



Sunday 8th March 2020

Energy Markets Policy Building, Resources and Markets
Ministry of Business, Innovation & Employment
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By email: suzannah.toulmin@mbie.govt.nz

Dear Suzannah

**SUBMISSION ON THE DISCUSSION PAPER ACCELERATING RENEWABLE ENERGY
AND ENERGY EFFICIENCY**

Westland Milk Products appreciates the opportunity to make a submission on the Discussion Paper Accelerating Renewable Energy and Energy Efficiency.

Please find attached a submission for your consideration.

Yours faithfully

**Toni Brendish
Chief Executive
Westland Milk Products**

SUBMISSION ON THE DISCUSSION PAPER ACCELERATING RENEWABLE ENERGY AND ENERGY EFFICIENCY

Executive Summary

Westland Milk Product's energy investment decisions are long term and require long lead times. Our future is in renewable energy sources if we are to continue to meet our social license obligations and fully participate in New Zealand's goal of meeting its emissions reduction targets. Whilst Westland welcomes the opportunity to begin this journey with the New Zealand Government and community, in particular the West Coast community of which we have been a part of for so many years, we cannot do this in isolation. This transition that the entire dairy sector needs to take in partnership with government, business and the community will have significant benefits for not only Westland Milk Products but for all of the West Coast.

This submission responds to some of the core objectives of the Discussion Paper, with particular reference to sections 4, 5, 6 and 7, and provides some insights into what transitioning from coal to a renewable energy source means for Westland and the West Coast region. The submission seeks the consideration of the New Zealand Government on how it can work with the dairy industry to shift to a renewable energy future, a future that remains economically sustainable, socially responsible and environmentally friendly and can be a vital part of the West Coast community for the next 150 years.

Whilst lodging a dedicated submission, Westland also aligns itself strongly with the submission of the Dairy Companies Association of New Zealand (DCANZ).

Background

Westland Milk Products (Westland) is part of a West Coast industry that's more than 150 years old. Many of our farming families have worked alongside us since our beginnings in 1937. In 1968, spray drying of skim milk started at the Hokitika Milk Powder Factory. From 1961 to 2001 Westland products were exported globally as part of the New Zealand Dairy Board. In 2001 Westland began developing and marketing our own products. In 2004, Westgold butter launched internationally, and we assumed full ownership of EasiYo™, the iconic make-at-home yoghurt brand in 2010. Westland launches the WestPro Nutrition range of infant and toddler nutrition ingredients in 2012, opening our first offshore office in Shanghai, China, in 2014. In 2019, Westland was acquired by Yili, the No. 1 dairy manufacturer in China. Now Westland has offices in China, and a distribution network in more than 40 countries globally.

In acknowledging the history of Westland Milk Products, there is no doubt the next 150 years will see a continuation of the Westland purpose and values. These values are as important today as they were in the beginning. However, over the next decade,

Westland will embark on a new journey to fulfil a commitment to our world-wide customers whose shifting attitudes and expectations means sustainably produced milk and a transition to a renewable energy future will be at the core of our business growth model. Westland is proud to be part of the largest export sector contributing significantly to the New Zealand economy, along with the tourism sector.

Westland's role in the West Coast economy

Westland's Hokitika plant is the largest employer on the West Coast, directly employing more than 500 people in a town of 3590. Almost one in every five people are directly employed by Westland with hundreds more contracted or employed in areas which rely on the factory and the 374 farms supplying milk to the plant every day.

Westland also employs hundreds of sub-contractors such as tradesmen and consultant engineers, from the wider regional West Coast area from Greymouth to Hokitika. We also attract skilled technicians and consultants from outside of the West Coast who stay in our towns and bring income and economic activity to the region, supporting accommodation and hospitality sectors year-round, and outside of the traditional tourist seasons.

Farms supplying Westland require support services from vets, plumbers, technicians, electricians, farm consultants, farm equipment such as tractors, four-wheel drive vehicles and machinery, much of which is sourced through regional West Coast businesses.

The economic benefits the dairy sector and the Westland Milk Products facilities in Hokitika bring to the region and beyond are significant. Clearly, the investment decisions we take in the near future about the most efficient source of energy for our plant in Hokitika and Rolleston are important decisions that will have a major impact on the economic success of the region and the dairy sector more broadly.

Westland's transition to renewables

Westland Milk Products acknowledges that the future for the dairy processing sector will require the phasing out of the use of fossil fuels in process heat. The catalyst for change is coming from both consumers and regulators. Westland customers are telling us they want to see sustainably produced milk products from renewable energy sources used in production of Westland products and the New Zealand Government has committed to a lower carbon future that will require significant investment in renewable energy sources and technology.

Westland recognises we have a responsibility to respond to the challenges of climate change and sees this as being consistent with our core values that places our customers at the heart of everything we do. It is our customers' expectations and shifting attitudes along with inevitable regulatory change that will ultimately drive the decisions taken on future energy investment.

It is vitally important that the New Zealand Government recognises the challenges this brings for the dairy sector. These challenges are even greater for dairy companies based in the South Island and in particular, those located on the West Coast in an area that receives more than two metres of rain per year and that presently does not have access to a consistent reliable source of electricity from the grid. It is also vitally important the Government recognises the large capital investment required in the conversion from coal to renewable energy to power our plants at Hokitika and Rolleston. Westland encourages the New Zealand Government to take an approach that partners with industry to drive this inevitable change.

The dairy sector is an important economic contributor to the New Zealand economy and accounts for one in every three dollars earned by New Zealand for exporting goods, and approximately 20 per cent of New Zealand's total goods and services export earnings¹. Any calibration of future policy settings must also recognise the sector provides direct employment for more than 38,000 people and is a top 10 purchaser of output from a third of all other industries in the New Zealand economy.

It is through this lens that Westland welcomes the opportunity to be a willing participant in a change to renewables. To do this, we will need to rely on a transition framework that recognises the value of the dairy sector to our local communities and ensures manufacturing and processing sectors can participate in this change without risking success. For Westland, the principle issues for the government to consider are:

- Security of access to a reliable source of renewable energy and regionally specific geographical and climatic issues restricting options for transition
- Meeting the capital investment costs of replacing coal boilers and the ongoing production costs of process heat post the change from coal to renewables
- A timely transition from coal to renewables to enable long term planning and recognise the long lead times for investment planning
- Industry assistance that incentivises private capital investment for the transition to renewable energy
- A transition framework that supports local jobs and recognises the economic and social success of the region is dependent on a continuing economically viable dairy sector

Access to reliable sources of renewable energy

One of the significant challenges for Westland is access to a reliable alternative fuel source for process heat. Coal provides Westland with a reliable and low-cost fuel source that ensures continuity of production and is available at a financially viable cost. Westland upgraded the current boiler system in 2013 at a capital cost of approximately \$30 million. This capital investment has yet to be recovered.

¹ <https://www.dcanz.com/about-the-nz-dairy-industry/>

Presently, Westland would be unable to access the same level of reliable energy from electricity generation due to capacity constraints on the West Coast. This is unlikely to change even if other proposed hydro schemes in the Grey Valley Arnold catchment that have been approved are to proceed, and noting the recent support from some quarters for the Waitaha Scheme and its close proximity to the Westland facility.

A change from coal to a dry biomass such as wood pellets will require a substantial capital investment that brings some economic risk. Westland is still working to achieve a return on investment from the \$30 million investment in the coal boiler upgrades in 2013 and estimate the capital investment required to convert from coal as a primary energy source to a new renewable biomass will require significant investment, possibly upwards of more than \$100 million over the life of the plant. The capital investment required could be the difference between being viable and unviable economically given the uncertainties around the guarantee of supply of wood pellets to Hokitika on the West Coast and the requirement to transport large quantities of the biomass from outside of the West Coast.

Westland has explored alternative energy strategies and in most cases, the area's geography rules out a number of options. Biomass in the form of wood pellets remains our most viable alternative. However, significant obstacles, such as the West Coast's fragile road and rail infrastructure, and the area's high rainfall and subsequent high humidity means that access to biomass material would not always be reliable and would come with additional transport and specialised storage costs. Logistically, transporting biomass to the West Coast to supplement what is not available locally will increase carbon foot-printing as well as the additional costs of transporting three times the mass required for heat production compared to coal.

Production of milk products at Westland requires a secure uninterrupted supply of process heat and it is yet to be fully determined if a wood pellet biomass can produce the adequate process steam required to operational levels needed to manufacture Westland products.

Presently, limited other viable renewable options are available to Westland in the short to near term (five to 10 years). For operational certainty, the company requires absolute certainty and long lead times to make such significant capital investment decisions. A transition to renewables will require a guarantee from the Government to work together with Westland and the dairy sector more broadly to provide some form of financial assistance that ensures that the economic and social livelihood of the communities that rely on the dairy sector is not put at risk.

Westland sees the development of an Industry Transformation Plan for the dairy sector as a positive initiative. This should be tasked with identifying long-term fuel supplies for the sector and has the support from all stakeholders in the supply chain, facilitated by government and industry. Westland would also see merit in the establishment of a Ministerial Advisory Group similar to that established for the forestry sector. The dairy sector is the largest contributor to New Zealand's export

earnings so it seems a co-ordinated and planned approach should also be considered for the dairy sector.

To put this in perspective, the forestry sector contributed an annual export revenue of around \$6.8 billion or 1.6% of New Zealand's GDP employing around 35,000 people in production, processing, and commercialisation². Compared to the dairy sector in the year to June 2018 New Zealand dairy exports were valued at approximately NZ\$16.667 billion contributing more than 3% to New Zealand's GDP and providing direct employment for more than 38,000 people³.

Capital Investment Required

Westland has identified numerous issues that will require a carefully planned approach that should be agreed by stakeholders such as the dairy industry, the local communities that depend on us for their employment, and the customers that we export to in more than 40 countries globally, and last but not least the regulator, the New Zealand Government. A transition process that the dairy sector can sign on to in partnership with the Government must provide the time required to change and recognise that price signals or a coal tax alone will not result in a “new renewable dairy sector”. Westland is willing to work to achieve this transition but it must be done in a way that ensures a continuity of supply for our customers and that recognises that costs cannot be borne by industry alone without government support.

There are many examples from around the world of government and industry working together to transition to new cleaner renewable energy use. These include the Clean Energy Finance Corporation⁴ in Australia, and in Germany, France, Spain and Switzerland who all acknowledge that coal is an important power source and is likely to be significant in the future in the absence of concerted government policy. All have a variety of funds or industry assistance packages to support industry transition to renewable energy.

Closer to home and in stark contrast to a shift to renewables is the recent decision taken by the Canterbury District Health Board to continue with the use of two coal boilers at the Christchurch Hospital⁵ citing the high cost of replacement and ongoing costs as the primary reasons. Other factors such as their recent investment in new coal boilers that were less than three years old, an assessment that the coal boilers met national environmental standards and if they were converted to an alternative energy source such as a wood biomass, this would require significantly greater

² <https://www.mpi.govt.nz/news-and-resources/open-data-and-forecasting/forestry/>

³ <https://www.dcanz.com/about-the-nz-dairy-industry/>

⁴ <https://www.cefc.com.au/who-we-are/about-us/>

⁵ <https://www.stuff.co.nz/the-press/news/70256605/new-christchurch-hospital-building-to-be-heated-with-coal>

volumes of biomass for consumption when compared to coal. Many of these issues are directly relevant for the dairy sector.

It is pleasing to see the Discussion Document has identified a range of barriers and issues, including an acknowledgement of the high costs for businesses that want to make the transition from coal to clean energy. The Discussion Document seeks feedback on the provision of financial incentives, how would they look and address barriers to investment.

Remaining cost competitive is vitally important for Westland. We are an exporter of milk products to China and around the world and compete in a market where our competitors are rapidly moving to lower emissions and cleaner energy.

Westland requires a planned and considered approach to future investment and favours a model that undertakes the research and measurement to identify opportunities that are affordable and feasible to determine whether an approach will work, including on a case-by-case basis. There are many geographical constraints that apply to the West Coast that are not present in other locations. Ideally the objective for Westland would be to introduce energy efficiencies by switching from coal to an alternative clean energy source and reduce energy costs. This is a big ask without a transition model that does not include financial incentives.

The opportunity exists for the New Zealand Government to accelerate renewable energy investment by being an enabler of greater take up to renewables and invest in clean energy technologies in partnership with the manufacturing and production sectors that require process heat. This could be done in a number of ways either through direct grant funding assistance, partnering with industry to co-fund investment in clean energy process heat equipment or debt financing facilities where there are gaps in the market, or the costs are prohibitive.

A challenge for Westland and many other dairy production facilities in New Zealand may be the difficulty in raising finance for renewable energy projects that are by many standards in the finance market, considered small. For many institutional financiers they will consider larger projects first so there may be a role for the government in assisting industry under these circumstances as the costs of finance may be prohibitive.

Westland operate a twin boiler emitting through a single stack, each boiler is 1 x 25mW and the other 30mW. Depending on Milk Yield demands for steam usually follows the milk curve and on average Westland will use in excess of 60,000 tonnes of coal per year.

A change from coal to biomass would mean significantly increased demand, and depending on the specific calorific values, Westland would need an equivalent 3:1 pellets to coal. For every one tonne of coal we would need three tonnes of pellets to equate the steam demand. This represents a logistical challenge given the requirement to source the biomass from outside of the West Coast.

Conclusion

Essentially there are two disincentives for Westland to convert, much like the assessment the Canterbury District Health Board made when deciding to continue to use their relatively new coal boilers. There are also many reasons to make the transition.

Firstly, making the transition from coal to biomass without any financial incentive from government to overcome the barriers to that transition means the shift is not practically or economically feasible for Westland.

Further, the imposition of a coal tax on its own without any financial incentives for the dairy sector to transition is counterproductive as more than 90% of the sector's production is exported. A coal tax will immediately have an impact on our competitiveness in a global export market where many of our competitors have already made the transition to renewable energy, often with government assistance.

The phasing out of fossil fuels in process heat and boosting investment in energy efficiency and renewable energy is inevitable. The challenge is to start a process that is inclusive, done in partnership with the dairy sector and recognises that what may work well for a dairy processing plant in one region of New Zealand may not work for a plant in another region of New Zealand. Further, if the option of cost recovery is pursued, the Government and industry should work together to accurately model the costs and fully understand the economic implications for an export sector such as dairy.

Westland believes the Government needs to consider incentivising industry to invest in renewables to power their processing facilities in a way that acknowledges that even in a country that has an ETS and carbon price, that price signal alone will not be sufficient to deliver a timely transition that prevents lock in of high emission and long life assets as energy investment decisions are long term and involve high capital costs. At present coal is the cheapest form of energy used to supply process heat.

Setting a clearly defined timetable to phase out fossil fuels in existing process heat manufacturing plants needs to be done collaboratively rather than punitively if New Zealand is to retain its global competitiveness.

In conclusion Westland Milk Products:

- Supports a Government-supported transition from coal to renewable energy in the production of milk products.
- Supports a model for change that includes communities reliant on the dairy sector and stakeholders can work in partnership with government to enable transition to renewable energy.

- Supports the establishment of an Industry Transformation Plan for the dairy sector and sees merit in the establishment of a Ministerial Advisory Group with responsibility to deliver a change management process.
- Remains concerned about the possible imposition of a coal tax as a cost recovery stand-alone measure without the provision of financial incentives for industry to make the transition to renewables.
- Supports the establishment of an independent statutory body that identifies fit-for-purpose investment opportunities using a commercially rigorous approach to investment activities and risk.