



October 31, 2012

Docket No. USTR – 2012-0028

Mr. Daniel Mullaney
Assistant U.S. Trade Representative
Office of the U.S. Trade Representative
600 17th Street, NW
Washington, DC 20508

Re: United States-European Union Regulatory Compatibility

Dear Mr. Mullaney,

The American Forest & Paper Association, Inc. (AF&PA) is pleased to provide comments to the Office of the United States Trade Representative on how to promote greater transatlantic regulatory compatibility (77 Fed. Reg. 59702 (Sept. 28, 2012)). AF&PA has been a strong advocate for global free and fair trade, and the elimination of all tariff and non-tariff barriers and would support the launch of transatlantic free trade negotiations between the United States and the European Union (EU).

AF&PA is the national trade association of the forest products industry, representing pulp, paper, packaging and wood products manufacturers, and forest landowners. Our companies make products essential for everyday life from renewable and recyclable resources that sustain the environment. The forest products industry accounts for approximately 5 percent of the total U.S. manufacturing GDP. Industry companies produce about \$190 billion in products annually and employ nearly 900,000 men and women, exceeding employment levels in the automotive, chemicals and plastics industries. The industry meets a payroll of approximately \$50 billion annually and is among the top 10 manufacturing sector employers in 47 states. Visit AF&PA online at www.afandpa.org.

Ensuring that regulations in one economy do not adversely affect the economy or an industry of the partner country needs to be a key part of the dialogue on U.S.-EU regulatory compatibility. In this regard, we would like to highlight the potentially adverse economic effect of the EU's 2009 Renewable Energy Directive (RED) on the U.S. forest products industry. The RED requires that EU member States reduce greenhouse gas emissions by 20%, produce 20% of total energy consumption from renewable sources and decrease total energy consumption by 20% by 2020.

The European Commission (EC) has set mandatory targets for all Member States, and wood pellets and solid biomass have emerged as important components of the plan to meet these targets. Member States have implemented a variety of financial incentives and policies to encourage the consumption of wood pellets and other woody biomass, including grants, tax exemptions, feed-in tariffs and subsidies for the installation of boilers using wood pellets. In the United Kingdom (UK), for example, generous subsidies in the form of Renewable Obligation Certificates (ROCs) are the main driver in the growth of a biomass energy industry in the UK, both in dedicated biomass power stations as well as power stations co-firing biomass with coal. The UK government issues ROCs to accredited renewable energy generating stations for the eligible renewable electricity they generate. Ultimately, electricity suppliers can use the ROCs to demonstrate that they have met their obligation to use a certain percent of renewable energy.

The RED mandates, which resulted in the subsidization of biomass energy use, are driving up sharply the demand for wood biomass in the EU and putting pressure on European wood biomass supply. A 2007 joint study by McKinsey and Poyry Forest Industry Consulting on behalf of the Confederation of European Paper Industries examined European bioenergy targets in the context of available biomass. The study projected a significant gap between wood biomass supply and demand in Europe, especially due to the subsidization of demand for biomass energy. The study concluded that competition from the power sector would likely result in a significant increase in the cost of wood fiber to the European pulp and paper industry. More recent studies have come to similar conclusions.

Europe's insufficient supply of wood biomass for use in the power generating sector has resulted in a sharp increase in imports of wood pellets from North America and other sources, with the U.S. being viewed as a critical long-term supply source. While official trade data were not available prior to this year, U.S. wood pellet exports to Europe are estimated to have increased from less than 10,000 metric tons in 2007 to more than 1 million metric tons in just the first seven months of 2012.

The recent trend in U.S. wood pellets exports to Europe is expected to accelerate as the European power sector seeks to achieve the EU's 20% renewable energy mandate by 2020. Many new pellet mills are being built in the U.S. South, specifically to supply the European power sector. Wood Resources International LLC recently estimated that the amount of wood pellets exported to Europe from the U.S. will reach 5.2 million metric tons in 2015.

The U.S. forest products industry is in a unique position of relying on wood biomass to produce both value-added manufactured products and large quantities of renewable biomass energy. As a result, the industry is significantly dependent on access to plentiful, high-quality and low-cost wood fiber. Fiber represents the largest manufacturing cost component for the U.S. industry. All fiber used in wood products is essentially harvested from sustainable forests. While paper and paperboard manufacturing uses large amounts of recovered paper in addition to wood harvested

from forests, there is a limit to the number of times that used paper can be recycled and still have the desired paper-making qualities, so a steady inflow of new wood fiber into the raw material stream is essential.

As demand for wood biomass rises both at home and abroad, AF&PA believes market forces should determine its most economic use. This is not the case currently with European mandates and incentives driving demand for wood biomass and creating market distortions for raw materials. We are very concerned that the diversion of wood biomass to lower-value energy uses would result in unfair competition for forest resources. A study by Resources for the Future suggests that higher wood costs for the U.S. forest products industry could lead to the shutdown of segments of the industry and lead to increased imports, with the related losses in domestic employment. Also, from a climate change perspective, many question the value of a policy that leads to the harvesting of trees in the U.S. to produce wood pellets and then shipping them all the way to Europe for the purpose of mitigating CO₂ emissions.

We appreciate your consideration of these comments. If you have any questions, please do not hesitate to contact Jacob Handelsman at 202-463-2446 or jake_handelsman@afandpa.org.

A handwritten signature in black ink that reads "Jacob Handelsman". The signature is fluid and cursive, with a long horizontal line extending to the right.

Jacob Handelsman
Senior Director, International Trade