

**SENATE COMMITTEE ON FINANCE PRELIMINARY DRAFT:
PROHIBITION ON ALTERNATIVE FUEL CREDIT AND ALTERNATIVE
FUEL MIXTURE CREDIT FOR BLACK LIQUOR**

COMMENTS BY THE GOVERNMENT OF CANADA

JULY 10, 2009

The Government of Canada appreciates the opportunity to provide comments on the legislative staff draft proposal released by Senators Max Baucus and Charles Grassley to clarify the types of fuels that qualify for the alternative fuels tax credits and eliminate from eligibility fuel derived from the processing of paper or pulp.

Canada has expressed its concerns to the Senate Committee on Finance and the House Committee on Ways and Means regarding the unintended application of the tax credits to black liquor produced by U.S. pulp and paper producers, asking the U.S. Congress to close this tax loophole as soon as possible.

From an environmental and energy security perspective, Canada supports the objective of promoting renewable energy as a means to reduce greenhouse gas emissions and to encourage the diversification of the energy mix. However, the ability to collect the tax credits by adding diesel to the black liquor already being produced by U.S. pulp and paper producers is increasing the use of fossil fuels, contrary to the tax credit's goal of encouraging the development and use of alternative fuels.

At the same time, by providing cash infusions worth hundreds of millions of dollars to those U.S. companies that produce pulp through the kraft chemical process as opposed to other processes, the tax credits are creating significant short-term and longer-term market distortions and competitive imbalances within the industry. Private-sector estimates project that these producers as a group could receive possibly as much as \$8 billion in 2009.

For these reasons, Canada welcomes the legislative staff draft proposal 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 so that such fuel would no longer qualify for the alternative fuel credit, alternative fuel mixture credit, and related payment provisions. Canada would therefore also welcome legislative action by the U.S. Congress to close this tax loophole by ending the eligibility of such fuels, including black liquor, for the alternative fuels tax credits as soon as possible.