



**American
Forest & Paper
Association**

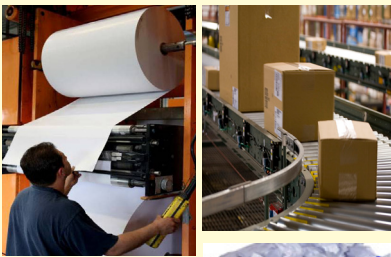
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Alternative Fuel Tax Credits & The Forest Products Industry

The American Forest & Paper Association (AF&PA) is the national trade association of the forest products industry and advances public policies that promote a strong and sustainable U.S. forest products industry in the global marketplace. The industry is an integral part of our nation's green job base and generates approximately 6 percent of the total annual U.S. manufacturing GDP.

AF&PA's member companies make pulp, paper, packaging and wood products, and own forest land. Our companies make essential products from renewable and recyclable resources that sustain the environment. Nationwide, the U.S. forest products industry:

- *Employs approximately one million workers — on par with the nation's automotive and chemical industries.*
- *Provides green jobs that reduce greenhouse gases by sustaining the forests that absorb carbon dioxide; making the paper and wood products that store it indefinitely; generating and using more renewable energy than anyone else—28.5 million megawatt hours annually, enough to power 2.7 million homes; and recycling paper to avoid methane emissions and reduce waste.*
- *Is among the top ten manufacturing sector employers in 48 states.*



As America seeks to increase its energy security and reduce its reliance on fossil fuels, the forest products industry can be part of the solution. In fact, the industry is already a significant contributor to our country's existing renewable energy base—generating 28.5 million megawatt hours annually, which is more than all solar, wind, and geothermal combined. However, significant barriers arise when governments begin providing incentives and tax credits to some renewable energy generators and not others.

A number of tax credits specific to renewable biomass energy are part of pending legislation in Congress.

THE SECTION 45 TAX CREDIT

Since 2004, forest products companies' existing facilities have been eligible to receive similar Section 45 renewable energy tax credit as wind, solar and geothermal producers when they sell electricity generated by renewable biomass to third parties. However, forest products facilities do not currently receive credit for the renewable power they produce and use on-site, which has significantly reduced their fossil fuel use.

Proposals in both the U.S. House (H.R. 622 and H.R. 2528) and U.S. Senate (S. 870) would strengthen the Section 45 tax credit by expanding it to also provide tax credits for the on-site generation and use of electricity produced from biomass. Encouraging greater on-site use of biomass for renewable energy generation is particularly attractive given that it is highly efficient and avoids transmission and distribution losses because the power does not need to move across the electricity grid.

The five year credit period for certain existing biomass facilities expired on December 31, 2009. AF&PA advocates for the extension of the existing facilities portion of the Section 45 tax credit and the expansion of the credit to include biomass energy produced and used on-site, which would help promote further expansion and use of biomass as a reliable, clean replacement for fossil fuels. AF&PA estimates that the extension and expansion of the Section 45 tax credit will help directly sustain more than 50,000 pulp and paper mill jobs; 150,000 related jobs associated with other products in the value chain, such as envelopes, shipping containers or cartons; and 160,000 indirect jobs in supplier industries and local communities, for total of 360,000 jobs.

THE ALTERNATIVE FUEL MIXTURE TAX CREDIT

In 2007, Congress passed legislation allowing alternative liquid fuels derived from biomass to receive the same tax credits that it gave in 2005 to alternative liquid fuels derived from hydrocarbons. Since Black Liquor is considered a carbon-neutral, renewable fuel, some forest products companies utilized the tax credit that Congress set aside specifically for non-transportation fuels.

AF&PA is on record in support of the industry's use of the Alternative Fuel Mixture Tax Credit through the end of 2009 when it expired. The industry mounted a vigorous defense against its premature repeal in 2009 but has not expected to benefit from the credit in 2010. The industry expects that any extension of this tax credit, such as the extension included in the proposed Baucus-Grassley HIRE Act, will exclude the forest product industry.



THE CELLULOSIC BIOFUELS TAX CREDIT

An income tax credit of \$1.01 per gallon for cellulosic biofuel producers was included in the 2008 Farm Bill and expires at the end of 2012, but the forest products industry is not expected to benefit from this credit.

Among the requirements of the statute is that cellulosic fuels must meet the registration requirements for fuels and fuel additives established by the Environmental Protection Agency under Section 211 of the Clean Air Act (42 U.S.C. 7545).

Given that these requirements are for fuels used in motor vehicles, AF&PA does not believe the EPA will find that our industry meets the registration requirements since our renewable energy is used in a stationary boiler and is not engaged in advocacy to pursue the credit. Language was included in the House-passed health care bill and in the President's budget proposal that clarifies the forest products industry is ineligible for the credit. However, policymakers should not single out our industry and erect barriers on future innovation in our processes by excluding the industry from otherwise broadly available tax credits designed to encourage additional renewable energy production.

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