

Thursday, July 2, 2009

Dear Senator Baucus & Senator Grassley,

As an employee of the Catalyst Paper mill in Snowflake, Arizona, I am extremely concerned about the outrageous exploitation of the 2005 Highway Bill's Alternative Fuels Tax Credit. These abuses are certain to lead to the closing of our facility, cost me my job, and devastate communities in northeast Arizona. The tax credit applies to only a few of the paper and pulp producers in the United States, and places recycled materials mills, like Catalyst, at an enormous competitive disadvantage. I urge you to pass legislation that will disqualify kraft pulp mills from receiving the alternative fuels tax credit thereby terminating these abuses of American tax dollars and the predatory practices of the kraft pulp industry.

The 2005 Highway Bill created a 50-cent-per-gallon tax credit for blending alternative fuels with traditional fossil fuels. The original intent of the tax credit was to increase the use of biofuels in cars and trucks. In 2008, however, kraft pulp mills realized they could qualify for the alternative fuels tax credit by unnecessarily mixing a small amount of diesel fuel with black liquor – a wood by-product produced during pulp production. Burning black liquor in paper mills dates back to the 1930s, but now certain paper companies are being richly rewarded for the long-standing practice. It is important to note that the kraft pulp mills currently benefiting from the Alternative Fuels Tax Credit will continue using black liquor in their pulp production just as they were before they began receiving the enormous subsidy in 2008. Termination of the subsidy will do no more than end the practice of adding diesel fuel to the black liquor in order to receive the subsidy.

On the other hand, should the Alternative Fuels Tax Credit continue in its current form, many recycled materials mills, such as our Snowflake mill will simply go out of business. The portions of the paper industry that are receiving the alternative fuels tax credit are able to cut their production costs by up to 60 percent, which is enough to force recycled materials mills out of the global market.

In an effort to stay afloat, our management has already laid off 105 of my fellow employees, and cut back on the number of working hours per month for our remaining 329 employees. Obviously these reductions in hours lower our income and make it significantly more difficult to pay our bills during these troubling economic times. Let me be clear that neither I nor Catalyst is asking for a federal bailout. We are simply asking for a level playing field and an opportunity to compete with other paper companies in the United States. Revoking kraft paper mills' eligibility for the Alternative Fuels Tax Credit will level the playing field. The tax credit, in its current form, does nothing more than give certain paper companies preferable treatment at the expense of others. Enough is enough of this notion that the federal government gets to pick the winners and losers, determine which companies survive and which ones don't, and decide which employees keep their jobs and which ones don't.

While Catalyst and other recycled materials mills are experiencing the types of catastrophes described above, kraft pulp mills receiving the "Black Liquor Tax Credit" are receiving billions of dollars in direct payments and tax credits from the federal government.

International Paper said recently that it received \$540 million in the first quarter of 2009, and could receive as much as \$1.27 billion in tax benefits this year. Both Domtar and Temple-Inland will receive between \$300 million and \$400 million this year. Several companies that claim the “Black Liquor Tax Credit” may bring in more cash this year from the federal government than they do in revenue. Those companies include Boise Inc. Northbrook, KapStone Paper & Packaging Corp., Smurfit-Stone Container Corp., and Verso.

Finally, the “Black Liquor Tax Credit” is encouraging increased use of diesel fuel in the paper production process. Some kraft pulp mills are adding diesel fuel to black liquor purely for the purpose of claiming the alternative fuels tax credit. If kraft pulp mills’ receipt of the alternative fuels tax credit is raising the demand for diesel fuel, then it is having the perverse effect of raising, rather than lowering, the demand for petroleum products.

I urge you to pass legislation that will put a stop to the “Black Liquor Tax Credit” as soon as possible. Unless this loophole is closed, the United States government will continue to be liable for billions of dollars in credits for black liquor production, recycled materials mills, like Catalyst’s Snowflake mill, will be put out of business and jobs will be lost in communities already suffering from the economic recession.

Thank you for considering my request. My job and my family’s future depend on it.

Sincerely,

Barry Cunningham