

May 21, 2009

Joint Press Release – Brazil, Canada, Chile and the EU

In a joint letter sent to Congress today, Ambassadors John Bruton, Head of the European Commission Delegation to the United States; Jose Goñi, Chilean Ambassador to the US; Antonio Patriota, Brazilian Ambassador to the US; and Michael Wilson, Canadian Ambassador to the US asked legislators to close a loophole in the federal law that allows paper companies to benefit from tax credits intended to encourage the use of bio fuels by the transportation sector.

At issue is a tax credit designed to promote the use of alternative fuels which Congress expanded in 2007 with an offer of 50 cents a gallon to firms that use alternative fuels blended with traditional fossil fuels, like diesel. U.S. companies that produce pulp through the kraft chemical process are mixing a small amount of taxable fuel (diesel) into the “black liquor” (pulp byproduct), enabling them to qualify for, in some cases, hundreds of millions of dollars of funding.

Ironically, by mixing black liquor with diesel, the paper companies end up creating a fuel that burns more fossil fuel than they would have done by using the black liquor substance on its own, thus creating the opposite effect which the legislation was intended to achieve. Private-sector estimates project that these companies could receive up to \$8.0 billion in 2009 alone. Some companies claimed credits that amount to approximately 30% of the selling price of pulp.

According to the letter, “The tax credit provides significant incentive for U.S. kraft chemical producers to overproduce pulp at a time when producers around the world are operating at significantly reduced capacity-utilization levels as result of the economic downturn”, which is of particular concern to Brazil, Canada, Chile and the EU.

The letter further stresses that “from a legal perspective, it is clear that these credits amount to actionable subsidies and that any adverse effects caused by them could be subject to remedies in the WTO or through domestic countervailing duty investigations.”

Noting that they request that the tax credits be instantly discontinued, Ambassadors Bruton, Goñi, Patriota and Wilson said “we look forward to being able to support the overall initiative to promote alternative energy sources and reduce pollution, whilst preserving normal market stability for forest product industries.”

– 30 –

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