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Joint Committee on Carbon Reduction
Oregon Legislature
900 Court St NE
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Comments for House Bill 2020 of the Oregon Legislative Assembly

Arauco North America, Inc. is a wholly owned subsidiary of Celulosa Arauco y Constitución and operates three facilities located in Oregon likely to be affected by the new measures proposed in House Bill 2020. Arauco's has facilities that currently emit twenty-five thousand metric tonnes per year of CO_2e in Oregon and as a company has a combined emission rate greater than fifty thousand metric tonnes per year of CO_2e. Hence, Arauco anticipates its Oregon operations to be affected by the House Bill 2020 legislation in regards to challenges with permitting and managing carbon emissions, higher energy costs, impacts on raw material supply, impacts on transportation costs and availability, impacts on customers, and ultimately impacts on employees' quality of life.

Arauco facilities employ roughly 300 Oregonians directly in Lane and Linn Counties. Arauco's facilities indirectly employs over 100 employees through raw material deliveries, shipping finished products, contractors, and other site services. This results in over $170 million-dollar injection in to the State of Oregon economy on an annual basis.

As a global forest products company, Arauco takes great pride in the fact that its raw material is a carbon sink and that sustainably managed forests result in net carbon withdrawal from the atmosphere. Arauco's North American operations rely heavily on wood residual from solid wood products from manufacturers diverting significant amounts of material that would have otherwise been wasted or burned. Arauco is committed to combating climate change and has instituted and executed energy efficiency and carbon reduction targets across its North American operations. Further demonstrating Arauco's commitment to the environment, ISO14001 has been implemented at all of its North American business units to measure environmental impacts and continuously improve environmental performance. In light of all of these facts and Arauco's experience in other jurisdictions with carbon reduction policies and regulations, Arauco is submitting the following comments regarding its Oregon-based operations and the potential effects of the HB2020 legislation on continual operation in the State of Oregon.

Biomass Carbon Neutrality

Arauco is extremely concerned with a trend in Europe and other jurisdictions where all wood combustion is considered carbon neutral. Arauco relies heavily upon wood residuals, which are typically the lowest cost source of wood on the market. The residuals are generated as waste from solid wood, lumber, plywood, and other forest products manufacturers. These residuals are virtually 100% recycled when they are refined and pressed into panels at Arauco's panel mills.

A declaration of wood residuals as carbon neutral would have the unintended consequence of creating an artificial market for the combustion of "value added" wood residuals. If wood fiber in general is defined as carbon neutral this would also have the consequence of diverting Arauco's primary raw material (wood residuals) into the wood pellet industry or biomass energy sector, which would lead to a net increase in carbon emissions. Instead of carbon being sequestered in panels made with residuals, the residuals could become more cost effective in a subsidized setting to be burned as "carbon neutral" fuel. Arauco is witnessing this effect already in the United States as large pellet mills are being built all over the Southeastern United States to supply subsidized European biomass energy plants.

The Composite Panel Association successfully argued this point in 2010 when subsidies were being proposed for biomass in the USDA Biomass Crop Assistance Program. If biomass is to be defined as a carbon neutral fuel source, Arauco requests that scraps, sawdust, chips, shavings, and wood mill byproducts not be covered as carbon neutral sources because of their potential outlet as panel raw materials. Any timber harvesting should be considered carbon neutral as long as the harvested material end use ultimately sequesters the carbon in a downstream value-added product such as lumber, plywood, engineered lumber, paper, or reconstituted wood products.

100% Emissions Allowance Allocation for Wood Products

Arauco notes reconstituted wood products is denoted in Section 18 as an emissions-intensive, trade-exposed industry. Arauco strongly agrees with this sentiment as panels made in Oregon are shipped all over the United States and made in to furniture, wood products, and other finished goods that could be shipped all over the world. In fact, over 80% of Arauco's direct customers are not in the State of Oregon. Any additional costs in Oregon would result in a significant advantage for other regions in the United States or world competing against Oregon-Made panels. <u>Arauco requests 100% emissions allocations for years beyond 2021 as denoted in HB2020 so that the reconstituted wood products panel industry can observe the markets and understand total costs to the Oregon mills</u>.

The Pacific Northwest reconstituted wood products industry is currently operating at 60% of capacity meaning many of the mills are already operating in tenuous profitability scenarios. This fact coupled with the looming increase in United States capacity from three brand new particleboard mills in other States would mean that any of Oregon's facilities could shut their doors and the market would not notice. Not only would the market not notice a shutdown Oregon facility, net greenhouse gas emissions arauco

would ultimately increase because new facilities are being built in significantly higher carbon intense energy generation regions – the Midwest and Southeast. The risk of aggressively driving carbon emission reductions in Oregon, is a net increase of global greenhouse gas emissions as production is shifted to other regions that are more emissions intense with weak climate policies and regulations.

Vertical Integration is Discouraged by Benchmarking

Arauco has witnessed benchmarking in Ontario. The challenge with establishing a benchmark for a site means that no future equipment can be added without penalizing the site. Vertically integrating a site does not increase net sales in a benchmark, but would increase total emissions by locating a raw material supplier or upstream value-added process in the same site as the main benchmarked process. Total emissions and electrical usage will go up locally; however, vertical integration reduces transportation emissions, overall costs, and net emissions for a company. <u>Arauco requests provisions to amend baseline benchmarks established if significant process modifications are made</u>. The current HB2020 Section 18 5(a) language of establishing a benchmark encourages manufacturing of raw materials in non-covered jurisdictions.

Air Quality Permitting Confusion – Let Oregon DEQ Take Lead on Air Permit Allocations

The Summary of HB2020 indicates that greenhouse gas management will be managed by a separate entity removed from the Oregon DEQ. <u>Arauco requests that since Greenhouse gases are part of all Oregon DEQ air permits and a component of the US EPA Prevention of Significant Deterioration Program, industrial sources remain under the umbrella of the Oregon DEQ or LRAPA for air permitting with regards to greenhouse gases</u>. Having two different government agencies regulating air permitting will cause confusion and permitting delays that could have adverse impacts on investment in Oregon. Emissions from stationary sources can still be managed via PSEL programs in air permits. This would simplify a significant portion of the management required by any new agencies allowing them to focus on transportation, residential, and commercial emissions that do not have a framework already in place.

Emissions Abatement Exemptions and Credits

Arauco's facilities are subject to 40 CFR 63 DDDD Plywood and Composite Wood Products NESHAP, Title V of the Clean Air Act, and now Cleaner Air Oregon. These rules require abatement of volatile organic compounds in order to comply. The most efficient means for control of volatile organics in the wood products industry is currently thermal oxidation, which generates carbon dioxide as a byproduct. <u>Arauco requests carbon generated and energy used as a result of emission abatement equipment be exempt from HB2020 for accounting purposes under Section 10, if it is needed to comply with local, State, or Federal regulations</u>. Industry should not be penalized for complying with new rules or existing standards that protect Oregonians and the local air quality. Arauco also requests that if new technology is developed that is less carbon intensive in the future for the control of volatile organic compounds, industry receive credit or grants for replacing carbon intensive abatement equipment with the less carbon intense equipment.

Aggressive Target of 80% below 1990 Levels
States in the West Coast have demonstrably lower carbon intensity in the power generation sector than many other regions in the United States. Oregon, for example, has the 6th lowest carbon emissions per person in the United States. The State of Washington, with a similarly low carbon emitting populace, has a target of only 50% carbon reduction by 2050 as denoted in RCW 70.235.020. Arauco is concerned that the extremely aggressive Oregon target will create unnecessary costs and burden on the businesses and public in Oregon when other jurisdictions with similar emission profiles in the same region are not setting such a stringent target.

Arauco is extremely reliant on combustion as a means for process heating. A Btu of natural gas in Oregon is still 3 times cheaper than an equivalent amount of electrical energy and there is no industrial scale alternative to combustion in panel manufacturing for efficient process heating. Oregon is currently an attractive place to do business on the West Coast because of its energy prices and fuel prices compared to California. A carbon program that restricts the use of natural gas and drives massive increases in electrical consumption will be devastating to Oregon industry and its rural economies.

Offset Credits Increase should be greater than 8% and Documented in APCDs
In regard to Oregon's extremely low carbon intensity, a covered entity should be allowed more than 8% compliance obligation from other jurisdictions as indicated in Section 19 2(a). If the goal is to reduce carbon because of global climate change, then Oregon should take a more holistic approach and not just be focused on Oregon emissions. Also, the offset credits outlined in section 19 seem to be an excellent example of items related to the carbon program for industrial emitters that should be memorialized in the Air Contaminants Discharge Permits program under the Oregon DEQ and LRAPA to create documented, enforceable limits.

100% of Auction Proceeds Need to go Towards Carbon Mitigation
Arauco has observed other jurisdictions using carbon levies for *general fund revenue* and this creates the wrong incentive for revenue generation as opposed to curbing carbon. <u>Arauco requests that Oregon ensure ***all*** levies gathered via the Carbon Auction go towards projects that will measurably reduce Oregon's carbon footprint.</u> Projects that increase energy efficiency at industrial sites are an excellent use of this funding and Arauco has taken advantage of these types of grant moneys in other jurisdictions. Weighting should be given to projects on the basis of total carbon reduced by a proposed project and not be politically driven. Arauco is concerned that the proposed wide range of funds and programs outlined in the HB2020 will result in few impactful projects being completed and only a few low impact projects. Misappropriated funds will undermine the legitimacy of the carbon management program if no real gains are made at decreasing emissions while increased burden is placed upon

Oregonians and Oregon business. Arauco requests simplifying the various multitude of panels and funds outlined in the HB2020 legislation to one panel with one carbon mitigation so that all projects put forward can be weighted equally and deliver the highest impact possible.

Ineffectiveness of State Level Carbon Programs

Arauco operates facilities in Canada and has witnessed the efforts of provincial/local cap and trade programs. Quebec implemented cap and trade in 2012 and carbon emissions in the province have gone up 5.2% since implementation. California's efforts have also been observed by Arauco and similarly California is falling short of reaching its 2020 goal and significantly short of its interim 2030 goal. Arauco believes the only way to truly prevent carbon leakage is a federal carbon management program that is part of an international Treaty. Arauco believes that Oregon's current carbon reduction plan could become an extremely arduous exercise in bureaucracy like California and Quebec have witnessed with little emissions reductions. Because of these concerns, Arauco requests a sunset provision in HB2020 if a federal carbon management program is implemented to relieve Oregonians of the potential burdens of federal and state rule overlap.

There are only 21 States with carbon management policies in the United States and some of these States have extremely modest goals compared to Oregon. Arauco is concerned that with Oregon's extremely aggressive carbon management plan, business will be driven out of State and any short-term gains in carbon emissions in Oregon would result in net global emissions increases in other States. Arauco respectfully requests that the Joint Committee on Carbon Reduction take our comments into careful and deliberate consideration.

Sincerely,

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