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Alexander Toeldte
President and CEO



July 9, 2009

The Honorable Max Baucus
Chairman, Senate Finance Committee
United States Senate

The Honorable Charles Grassley
Ranking Chairman, Senate Finance Committee
United States Senate

Dear Senators Baucus and Grassley:

Headquartered in Boise, Idaho, Boise Inc. manufactures packaging products and papers including corrugated containers, containerboard, label and release and flexible packaging papers, imaging papers for the office and home, printing and converting papers, newsprint, and market pulp. Our team of approximately 4,120 employees is committed to delivering excellent value while managing our businesses to sustain environmental resources for future generations.

We appreciate the opportunity to submit comments in response to your June 11, 2009, discussion draft regarding the Alternative Fuels Tax Credit. The energy and environment needs of the United States center on investing in alternative and renewable energy, ending the country's dependence on foreign oil, addressing climate change by decreasing greenhouse gases, and creating green jobs.

The paper industry meets all of these objectives.

Paper mills generate, on average, about two-thirds of their own energy needs on-site from renewable biomass, including a byproduct of the paper-making process called black liquor. This has made the industry a national leader in clean energy. In fact, our industry generates more energy from renewable biomass than all the energy produced nationwide from solar, wind, and geothermal sources combined.

We produce our paper and packaging products from wood fiber procured through third-party certified sustainable forest practices. The paper industry provides value to landowners, which encourages sustainable management of timberlands to limit land conversion out of forestry. Actively managed forests act as a significant carbon sink while over-mature forests have reduced capacity to absorb carbon dioxide, and also pose increased risk of catastrophic forest fires, which release significant amounts of greenhouse gas.

At Boise Inc., about 65% of the energy used in our pulp and paper mills comes from renewable sources, primarily biomass. We constantly work to improve our energy efficiency and increase our use of renewable biomass relative to fossil fuels; in fact, we have reduced the use of fossil fuels in our processes by 25% over a five-year period from 2002 to 2007, while increasing production by 3%. We have achieved this by investing capital to improve energy efficiency and increase our use of renewable biomass-based fuels. Boise has been very engaged on the

climate change/greenhouse gas (GHG) issue and is supportive of reasonable legislation to address climate change and GHG reduction. We are members of EPA's voluntary Climate Leaders program and the Chicago Climate Exchange.

The economic downturn has had a huge effect on jobs in our industry. The decline in demand for consumer goods has caused a plunge in demand for associated paper products. Since early 2006, the industry has lost approximately 300,000 jobs, and at least two major paper companies have declared bankruptcy putting jobs, pensions, and benefits at risk. These are high wage, strong benefit jobs in rural areas that have limited opportunities. At Boise alone, we have shut down two paper machines and the pulp mill in St. Helens, Oregon, and indefinitely idled a newsprint machine in DeRidder, Louisiana, which has resulted in 426 layoffs.

While the industry has suffered this large decline in employment, we are still one of the biggest employers in the U.S. with about one million employees across the country – as big, if not bigger, than the automobile industry and the plastics industry.

Congress is encouraging more businesses to use and generate renewable energy, and tax credits have been created to reward companies for doing so. Using black liquor has allowed the industry to access alternative fuels tax credits.

Now, however, Senate Finance Committee staff proposes draft legislation to modify the definition of alternative fuel to exclude any fuel (including lignin, wood residues, or spent pulping liquors) derived from the production of paper or pulp. Thus, such fuel would no longer qualify for the alternative fuel credit, alternative fuel mixture credit, and related payment provisions. It is noteworthy that other industries who use fish oil, animal fat, or vegetable oil as fuel for furnaces utilize this credit. Black liquor should not be singled out.

We understand having black liquor qualify was an unintended consequence of the Alternative Fuels Tax Credit. However, it has been a productive benefit that has enabled pulp and paper companies to be recognized for their use of alternative fuels and their commitment to environmentally sustainable practices. It has been effective at a time when the industry is in an extremely challenging financial environment and has kept several companies from declaring bankruptcy. We do not believe it is good public policy to punish early adopters of sustainable practices.

It is thus worrisome that the credit could be ended prior to December 31, 2009, its current statutory expiration date.

Five key reasons justify maintaining the credit through the end of this year:

- First, from a fairness point of view, if some industries are being rewarded for starting to do something that is good for the environment, an industry that has been doing the right thing for decades should be treated equally. This is especially important when the newly incented industries are competing for the same resource, wood-based biomass.
- Second, given that Congress has created tax credits to encourage companies to generate and use renewable energy, prematurely ending the credit for one set of companies and not all companies means the government is picking winners and losers.

- Third, additional economic pressure on forest products manufacturing facilities could threaten the survival of the largest industrial generator of renewable electricity in America and result in less, rather than more, renewable power for our nation.
- Fourth, the companies in this industry pay more than \$7 billion annually in federal, state, and local taxes. Eliminating this tax credit could put many jobs and this economic support for state and local communities at risk, especially in remote, rural areas given that is where most of our production facilities are situated.

Our U.S. manufacturing jobs have already been shifting to other parts of the world. Low-cost labor and, in many cases, lower regulatory costs allow producers in Brazil, China, and elsewhere to make competing products at a significantly lower cost than we can. China, with few forest resources and little clean energy, has the fastest-growing paper industry in the world. Climate change is a global issue, and environmental practices in other parts of the world have a direct impact on Americans. If we make it impossible for U.S. producers to compete, we will simply ship commercial forest products businesses overseas where there are few, if any, limits on greenhouse gas emissions, thus exacerbating climate change.

- Fifth, the Canadian government has recognized its paper and pulp industry's environmental contributions with an incentive that rewards use of black liquor. This incentive will be in place for all of 2009 and can be applied to fund projects that happen three years from now. The Canadian industry, thus, has certainty of incentives into the future.

It is critical for our industry and Boise to preserve the alternative fuel tax credit for 2009.

We also need to ensure that future tax, energy, and environmental policies level the playing field between power utilities and manufacturers. Utilities, which operate on a cost-plus basis in regulated local and regional markets, can always pay more for wood and wood-based biomass than manufacturers, whose ability to pay for input material is limited by global competitors with access to lower-cost resources.

The same holds true between established manufacturers, who use renewable energy as the key economic driver of their business, and newcomers to renewable energy production, who use the same resource base to convert it into fuels and/or power for utilities.

The U.S. forest products industry operates in a globally-competitive marketplace and cannot pass on higher raw material and energy costs to customers and stay in business. As government policies increase the demand for biomass-based power, forest products companies must compete for wood biomass against utilities that have the ability to pass on fuel costs directly to their customers.

Federal, state and local governments have enacted measures to encourage the development and use of alternative fuel sources. The intent is to reduce reliance on nonrenewable energy sources and decrease greenhouse gas emissions.

There are unintended consequences for the forest products industry from mandates and incentives for renewable energy production. Unlike wind, solar, and geothermal, wood biomass has multiple uses. It is used as the raw material and the renewable energy source for value-added manufactured goods such as paper, packaging, and wood products and also as a potential carbon-neutral energy source for other power production.

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I know it is not your intention to create winners and losers but rather to provide a foundation within which competitive companies thrive, thus providing jobs, tax revenue, and environmental benefits. A level playing field is critical for this.

Thank you for the opportunity to submit these comments. I am happy to address any questions or comments you may have.

Sincerely,

A handwritten signature in blue ink that reads "Alexander Toeldte". The signature is written in a cursive style with a prominent flourish at the end of the name.

Alexander Toeldte
President and CEO

cc: U.S. Senator Maria Cantwell
U.S. Senator Mike Crapo
U.S. Senator Ron Wyden