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BLACK LIQUOR TAX CREDIT

Paper companies are capitalizing on the 2005 highway bill by cashing in on an alternative fuels tax credit which appears on page 804. The provision was intended to increase the use of ethanol and biodiesel in cars and trucks.

Since the 1930's paper companies have used black liquor as energy to fuel paper and pulp mills. Black liquor is a byproduct of the kraft process to produce pulp. It is a solution composed of lignin residue, and cooking chemicals, commonly sodium hydroxide and sodium sulfide. Many kraft mills use recovery boilers to recover and burn most of the black liquor produced to generate steam and to recover the chemicals for re-use.

Since the 1990's paper companies have consumed nearly all of their black liquor resulting in the generation of carbon neutral renewable energy. In 2007 the highway bill was expanded to include other uses of liquid fuels derived from biomass, including the pulp and paper industry. Black liquor must be mixed with gasoline, kerosene or diesel to qualify for the credits. Formerly natural gas was the primary fuel used in the mixture.

In the first half of 2009 \$2.29 billion in tax credits have been given to the paper industry. Most companies applied to the IRS in January and were given approval in April. The result of this subsidy is distortion of markets by discouraging mill downtime resulting in over supply and providing US producers with a competitive edge over foreign competition. Canada has responded with its own tax credit that has to be applied to environmentally friendly projects.

The U.S. credit provides \$.50/gallon of “alternative fuel” used in the black liquor and diesel mix. In the first half of 2009 the big winners were:

IP-\$624mm

Smurfit-\$276mm

Domtar-\$172mm

Verso Paper-\$142.4mm

New Page-\$120mm

Abitibi Bowater-\$118mm

MeadWestvaco-\$112mm

Weyerhaeuser-\$107mm

This program is expected to be phased out at the end of 2009. A new federal cellulosic biofuel tax credit could double the current credit to \$1.01 per gallon of black liquor used and extend the program to 2012 at an estimated cost of \$25 billion to tax payers.