



July 8, 2009

VIA FAX

The Honorable Max Baucus, Chair
Senate Finance Committee
United States Senate
Washington, D.C. 20510

The Honorable Charles E. Grassley
Ranking Member
Senate Finance Committee
United States Senate
Washington, D.C. 20510

Dear Senators Baucus and Grassley,

The United Steelworkers (United Steel, Paper & Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union) represents over 120,000 members in the pulp and paper industry in the United States. As such our members have a direct stake as to whether or not the Alternative Fuel Mixture Tax Credit continues in its current form to its scheduled expiration of December 31, 2009.

I write for the purpose of making formal comment on the Finance Committee staff draft issued June 11 of proposed legislation designed specifically to exclude the pulp and paper industry from the tax credit for which all other stationary sources that take advantage of this credit would remain eligible.

The United Steelworkers strongly opposes the intent of this staff draft and urges the Finance Committee to not take it up. Our opposition is based on a number of factors summarized below.

The staff draft ignores the fact that since the pulp and paper industry began preparations to claim the tax credit several mills have reported significant increases in their use of biofuels. In addition at least one recipient of the tax credit (Old Town Fuel & Fiber in Old Town, Maine) has announced specific plans to use its expertise to manufacture not only pulp but jet fuel. Another facility (West Linn Pulp & Paper in West Linn, Ore.) has announced its intent to manufacture biodiesel fuel in addition to pulp. The Old Town facility has stated it would not now be operating if not for the tax credit.

United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union

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It seems to be conventional wisdom among opponents of the tax credit that companies are using the funds received only to bolster their cash flow and bottom line. However, as the two examples above show, the credit is helping to drive new and innovative investments by the industry in biofuels, helping both to preserve jobs and provide the industry a more sustainable future. It was the original intent of the tax credit to foster such investments; investments that early repeal as intended by the staff draft would serve to curtail.

It is worth pointing out the difficulty experienced by most new entrants into the market for second-generation biofuels. In fact to date, few if any such fuels have come to market. The paper industry, as shown by the two examples cited above, is ahead of the game. If the intent of Congress truly is to encourage and expand the use of second-generation biofuels, this intent is very well served by support of the pulp and paper industry's work.

Furthermore, if more large-scale closures of pulp and paper mills occur, which could well be the case if the intent of the staff draft were to be made law, the expertise currently existing in the pulp and paper industry to develop innovative biofuel strategies would be dispersed in such a way that it well could not be brought to bear on this vital issue.

Additionally, many pulp mills supply not only the electric power to operate the pulp mill but substantial additional power to either sell to the grid or to operate associated paper mills and converting operations (plants that convert rolls of paper or paperboard into products). Each time such an energy-positive pulp mill closes the power it generates would have to be replaced by power from the overall grid. This could have the effect of replacing a source that is largely biofuel (the pulp mill) with a source that is primarily fossil fuel in most locations. It surely cannot be the intent of Congress to encourage a switch by any significant user or class of users from a viable source of biofuel to fossil fuels, and yet this is the perverse effect the staff draft would have if it were to become law.

It often is stated by political leaders and tax experts that as a matter of policy, tax law should avoid creating winners and losers in the marketplace. But the current staff draft is specifically targeted at making a loser of the pulp and paper industry and its workers. As such it is a clear violation of the stated principle.

If the tax credit were an ongoing provision with no set expiration, and with a year-after-year price tag of the magnitude alleged, it might make sense to propose legislation this year to deal with it. However to propose repeal up to five months early would have little long-term fiscal effect. However, if the staff draft becomes law it could have a truly devastating effect on the industry targeted. It cannot possibly be the intent of Congress to harm an important U.S. industry that employs hundreds of thousands of Americans, predominantly in rural communities with little other industry, by an action that otherwise would have such little long-term effect.

The press release accompanying the staff draft refers to the paper industry's use of the tax credit as if it were a bailout. We do not agree. We accept and applaud the fact the credit has had the ancillary effect of keeping plants open and saving

literally thousands of jobs. However we believe its true effect on the paper industry has been to focus its longstanding expertise on biofuels technology in ways that have the potential to provide long-term benefits to American society overall as we seek to lower our carbon footprint and achieve energy independence. Enactment of the staff draft would serve to inhibit such efforts for a long time to come.

Finally I would like to call your attention to S. 870, sponsored by Senator Lincoln, which we believe could serve as a starting point for a long-term discussion of how Congress can encourage the pulp and paper industry to take a lead role in securing America's energy independence. It is my hope we can soon move beyond the current staff draft to this longer-term discussion that has the potential to bear a great deal of fruit both for the pulp and paper industry and for our Nation.

Thank you very much for your careful consideration of these comments.

Sincerely,

A handwritten signature in black ink that reads "Holly R. Hart". The signature is written in a cursive style with a large, looping initial "H".

Holly R. Hart
Legislative Director

HRH:ctl

c: Senate Finance Committee Members
Leo W. Gerard, International President, USW
USW International Executive Board