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VIA ELECTRONIC MAIL

The Honorable Max Baucus
Chairman
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510-6200

The Honorable Charles Grassley
Ranking Member
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510-6200

Re: Comment On Alternative Fuel Mixture Credit Legislative Staff
Draft Proposal

Dear Chairman Baucus and Ranking Member Grassley:

This letter is in response to your request for comments on the legislative staff draft proposal to clarify the types of fuels that qualify for the alternative fuel mixture credit and eliminate from eligibility fuel (i.e., black liquor) derived from the processing of paper or pulp. We respectfully suggest that the Senate Finance Committee exercise care in designing any reduction in the scope of the credit to insure that those beneficiaries of the credit whose actions are consistent with its underlying legislative intent do not unintentionally lose access to the credit as a result of any legislative change.

We are aware of one situation that could be inadvertently covered by the legislative staff draft proposal in which an alternative fuel derived from wood can be used instead of diesel fuel or natural gas. Thus, if the proposed legislative change is drafted too broadly, the goal of expanding alternative fuel usage would be defeated in this situation.

Background

Gum turpentine and crude sulfate turpentine (“CST”) are both derived from wood. Gum turpentine is harvested from living trees, and CST is recovered as a byproduct of the paper-making process and is sold by paper and pulp mills to unrelated third parties. These materials are classed as “Terpenes,” and are used as feedstocks by specialty chemical producers for the manufacture of fragrance and flavor chemicals. They are also used to manufacture products for use in a number of other applications, including chemical reaction agents and solvents and cleaners.



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After the initial distillation of these Terpenes in the chemical process, the distilled materials are (depending upon economic circumstances) either further manufactured into finished products or used as fuel for boilers to produce steam for use in the manufacturing process. Under applicable governmental permits, these boilers are able to use either Terpene-derived fuel, diesel fuel or natural gas (or any combination of those fuels). At any point in time, what fuel is used (and the relative ratios thereof) depends on the relative supply and economics of each of the fuels. When both the Terpene-derived fuel and diesel are used (“mixed”) as boiler fuel, the alternative fuel mixture definition under the alternative fuel mixture credit is satisfied. As a result, the availability of the credit provides an incentive to use Terpene-derived fuel rather than diesel fuel or natural gas. Without such credit, however, the relative economics shift toward diesel and/or natural gas and will result in an increase in consumption of those fossil fuels.

Discussion

The proposal to deny the alternative fuel mixture credit to the paper and pulp industry’s use of black liquor has been framed in terms of excluding from the definition of alternative fuel “any fuel (including lignin, wood residues, or spent pulping liquors) derived from the production of paper or pulp.” It is unclear whether this legislative language would exclude Terpene-derived fuel from the definition of alternative fuel.

This uncertainty should be resolved in favor of the continued support of the use of Terpene-derived fuel (including fuel derived from CST) as alternative fuels. As discussed above, Terpenes are converted to fuel by third party specialty chemical producers after their purchase (from paper and pulp mills in some cases) and then used by these producers in the manufacture of other products. Furthermore, it is important to note in this instance that the incentive provided by the alternative fuel mixture credit will increase the use of renewable fuels vis-à-vis fossil fuels (diesel fuel and natural gas), which is the underlying legislative intent of the alternative fuel mixture credit.



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Proposal

We respectfully request that any legislative change clarify that Terpene-based fuels continue to qualify for the alternative fuel mixture credit. In this regard, we request that the proposed legislative language be amended as follows (proposed changes **bolded and underscored**):

[A]ny fuel (including lignin, wood residues, or spent pulping liquors) derived from **and used in** the production of paper or pulp.

We also respectfully request that the accompanying committee report language also clarify that Terpene-based fuels continue to qualify for the alternative fuel mixture credit.

We appreciate the opportunity to comment on the legislative staff draft proposal and we would be happy to address any questions concerning the foregoing.

Respectfully submitted,

Leonard Bickwit, Jr.

cc: Mr. Russell Sullivan
Majority Staff Director
Senate Committee on Finance

Ms. Cathy Koch
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