

# Wood Panel Industries Federation

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Dear Sir or Madam

## **WPIF response to consultation on the grandfathering policy of support for Dedicated Biomass, Anaerobic Digestion and Energy from Waste under the RO**

The Wood Panel Industries Federation (WPIF) represents all UK manufacturers of wood-based panels, all of whom have been consulted in the formulation of this response. Total gross UK employment attributable to wood panel manufacture amounts to about 8,600 FTE jobs; the sector in the UK has an annual turnover of £520m (2009).<sup>1</sup> The industry occupies seven UK manufacturing sites (three in England, three in Scotland, one in Wales) and supplies approximately 60% of UK demand for wood-based panels.

The wood panel industry is the second largest processor of UK-sourced wood, annually consuming some 4.5m tonnes. This includes 1.1m tonnes of recovered wood, making it the largest sector consumer of that material. Any disturbance in wood flows has a major impact on this industry sector. Despite the effects of the recession, the industry is already the largest single-sector generator of renewable heat in the UK – 1.6TWh in 2009 (2.4TWh in 2008).<sup>2</sup>

The wood panel industry has been significantly affected by the cumulative effects of the Renewables Obligation (RO) and the increase of dedicated biomass plants and co-firing. Both of these processes currently source the same wood that the wood panel industry uses to manufacture its products. The industry has repeatedly demonstrated the un-level and unfair playing field created by subsidising energy companies' purchasing of UK wood, thus distorting significantly the already fragile supply/demand balance for this limited resource.

The Department requested confidential financial data to demonstrate the impact on the industry of increased UK wood prices, as a result of RO support for biomass energy generation. We believe that this data (collated by independent third-party experts and delivered to DECC commercially-in-confidence and NOT for placement on the public record) categorically supports our claim that renewable energy policy is undermining the

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<sup>1</sup> Europe Economics, *The Wood Panel Industry in the UK* (to be published in June 2010)

<sup>2</sup> SKM Enviros, *WPIF Timber Price Tipping Point Analysis* (2010) - sent to DECC on a commercially-in-confidence basis.

competitiveness of our industry to such an extent that the Government is obliged to act. Pressure on the industry has been recognised by the European Commission in its decision to include it on the list of those significantly at risk of “carbon leakage”.<sup>3</sup> Further distortion of the market is likely to destroy the UK wood panel industry, put over 4,000 people out of work (even after typical re-absorption rates)<sup>4</sup> – with a disproportionate impact at a local level – and wipe out the UK’s largest tranche of renewable heat generation.

**Q1: What information can you provide on current biomass fuel contracts, feedstock sources and prices for dedicated biomass? How do you expect the market to develop longer term?**

DECC has estimated that at least 90% of predicted biomass (wood) demand from the energy sector will be sourced from abroad. We think this is a serious over-estimation, considering the massive price differential between imported and UK-sourced wood, the latter being somewhere in the region of a third of the price. Statements made in the environmental returns of some large-scale wood energy proposals (such as Preenergy’s) support our view that they would seek to secure significantly more than 10% from the national wood resource. There is growing evidence – forest purchases by SSE in Scotland and negotiations for long-term contracts – that the energy sector is intent on sourcing as much UK timber as possible.

Even with the conservative estimate, 10% of biomass requirements for energy would translate into more than 4 million tonnes of UK sourced material – or 40% of the UK harvest – and it is clear that the UK will struggle to support even a fraction of the total expected demand from the energy sector.<sup>5</sup> Supported by the RO and, from next year, the RHI, the energy sector will have the purchasing power to exclude our members and other wood processors (i.e. sawmills) from the market. This is an unacceptable distortion of the market and should be addressed through adjustments to both mechanisms.

**Q3: Could grandfathering AD and EfW cause similar market distortion? Do you agree that the risk is less for these technologies? Please provide your argument.**

In terms of EfW, it depends on the type of waste. Around a quarter or a fifth of waste wood (the cleaner fraction) already has an established market in wood panel manufacturing and other industries. Grandfathering support for burning “waste” would incentivise energy recovery not only from low-grade, landfilled material – an excellent goal – but also cleaner fractions that are currently recycled and, in large, reprocessed by the wood panel industry.

Support that does not differentiate between these two waste streams would have a deleterious impact on wood packaging recycling rates. The Government should consider how this outcome can be avoided, perhaps with recycling credits that match any EfW incentive, so that segregation of waste is developed and non-recyclable material is finally removed from landfill.

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<sup>3</sup> 2010/2/: Commission Decision of 24 December 2009 determining, pursuant to Directive 2003/87/EC of the European Parliament and of the Council, a list of sectors and subsectors which are deemed to be exposed to a significant risk of carbon leakage (notified under document C(2009) 10251)

<sup>4</sup> Europe Economics, *The Wood Panel Industry in the UK* (to be published in June 2010)

<sup>5</sup> John Clegg Consulting, *Wood fibre availability and demand in Britain, 2007 to 2025* (2010)

**Q4: What are current AD and EfW feedstock prices or subsidies for disposal and what do you estimate these prices to be in the future? Are these arrangements driven by landfill gate fees? Do you agree that these feedstocks are less subject to price uncertainty than dedicated biomass plant?**

We see no reason why this should not be applied to EfW, or at least to waste wood. The same principle applies, for virgin and waste stream woody biomass; ongoing fuel costs will change in the future and support needs to be varied to obtain a good deal for consumers and adequate support levels for biomass energy plants.

**Q7: Do you agree that this option offers less value for money to the consumer, due to the lack of response to future fuel prices?**

Yes, we do agree that grandfathering all support for biomass could be a bad deal for consumers. Wood prices have shown considerable variation in recent years, particularly domestically sourced material.

iii. Grandfather a minimum level, with the rest free floating

**Q16: Do you agree that this proposal offers the best balance between value for money, investor confidence and flexibility? If not, please give your reasons and state what alternative option you think would be more appropriate.**

We agree that a minimum level of grandfathering (to cover non-fuel costs), combined with a free floating element (for fuel costs), represents the best balance within the current framework. However, this balance can only be achieved if there is disaggregation of the free floating element. As the Department is well aware, wood is by far the dominant biomass material, and will continue to be so in the medium term. DECC has estimated that at least 10% of future feedstock will be domestically sourced; therefore, an “average” price of woody biomass (domestic and international) would achieve neither a satisfactory level for energy companies who purchase imported material (at say £75 per tonne) nor value for money for consumers when energy companies purchase domestic material (at say £25 per tonne). Prices may begin to converge in the short-term, because of a massive rise in demand for domestic wood. However, existing consumers – the panel sector and the sawmills – would quickly be priced out, leaving one dominant sector purchasing domestic wood and a corresponding crash in the domestic price. **Thus there is a compelling argument for two rates – one for domestic and one for imported wood.**

Were there to be an economically viable level of support specifically set for imported material, it is likely that energy companies would opt for the ease and advantages of bulk buying from overseas, rather than trying to source smaller though cheaper lots of wood from UK, for which there is currently fiercer competition. This is a potential solution because it avoids two policy adjustments (previously suggested by the WPIF) that the Government has been reluctant to pursue: a) differentiated support by fuel type (in terms of SRW, waste, arboricultural arisings etc) to ensure sustainability; and b) a ban on burning domestically sourced wood for electricity. A two-tiered free-floating element could achieve the Government’s goal – i.e. increase investor confidence in biomass technologies – while

lessening the incentive to source as much wood domestically as possible, thus enabling the wood panel industry to operate under fairer market conditions (and continue to generate large amounts of renewable heat).

A minimum level of grandfathering, containing a free-floating element that recognises only the fuel costs that the majority of the biomass industry pay, will end up grossly overcompensating the purchase of material sourced domestically (at least 10%). Therefore, it is essential to differentiate support for imported and domestic material so as to achieve the best value for money for UK consumers and to lessen distortion in the domestic wood market.

## **Impact Assessment**

### *Rural Proofing*


The impact assessment covers the effect of these policies in a rural context. The Department should be aware that any further damage to the wood panel industry, as a result of excessive support to the biomass industry, is likely to affect rural areas disproportionately, as three of the four UK wood panel manufacturers are important rural employers, often in areas of significant deprivation.

## **Conclusion**

We understand the need to improve investor confidence in biomass energy installations and that grandfathering part of the RO support is a way to achieve that. We also agree with the Department that fuel costs should not be grandfathered, for the reasons stated in the consultation and our response. However, it is critical that any support for fuel costs takes into account the massive disparity in domestic and international prices. The floating element must be pegged at different rates, so that international supply chains can be strengthened and that energy companies do not receive excessive rents for buying domestically. Our industry already suffers from significant and undeniable market distortion as a result of the RO (and probably the RHI in the future). This is an opportunity for the Government to reduce this distortion *and* ensure that consumers are paying only where it is necessary.

We also hope that the Government will continue to promote efficiency in biomass energy generation. As is well documented, electricity-only generation from wood is an extremely inefficient use of the material. Although the RHI goes some way to address this issue, we hope that support for electricity-only generation will be phased out, in favour of CHP.

Yours faithfully



Alastair Kerr

**Director General, Wood Panel Industries Federation**