspective, the number of NGACs eligible for conversion should be no higher than the expected liability of the NSW GGAS for the same period. This principle of maintaining the integrity of the NSW GGAS should be one of the clearly stated objectives for the transition plan. The principle should apply to either unused credits or credits from ongoing abatement activities during the transition period.

#### *Section 4.2.5*

As a LUAC provider, Norske Skog is not likely to be disadvantaged by the termination of the NSW GGAS. The source of emissions reduction for our LUAC project is likely to be covered under the national emissions trading scheme. We support the transitional measures described in section 4.2.5 of the discussion paper for the treatment of LUAC providers.

#### *Section 4.3*

Norske Skog acknowledges the need to make appropriate transition options for unused abatement certificates. This element of the transition will be critical to achieving the stated objective of ‘minimising avoidable impacts... on both the NGAC and NETS permit markets’. We believe the transition options that are proposed in section 4.3 of the consultation paper will not satisfy this objective. The options proposed do not appear to adequately take into account the different design, coverage and levels of liability imposed by the two schemes as described above.

In Norske Skog’s view an ‘administratively simple’ tonne for tonne conversion of existing NGACs into the national scheme would be an overly generous treatment. Whether as a conversion or an offset, a tonne for tonne conversion would almost certainly inflate the NGAC trading price prior to the introduction of a NETS. The NGAC price would likely rise well above level that would have been reasonably foreseeable, or experienced, under GGAS in its own right. This would create a transfer of wealth in the remaining years of the NSW GGAS, with NSW industry and households paying the cost of credits under the NETS before its introduction, for no environmental benefit. In the case of Norske Skog Albany an increase in NGAC prices to levels discussed in relation to emissions permits under the NETS<sup>5</sup> would result in substantial cost increases.

Norske Skog believes that a value based approach to conversion of credits also has serious implications for NGAC trading prior to the NETS commencing. Significantly, if a value based approach were to be used, it is not clear what value would be used. There is currently not a single authoritative, publicly published and accepted NGAC price available. The Department would have to propose a robust and transparent way that the relevant trading prices (for NGACs and NETS credits) could be determined and the value conversion could be assessed. The timing of when the NGAC price and NETS credit price would be determined for value conversion would also need to be part of the proposal. In the case of this transitional option, the absence of such detail makes it difficult to support. If more detail on this option were available, it would then be possible to consider via further consultation.

Norske Skog believes the Department should consider alternatives to the transition options suggested. In our view one potential alternative is to consider the merits of a conversion based on relative liability levels under the NSW GGAS and the NETS. It is Norske Skog’s view that the liability level is what drives demand for credits and results in the abatement activity to create

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<sup>4</sup> As described in section 4.3 on page 12 of the consultation paper.

<sup>5</sup> Discussion generally refers to expected NETS permit/credit prices of \$20 to \$35 per tonne of CO<sub>2</sub> equivalent.

credits and ultimately the price associated with credits (supply to meet demand). If the liability level under the two schemes is substantially different, a tonne for tonne conversion of credits does not appear equitable. As described above, effective liability for emissions under the NETS will be higher than under the NSW GGAS due to the design used (in an approximate ratio of 3 to 1 based on 2008 GGAS key factors). This would reduce artificial price inflation resulting from a tonne for tonne conversion of credits and as the conversion rate would be known rather than market value based, the NGAC price prior to the NETS would be more stable.

In conclusion we would like to thank you for the opportunity to provide input to the NSW GGAS-NETS transitional arrangements. We look forward to working with the Department as the process continues. For clarification of any matter raised, please do not hesitate to contact Nigel Harpley on 0437 491 705 or [nigel.harpley@norskeskog.com](mailto:nigel.harpley@norskeskog.com).

Yours faithfully  
Norske Skog Paper Mills (Australia) Ltd.



Svein Aurstad  
General Manager



Nigel Harpley  
Environmental Engineer

## *Appendix 1*

### *Background of Norske Skog Paper Mills (Australia) Ltd*

Norske Skog is the only producer of newsprint in Australia, with paper mills operating at Boyer in Tasmania and Albury in NSW. The Albury Mill has one paper machine with a capacity of 265,000 tonnes per annum. The Boyer Mill contains two paper machines having a combined capacity of 300,000 tonnes per annum. The Albury Mill manufactures 130,000 tonnes per annum of recycled fibre pulp that is used mostly in its own newsprint, with approximately 40,000 tonnes transferred for use at the Boyer Mill. In total the two Australian mills employ 600 people directly and approximately 1670 people indirectly. The mills have a history of papermaking in Australia dating back to 1941 when the Boyer Mill first opened; the Albury Mill was established in 1981. Since 2000 the mills have been owned by Norske Skogindustrier ASA, a Norwegian based company, which is the second largest newsprint producer in the world and has 18 mills in 13 countries.

### *A Proven Track Record*

Norske Skog has a proven track record of continuous improvement in environmental performance and will continue to pursue this path given that the right economic mechanisms are introduced with the Emissions Trading Scheme that will allow international competitiveness to continue.

Between 1990 and 2007 there has been a 27% reduction in carbon dioxide emissions per tonne of newsprint produced in Australia by the Albury and Boyer Mills. During the same time local Australian newsprint production has increased by over 30% while total emissions have fallen by 3%. Had emissions continued at 1990 levels emissions in 2007 would have been more than 350,000 tonnes per year greater than the actual result. These improvements have been made possible through substantial investments of capital at regular intervals during this period. Investments to significantly further improve performance will only be possible if the international competitiveness of the operations is maintained

A high proportion of newsprint manufacturing costs are associated with energy use (in the order of 20%). This has motivated continual improvements in the energy efficiency of newsprint production at the Albury and Boyer Mills and this is expected to continue. Newsprint production relies on the use of significant proportion of fibre produced through thermo mechanical pulping. This type of pulping process requires significant amounts of electricity to mechanically separate the wood fibres. This is the major difference from chemical pulping processes.

The Albury Mill has operated a large paper recycling plant since the early 1990's. The Australian recovery rate for old newsprint has increased from 28% to 75% largely initiated from the work done by Norske Skog and its publisher customers. Recovered paper makes up 52% of Norske Skog's fibre supply world wide. While there is strong focus on the recycled fibre content of paper as a measure of environmental sustainability, it is important to realise that paper use, collection and recycling is not a 'closed loop'. Fibre naturally degrades over time through usage and is lost via waste disposal, collection and reprocessing. This means there is a continual need to introduce a proportion of fresh fibre to replace fibre lost from the 'loop'.

In the area of emissions trading, Norske Skog has substantial experience. The Albury Mill is a benchmark participant in the NSW Greenhouse Gas Abatement Scheme and is an accredited certificate provider under that scheme. To date Norske Skog has created abatement certificates representing savings of 38,000 tonnes of carbon dioxide equivalents under the scheme. Norske Skog also has direct experience in the EU ETS, through its European operations, as well as the assessment of potential for 'clean development mechanism' projects associated with its Asian and South American operations.