

July 10, 2009

The Honorable Max Baucus
Chairman
Committee on Finance
U.S. Senate
U.S. Capitol
Washington, D.C. 20515

The Honorable Charles Grassley
Ranking Member
Committee on Finance
U.S. Senate
U.S. Capitol
Washington, D.C. 20515

Dear Senators Baucus and Grassley,

I am writing to you in order to submit the comments of the Government of Chile in reference to the legislative staff draft proposal aimed at excluding any fuel derived from the production of paper or pulp from qualifying for the alternative fuel credit, alternative fuel mixture credit and related payment provisions. Please receive the compliments of the Government of Chile for providing the opportunity to refer to this important initiative.

Chile's Pulp and Paper Industry is concerned with the magnitude of the payments made by the U.S. Government, and the disorienting effects in pulp and paper markets in the U.S. and the rest of the world. In this regard, market statistical estimates forecast that, in using this subsidy, further payments to the U.S. Pulp and Paper Industry could amount to figures between 6 and 8 billion dollars.

Chile's concern was already expressed to you in a joint letter dated May 20th, 2009 that I signed together with the Ambassadors of Brazil, Canada and the European Union. In this letter we requested the termination of the unintended effect of providing a tax credit to the pulp and paper industry, specifically for the use of "black liquor". Chile also expressed its concerns during President Bachelet's visit to the U.S in late June of this year, during her conversations with the Senate Majority Leader Harry Reid, Speaker of the House of Representatives, Nancy Pelosi and other members of Congress. Recently, Chile's Minister of Foreign Affairs, Mariano Fernández, reiterated our country's position on this matter on a letter to Senator Max Baucus dated June 30th, 2009.

Chile values the efforts that you are making to introduce this new legislation providing the opportunity to comment on the staff draft proposal. In this regard, the Government of Chile would like to particularly stress the importance of the following:

- The new definition of alternative fuel should clearly exclude any fuel derived from the production of paper or pulp.
- To avoid further and future loopholes, any remaining fuel tax credits should not in any way be expanded or interpreted to substitute the current unintended use of the alternative fuel mixture tax credit by the paper and pulp industry.
- In order to have a true practical effect, the proposal should enter in to force no later than December 31, 2009, considering that the legal existence of tax credit will cease in any case by the end of this year.

At the same time, Chile would like to express its concern regarding the unintended environmental effects of the above mentioned measures. In fact, the provision on alternative fuels in the “Safe, Accountable, Flexible, Efficient Transportation Equity Act” (SAFETEA-LU) was aimed at increasing the use of ethanol and other bio-fuels in cars and trucks, and was not intended for the pulp and paper industry. The December 2007 approval of the “Tax Technical Corrections Act”, allowed extending the alternative fuel mixture tax credit to the paper sector, distorting Congressional intent and rewarding the paper sector for their already long-standing practice of using black liquor, a by-product of the wood pulping process. Thus, these massive payments would have an unintended effect on the environment by increasing the use of fossil fuels, and also generating a negative impact on competing industries, such recycled paper producers.

Taking into account all the above mentioned considerations, the Government of Chile strongly encourages you to conclude all necessary steps aimed at promptly enacting legislation to correct the distorting effect of this tax credit and thus reestablish market stability in the forest product industry. We also request that in this effort you can clearly dismiss any initiatives to maintain this loophole, whether it be in time or by substitution.

I take this opportunity to extend to you the assurances of my highest and most distinguished consideration.



José Goñi
Ambassador of Chile