



# COMPOSITE PANEL ASSOCIATION

*Advancing the wood-based panel and decorative surfacing industries*

19465 Deerfield Avenue, Suite 306, Leesburg, Virginia 20176  
Tel 703.724.1128 • Fax 703.724.1588

March 21, 2019

Via Environmental Registry of Ontario

Hon. Rod Phillips  
Minister  
Ministry of Environment, Conservation and Parks  
College Park 5th Floor  
777 Bay St.  
Toronto, ON M7A 2J3

**Re: Comments on Proposed Industrial Emission Performance Standards.**

The Composite Panel Association (CPA) appreciates the opportunity to submit the following comments on the proposed Ontario Industrial Emission Performance Standards (EPS). CPA represents Canadian manufacturers of particleboard, medium density fiberboard (MDF), hardboard and engineered wood siding and trim. These composite wood products are made with wood products manufacturing byproducts - sawdust, shavings, secondary wood chips - and are used in hundreds of applications, including home and office furniture, residential and commercial cabinetry, laminate flooring, door core, store fixtures and millwork and molding. Ontario is home to several of our members and constitutes one of the largest composite wood manufacturing regions in North America.

The cancellation of Ontario's Cap & Trade program, which then triggered the imposed application of the federal backstop program in the province, has compelled us to engage with Environment and Climate Change Canada (ECCC) to educate staff on the potential for massive financial impacts that threaten the competitiveness of our industry. As those discussions continue with ECCC even today, we appreciate and welcome the opportunity to work with Ontario's Ministry of Environment, Conservation and Parks (the Ministry) to address those same concerns at an early stage in the development of the proposed EPS. The Ontario composite panel industry faces an intensely competitive marketplace with no margin for increased costs imposed through a carbon tax. Moreover, the potential loss of Ontario composite panel manufacturing due to increased production and raw material costs raises a high potential for leakage that would certainly adversely impact carbon accounting.

With these serious concerns in mind, CPA provides support in the following comments for what we believe is a workable approach:

1. Set the emissions threshold at 10,000 tonnes as proposed under a voluntary opt-in approach and allow for plants that have suffered extended operational downtime impacting their baseline data to have the option of using an alternate year;
2. Apply a site-specific approach instead of a sector-based approach, which the ECCC has recently recognized under its output-based pricing system;
3. Set the stringency factor at 100% starting in 2019 given the significant competitive disadvantage and high potential for leakage imposed by the proposed tax; and
4. Return all levies collected from our facilities to fund approved projects that further reduce emissions.

We also urge the Ministry to carve out wood product manufacturing byproducts from any planned alternative energy subsidies or mandates under the EPS and provide below a proposed approach that has also been shared with ECCC. The measures we are proposing in these comments would prevent potentially catastrophic financial harm to composite wood facilities in Ontario while still achieving the objectives of reducing GHG emissions and minimizing risk of leakage.

### **I. Ontario Composite Panel Manufacturers Face Potentially Significant Financial Risk from the Proposed EPS.**

In Ontario, there are three composite panel mills – Sault Ste. Marie, Huntsville, and Pembroke – and each has carbon emissions exceeding 10,000 tonnes per year. Under the federal backstop program, these mills are facing dramatically higher levies than the \$40,000 per year under Ontario’s former cap & trade program. Taking for example the \$20 per tonne levy envisioned under the backstop program, Ontario mills would be forced to pay in a range of \$400,000 to as high as \$900,000. These dramatically higher costs place Ontario mills at a massive competitive disadvantage when exporting to U.S. markets. Seventy-five percent (75%) of Canadian composite panel shipments are exported to the U.S. As a general rule, 50% of all panels are exported directly to U.S. destinations and 50% to Canadian destinations, who in turn export 50% of their finished products (furniture, kitchen cabinets, etc.) to the U.S. Selling prices have already been eroded because of a large facility in

Michigan coming on stream this year, and four others will begin production in the U.S. in 2019-2020. Profit margins will continue to shrink in order to keep prices low and compete with these five new, state-of-the-art mills, leaving no room to absorb additional costs associated with a carbon tax.

Our main competitors are not only U.S. panel manufacturers but also imported finished products, largely coming from Asia, that compete with our main Canadian manufacturing customers (e.g., furniture, kitchen cabinets). Composite wood panels are regarded as commodity products and the market drives the price. Should the price of producing composite panels rise due to a carbon tax, there is a limit to what can be absorbed by the panel manufacturers themselves and eventually some costs must be passed on to customers. However, even at current prices, some of our customers are already less competitive and losing out to imported, cheaper products. We are seeing this with many markets; the carbon levy will simply compound the problem.

Another important factor is the cost and availability of our main source of wood fiber supply from wood product manufacturing byproducts (i.e., shavings, sawdust and wood chips). Government subsidies and mandates to encourage the use of woody biomass as an alternative to fossil fuels pose a threat to the availability of this fiber. Other industries, many with already greater purchasing power, are incentivized through subsidies or threat of fines to enter the market for our limited raw materials, creating greater competition and raising prices. Ontario mills are then forced to compete for raw materials on an unlevel economic playing field.

Composite panel plants operate as large employers in regions that depend on stable, long-term employment, with good paying jobs. In Ontario alone in 2015, the three facilities contributed to the provincial economy through \$657 million in production and employment of 1,984 with wages at \$126 million.<sup>1</sup> These well-paid jobs are at risk under an EPS framework that does not factor in the extreme competitive landscape and the lack of margin for increased production and raw material costs.

## **II. There Is a High Risk of Leakage That Would Impact Carbon Accounting.**

The significant potential for leakage must be considered when determining how Ontario's composite panel industry should be regulated under the EPS. From a carbon emissions perspective, domestic production of composite

---

<sup>1</sup> See Forest Economic Advisors, Economic Impact of U.S. and Canadian Composite Panel Association Mills (October 2016) (available upon request).

panels and downstream products manufactured with them serve to avoid leakage that would otherwise occur through transfer of production activity to foreign locations. The transport of foreign-produced composite panels and manufactured products to Ontario will pose additional carbon emissions concerns as well.

According to national import and export data collected in the Industry, Science and Economic Development Canada Trade Data Online database,<sup>2</sup> particleboard and MDF exports are significant. Using 2015 data for consistency, exports of particleboard were \$319 million as compared to imports of \$77.3 million, reflecting a very positive trade balance. The trade balance for MDF, however, is a different story. Exports of MDF in 2015 totaled \$325 million, while imports totaled \$403 million, reflecting a \$78 million trade imbalance. This MDF trade imbalance has fluctuated in more recent times between a high of \$156 million in 2016 and \$85 million in 2018. Particleboard has continued to maintain a positive trade balance, but it too has fluctuated between a high of \$270 million in 2016 to \$242 million in 2018.<sup>3</sup> These fluctuations in the trade data reflect the fact that even small changes in market dynamics (e.g., currency valuations) can have a significant impact on competitiveness and alter the trade balance accordingly.

The trade data also clearly indicates a high risk for leakage. With the new capacity coming online in the U.S. - particularly for particleboard - Ontario mills' reliance on the U.S. export market is already threatened. Raising the cost of production and raw material sourcing through a carbon tax threatens to tip the balance, shifting production to U.S. mills that are not under the same carbon-controlled regime. The net result would be higher carbon emissions and the loss of Canadian jobs.

The risk of leakage is also great when considering Canadian finished product manufacturers that source composite panels from Ontario mills. Taking wood furniture production in Canada as an example, that industry operated at a slight trade deficit in 2015 - \$2.22 billion in exports to \$2.27 in imports. While in subsequent years, the wood furniture trade balance has shifted into a slightly positive trade surplus,<sup>4</sup> the Canadian furniture industry remains at significant competitive risk both in Canada and in the U.S. export market to cheap imports coming from overseas, particularly China and southeast Asia.

---

<sup>2</sup> Consultation on the proposed regulatory approach to reduce emissions of formaldehyde from composite wood products, Environment and Climate Change Canada, Tables 2 and 3 (2017), available at:

[http://www.ec.gc.ca/lcpe-cepa/default.asp?lang=En&n=00B2F79C-1.#s2\\_3\\_2](http://www.ec.gc.ca/lcpe-cepa/default.asp?lang=En&n=00B2F79C-1.#s2_3_2).

<sup>3</sup> Industry, Science and Economic Development Canada Trade Data Online database, available at: <http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home>.

<sup>4</sup> Id.

Should the proposed EPS raise the cost of manufacturing composite panels in Ontario, furniture and other manufacturers that rely on these panels will be forced to raise their prices and likely price themselves out of competition. That production, including all composite wood panel and finished products manufacturing, will continue to move to China and southeast Asia, where carbon emissions from production, packaging and shipping will almost certainly exceed those from Ontario's manufacturing facilities, leading to a net carbon emissions increase.

The U.S. EPA during the Obama Administration used the composite panel industry as a clear example of leakage when considering how to treat biomass under the Clean Power Plan.<sup>5</sup> The Clean Power Plan itself noted that "particular scrutiny" should be given to wood biomass that is diverted from "alternate" uses such as composite panels to energy production, as this could impact the calculation of carbon benefits.<sup>6</sup> We fully agree and believe this same high leakage risk exists in Ontario.

### **III. Our Industry's Use of Wood Manufacturing Byproducts Requires Special Consideration under the EPS.**

As outlined briefly above, wood product facilities' byproducts like chips, sawdust and shavings are absolutely essential feedstocks and have been procured for many years through an established, competitive and sustainable free market. A policy that supports mandates or subsidies that would divert wood facilities' byproducts to energy production, although possibly well intended, would have the potential to cause significant competitive shocks to the Ontario composite panel industry. Our industry simply would not be able to compete for these precious raw materials when the energy sector or other industries receive financial incentives (either through direct subsidies or through mandates that impose a carbon tax) to use these wood byproducts and pay a higher price for them. We therefore strongly urge the Ministry to not disrupt this functioning market and do unnecessary harm to a sustainable and economically important industry in Canada.

Issuing subsidies and mandates that divert woody biomass away from composite panel manufacturing to energy production will not only have crippling economic effects on our industry but will also perversely lead to bad environmental outcomes. Composite wood panels are a remarkably sustainable product - arguably one of the most environmentally friendly building products on the planet. The production of composite panels began

---

<sup>5</sup> Revised Framework for Assessing Biogenic CO<sub>2</sub> Emissions from Stationary Sources, U.S. EPA, Section 3.1.3 of Appendix D, pgs. D-7-D-8 (2015).

<sup>6</sup> Clean Power Plan, 80 Fed. Reg. 64661, at 64885.

decades ago in North America out of a desire to recycle and recover residual material from forest products operations and put it into a productive use instead of to incineration or landfill. As a result, today the composite wood industry further optimizes the use and carbon sequestering benefit of this precious resource by ensuring that 97% of the wood used to make lumber and other wood products is put to good use through the creation of value-added composite wood panels.

Manufacturing composite wood panels is clean and highly efficient, leaving very little waste behind and maximizing the use of all raw materials. The composite panel industry uses 99% of all raw material inputs in production. Thanks to responsible sourcing, near-zero waste, and plants powered by excess biomass, composite panels contain more sequestered carbon than the amount expended in their manufacture, transport, and installation.<sup>7</sup> These important carbon sequestration benefits are completely lost when wood manufacturing byproducts are diverted to energy production. We would be remiss if we also did not mention that, when compared to the use of wood in making pellets for energy use, forest products like composite wood panels create nine times more jobs, according to a 2010 analysis of the U.S. market produced by RISI, an international consulting firm specializing in this sector.<sup>8</sup>

Recognizing that diverting these byproducts to energy is both bad economic and environmental policy, the ECCC is considering an approach that carves out these materials for special treatment under the proposed Clean Fuel Standard. In cooperation with the Forest Products Association of Canada (FPAC), we submitted to ECCC a proposed set of definitions that would achieve a reasonable carve out of wood manufacturing byproducts used by our industries:

*Wood Product Facilities' By-Products: woodchips, woodchip fines, sawdust, shavings, offcuts and any white wood material generated as a by-product in a wood product facility.*

*Wood Product Facility: sawmills, plywood plants and any other facility that generates wood by-products.*

*Post-Consumer Wood Waste: includes all wood waste generated by households, commercial facilities and construction sites that cannot be used again for the initially intended purpose but can be recycled into a new product.*

---

<sup>7</sup> Particleboard and MDF LCA Reports, 2018; EcoInvent Database US-EI 2.2. (Available Upon Request)

<sup>8</sup> RISI, Jobs Creation in PPI and Energy Alternative in the United States, Report prepared for American Forest and Paper Association (June 25, 2010), pg. 3.

*Wood Product Manufacturing Facilities: means wood or paper producers (i.e., those listed under NAICS 321 and 322 but excluding those intended for energy use).*

*Feedstock: For the purpose of producing renewable fuels under the standard, any wood product facility by-products and post-consumer wood waste that are used or intended to be used as feedstock by wood product manufacturing facilities cannot be used as feedstock to produce a renewable fuel not used by the wood product manufacturing facility itself or qualify for credits under the Clean Fuel Standard.*

*If such wood product facility by-products or post-consumer wood waste cannot be used by wood products manufacturing facility as defined above, the renewable fuel producer can use the by-products but must demonstrate as part of the application process to determine the carbon intensity or qualify for credits that the by-products had no intended use by wood products manufacturing facilities and that those by-products were considered waste.*

We believe there are compelling economic and environmental reasons why our raw materials should not be treated in the same way as other possible alternative fuel sources. We look forward to discussing with the Ministry a similar approach that carves out of any EPS-driven mandate or subsidy the raw materials we rely on to make long-lasting, carbon sequestering products.

#### **IV. Unnecessary and Irreparable Harm to this Industry Can Be Avoided by Adopting Our Proposed Approach in the EPS.**

As clearly stated in the Ministry's proposed discussion document "Making Polluters Accountable: Industrial Emissions Performance Standards":

*The objective of these standards would be to drive GHG emissions reductions from large emitters while maintaining competitiveness of Ontario businesses and minimizing carbon leakage.<sup>9</sup>*

We appreciate the Ministry's consideration of competitiveness and minimizing carbon leakage as critical components of the overall objective of reducing carbon emissions. Ontario's composite panel industry will continue to face increasing competition from both U.S. producers and those overseas, but the industry is willing to work in good faith to try and reach a reasonable approach.

---

<sup>9</sup> See Making Polluters Accountable: Industrial Emission Performance Standards, Ontario Ministry of Environment, Conservation and Parks, pg. 1-2, (Feb. 2019).

There are several elements in the proposed EPS that our industry supports, including setting an emissions threshold at 10,000 tonnes for voluntary participation in the program, beginning in 2019. We also appreciate and fully support the proposal to allow for a facility-specific approach in lieu of a sector-based approach, which the ECCC has also recently recognized under its output-based pricing system.

When considering historical emissions under a facility-specific emissions approach, we would note that there is significant potential for some sites to have experienced extended operational issues (e.g. downtime due to major maintenance or fires) during the years that might be used to determine the baseline. In these instances, a facility's baseline could be adversely affected for a long period of time, thereby subjecting that facility to increased costs, limited production, or both. To minimize this potential, we request that the Ministry extend the ability for a facility to demonstrate that an alternate year (or year range) would be more representative for calculating baseline.

We have also raised serious concerns on the issues of competitiveness and leakage in these comments, and we strongly urge the Ministry to take these into account in setting a stringency factor for the three Ontario mills at 100% starting in 2019. We also support the return all levies collected from our facilities to fund approved projects that further reduce emissions. This is the right thing to do for both Ontario's economy and to achieve the full benefits of reducing overall carbon emissions.

Finally, we ask the Ministry to consider our proposed approach to carving out wood manufacturing byproducts from any planned subsidies or mandates under the EPS. Our industry simply cannot compete with other industries that have much higher buying power and that are incentivized through subsidies or mandates to pay higher prices for our raw materials. Shifting this raw material to energy use will result in bad environmental outcomes and destroy a remarkable, sustainable Ontario industry.

+++++

We appreciate the opportunity to share our comments on the proposed EPS and a workable solution that meets the objective of reducing carbon emissions while maintaining competitiveness for our industry and reducing any risk of leakage. We strongly urge the Ministry to consider adopting the proposals we



have provided in these comments and look forward to an opportunity to discuss them with you at your convenience.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Morrill', written in a cursive style.

Jackson Morrill  
President, Composite Panel Association

Cc: Hon. John Yakabuski, Minister of Natural Resources and Forestry