



AMERICAN FOREST & PAPER ASSOCIATION

GROWING WITH AMERICA SINCE 1861

WRITTEN STATEMENT FOR THE HEARING RECORD ON

“Description and Analysis of
Certain Federal Tax Provisions Expiring in 2005 and 2006”

COMMITTEE ON FINANCE
UNITED STATES SENATE
WASHINGTON, DC

April 15, 2005

The American Forest & Paper Association (AF&PA) is the national trade association for the forest products industry. We represent more than 200 companies and related associations that engage in or represent the manufacturers of pulp, paper, paperboard and wood products. America's forest and paper industry ranges from the state-of-the-art paper mills to small, family owned sawmills and some 10 million individual woodlot owners. The U.S. forest products industry is vital to the nation's economy. We employ approximately 1.3 million people and rank among the top ten manufacturing employers in 42 states with an estimated payroll of \$50 billion. Sales of the paper and forest products industry top \$230 billion annually in the U.S. and export markets. We are the world's largest producer of forest products.

Today, the U.S. forest products industry is facing serious domestic and international challenges. Since 1997, 101 pulp and paper mills have closed in the U.S., resulting in a loss of 70,000 jobs, or 32% of our workforce. An additional 67,000 jobs have been lost in the wood products industry since 1997. New capacity growth is now taking place in other countries, where forestry, labor, and environmental practices may not be as responsible as those in the U.S.

Energy is the third largest operating cost for the forest products industry. In the pulp, paper and paperboard sector of the industry, energy makes up 10-15 percent of the total operating costs. Since 1972, our industry has reduced its average total energy usage by 17 percent through increased efficiencies in the manufacturing and production process. In addition, we have reduced our fossil fuel and purchased energy consumption by 38 percent, and increased our energy self-sufficiency by 46 percent.

The American Jobs Creation Act (H.R. 4520) included a provision to expand the Section 45 tax credit to include open-loop biomass. For purposes of the credit, open-loop biomass is defined as any solid, non-hazardous, cellulosic waste material which is segregated from other waste materials and which is derived from forest-related resources, solid wood waste materials, or agricultural sources. Eligible forest-related resources are mill and harvesting residues, pre-commercial thinnings, slash, and brush. The 2005 credit for electricity produced from open-loop biomass facilities is 0.9 cents per kilowatt hour compared with 1.9 cents per kilowatt hour of electricity generated from closed-loop biomass facilities. To qualify for the credit for both open and closed-loop biomass, the facility must be placed in service prior to January 1, 2006.

The forest products industry is the largest user of biomass for energy production, which is used largely to fuel our wood and paper manufacturing facilities. In addition to biomass like bark, sawdust, and other residues from the wood harvesting and product manufacturing processes, the industry uses biomass in the form of "spent pulping liquors." Spent pulping liquors are created as a residual during the pulping process, and the wood residuals (mostly lignin) are burned in a process that separates and recovers the chemicals for reuse and captures the heat value from the lignin to create steam and electricity. In total, the forest products industry currently uses biomass to generate 60% of its power needs. With continued research and development of new technologies, and expanded tax incentives, the potential exists to greatly increase our industry's capacity for energy production.

Regarding Section 45, the placed in service date for facilities that produce electricity from open-loop biomass needs to be extended from January 1, 2006 to January 1, 2010. Such projects take several years to complete and the industry needs the certainty of knowing that the current tax credit will be available in the future to take the risk of making the investment. At the very minimum, Congress should extend the placed in service date to January 1, 2008 as the Administration proposed in its FY 2006 budget.

Also, clarification is necessary to the Section 45 definition of open-loop biomass to ensure inclusion of the lignin content from spent pulping liquors used to produce electricity at new or expanded facilities. Wood is composed primarily of cellulose (wood fibers) held together by lignin. Wood bark is composed of hemicelluloses. Pulping chemicals are used to dissolve the wood used for making paper. The cellulose fibers become paper products, the pulping chemicals are recycled from recovery boilers for reuse in the pulping process, and the wood residues (mostly lignin) are used to generate heat for making steam and electricity.

Finally, the current inflation adjusted tax credit of 0.9 cents per kilowatt hour needs to be increased to 1.5 cents per kilowatt hour to make the additional electricity produced competitive with other traditional forms of electric generation. The increased tax credit would provide a critical incentive for new investments in energy production facilities connected to current paper mill infrastructure, thus helping to improve the competitive position of the forest products industry.

We appreciate the Committee's interest in our thoughts on the need to extend and modify the Open-Loop Biomass component of the Section 45 tax credit.