



## **The USW and, the Biofuel Tax Credit, and the U.S. Paper Industry**

### Introduction

In early 2009 the USW became aware that many of its paper industry employers had begun to get themselves certified as alternative fuel sources in order to claim a federal tax credit on their use of black liquor as a biofuel in many of their pulp mills. In April 2009, after several companies announced their receipt of the tax credit in their first-quarter 2009 financial statements, their receipt of the tax credit became controversial.

The tax break as currently enacted will expire at the end of 2009. nevertheless, Senators such as Max Baucus (D-Mont.) and Charles Grassley (R-Iowa) began discussing the possible repeal of the tax credit as it applies to the paper industry on the grounds that is an unintended subsidy, and that the amounts claimed by the industry are far in excess of the money Congress believed was involved when it enacted the tax credit in 2007.

### The Paper Industry and Black Liquor

The vast majority of paper and paperboard (cardboard) made in the United States is made from wood pulp. Wood pulp is made when wood chips are ground up mechanically or treated chemically to reduce the wood to its constituent fibers. The pulp then may be bleached. After its time in the pulp mill the pulp is bundled up for shipment to a paper mill, or if the mill is integrated sent directly to the paper machine. The paper machine turns the wet mass of pulp into sheets of paper or paperboard via a series of rollers and driers.

The chemical solution used to treat chemical pulp is sent through a series of steps to concentrate the biological mass that did not become part of the pulp and to separate it from the chemicals used to treat the pulp. The biomass when fully concentrated is burned to generate energy to run the mill. Some stand-alone pulp mills generate enough biomass energy to sell large amounts back to the grid. Some integrated mills produce nearly enough energy from biomass to run both the pulp mill and the paper or paperboard facility.

The specific provisions of the tax credit required any biomass fuel producer who wished to claim it to use a mixture of conventional diesel fuel with the biomass fuel in order to claim the credit. Also the tax credit specifically requires each entity that claims it to register with the IRS as an alternative fuel producer.

As a result, the paper companies that decided to claim after consultation with the IRS began to add very small amounts of diesel fuel to the biomass stream to make it eligible for the credit. USW members who operate the boilers in which the biomass mixture is burned state that the amount of diesel fuel added often is on the order of a teaspoon per hour, and not an amount that would significantly affect the energy balance of a pulp mill.

Even though it only became federal policy to encourage the use of biomass fuels in the last few years, the paper industry has been producing its own energy via the use of biomass since the first half of the 20th Century. In addition to black liquor most mills use bark, leftover wood chips and other internally generated biomass as fuel.

Part of the reason for the sense of the surprise shown by so many official actors at the size of the tax credits claimed by the paper industry is the fact that the industry's longstanding use of biofuel has often seemed to be a very well-kept secret. The size of the tax credit, though unexpected, is in line with the massive use by this industry of biological fuels.

### The Tax Credit has been a Lifeline to the Paper Industry

Critics of the tax credit have noted that the amounts claimed by the various companies have amounted to tens of millions of dollars. However, these amounts have allowed a number of companies whose pulp and integrated mills have been on shaky ground to continue producing. The credit has been of a size that it has made the difference between solvency and insolvency.

As a result possibly thousands of jobs in the industry are more secure because of the tax credit. Communities where the pulp or pulp and paper mill are the major source of family supporting employment are more secure. Furthermore the tax credit has meant that U.S. paper mills have more options to buy pulp from U.S. sources. They are able to use pulp from sustainably managed sources here as opposed to pulp made from plantation forests or illegally logged forests as is the case in some pulp producing nations.

### The Energy Profile of a Pulp Mill

As noted above, many pulp mills produce more energy than they need to make pulp. This allows free-standing pulp mills to sell substantial electricity back to the grid. Many pulp mills that are part of integrated units produce enough electricity to run the pulp mill and supply much, and in some cases nearly all, of the papermaking operations' energy needs.

This is energy that does not have to be produced by conventional power plants, most of which rely on coal and other fossil fuels. The biofuels used by the paper industry are very close to carbon neutral. The carbon put out by burning them for energy is carbon that is a natural part of the life cycle of the plants from which the biomass comes, and unlike fossil fuels does not contribute substantially to global climate change.

One effect of closing a pulp mill that is a positive energy contributor, either to onsite paper making operations or direct to the grid is to deprive the grid and therefore the community of a substantial energy resource, and can contribute to an increase in the burning of fossil fuels in the area in which the pulp mill operated.

### What the Future may Hold

The USW encourages its paper industry employers to work and invest to ensure all its pulp mills where it is physically possible to do so become net energy contributors to onsite manufacturing operations or to the grid. The union encourages the industry to keep these plants open as a way to control energy costs, provide a domestic supply of pulp.

The USW supports efforts to enact federal, state and local incentives that will encourage the paper industry to ensure the industry keeps every pulp mill that is or has the potential to be "energy positives," or to contribute a large amount of energy to its own manufacturing processes to do so. The USW supports making such incentives contingent on both commitments by the industry to make the necessary investments, and on industry commitments to enhance their environmental performance.