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Fairmont, July 6, 2009

Chairman Max Baucus
Ranking Member Chuck Grassley
Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C. 20510
By email: altfuelscredit@finance-dem.senate.gov

SUBJECT: Black liquor tax credit

Dear Senator Chairman Baucus and Ranking Member Grassley:

Thank you for the opportunity to comment on "reports that paper mills, contrary to Congressional intent, have been adding diesel fuel to 'black liquor', a byproduct of the paper-making process, in order to qualify for the tax credit for biomass-based fuel under Section 6426 of the U.S. tax code." *Senate Finance Committee press release, June 11, 2009.* I comment on behalf of SFK Pulp Recycling U.S. Inc. ("SFK Pulp") of Menominee, Michigan and Fairmont, West Virginia, the largest recycled market pulp operation in the world. SFK Pulp annually recycles hundreds of thousands of tons of otherwise unusable wastepaper into high quality recycled pulp that is used to produce printing and writing paper and tissues products.

Much has been reported about the unintended use of this tax credit by the paper industry. It has been well-documented that while the amendment was designed to encourage the use of new alternative fuels, black liquor has been burned in the paper industry for approximately 80 years, hardly a new alternative fuels mixer. In addition, it is well-known that, ironically, the credit has encouraged paper companies to use more fossil fuel, by adding diesel fuel to the black liquor, in order to qualify. It has been widely reported that certain forest product companies may earn more through the credit than through normal commercial revenues this year. Remarkably, it has also been reported that some paper companies may generate more revenues through this credit this year than their entire current market capitalization. The cost of this credit to the federal Treasury, originally estimated at about $60 million, is now estimated to be approaching $8 billion.

What has received far less attention is the distorting impact this provision has had on the pulp marketplace. In particular, the windfall described above has placed recycled pulp manufacturing facilities like SFK Pulp at a significant competitive disadvantage. <u>In that sense, the perverse impact of the provision is to undermine the environmentally sound, "green" part of the industry</u>. In fact, the unintended and deeply unfortunate impact of this credit is to provide the traditional pulp producers with an extraordinarily large competitive subsidy over recycled pulp producers, whose processes do not qualify for the credit. Kraft pulp producers have used this federal tax credit to help subsidize their operational cost in order to sell product at price points unattainable by the recyclers.

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I am happy to provide detailed information about SFK Pulp's recycling processes. In short, wastepaper consolidators collect used wastepaper – often via the blue wastewater recycling bins so common in office buildings – and sell it to companies like ours. We clean out impurities, remove staples, deink it, and through a sophisticated chemical and manufacturing process, produce a pulp that is used as the principle material to make paper or paper products.

Recycled pulp competes in the marketplace with pulp produced by virgin pulp companies – pulp made from trees. As such, the market distorting impact of this credit is obvious. Due to the unprecedented economic downturn, pulp prices and sales volumes had already dropped by more than 25% in the past year. This problem has been greatly exacerbated by the credit because many paper companies are increasing production simply to generate revenues from the credit, not to meet specific market demand. In short, the tax credit has made a bad situation far worse for recylers.

I encourage you to eliminate this loophole as quickly as possible. The damage to our industry has already been enormous, and too much additional damage will result from simply waiting for the natural expiration of this credit at the end of this year. Please consider the inherent unfairness of a government action that has distorted a commercial marketplace while missing its goal of encouraging the use of alternative fuels.

Should you need any additional information, I would be happy to give it to you. I can be reached at (450) 677-7857, ext. 2229.

Respectfully yours,

Pierre Gabriel Côté
President and Chief Executive Officer

Copy to:

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Congressman Bart Stupak
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