



COMPOSITE PANEL ASSOCIATION

Advancing the wood-based panel and decorative surfacing industries

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November 18, 2009

Brandon Willis
Deputy Administrator, Farm Programs
Farm Service Agency
US Department of Agriculture
1400 Independence Ave SW, Room 3612
Washington, D.C. 20250-0510

Dear Mr. Willis,

I am writing on behalf of the Composite Panel Association (CPA) to express our industry's grave concern about implementation of the Biomass Crop Assistance Program (BCAP) administered by your department. Based on meetings with your staff in October and reports from members of our association, the BCAP program is already having a highly adverse impact on our industry's ability to purchase the fiber required for the production of composite panels. Further, the conversations with your staff lead us to believe the impact will only grow, as you are proposing a massive expansion of the program in fiscal 2010. We believe there is a remedy for this impact – through appropriate definition of materials eligible for the program – and would like to meet with you at the earliest possible time to discuss the issues we see confronting our industry as a result of this program.

The Composite Panel Association (CPA) is a fifty year old trade association that represents more than 95% of the particleboard, medium density fiberboard (MDF) and hardboard manufacturing in North America. Every facility in the United States has a raw material need that will be impacted by BCAP. Our members' products are used to make residential and office furniture, cabinets, flooring, doors, and other consumer products and construction materials sold in the U.S. Consequently, any impact on our business affects many others.

The BCAP has the admirable goal of encouraging the collection of otherwise unused "renewable biomass" for use as fuel. It was not meant, however, to divert materials currently sold and used for the production of other products, particularly those such as composite wood products that sequester carbon rather than releasing it through combustion. BCAP, as implemented through the Notice of Funds Available (NOFA), substantially subsidizes the sale of wood co-products used as raw materials for domestically produced composite wood panels, which already have, without the subsidy, a robust competitive market.

On October 5th CPA representatives met with Mike Linsenbigler and Kelly Novak of your staff. While they were gracious with their time and we appreciate the information they provided us about BCAP, there are a number of procedural and substantive issues that are very troubling. First and foremost is the dramatically broad interpretation of "eligible materials," which is beyond what we believe is

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contemplated by the statute. Our raw materials were inappropriately characterized as wood waste and residue. Moreover, this interpretation was implemented without any meaningful outreach to an industry that would be devastated by it.

We were also told that the low profile NOFA, announced in June, 2009 would expand from a Commodity Credit Corporation (CCC) apportionment of \$23 million in 2009 to \$500 million in 2010. We also heard that the program could, in the absence of a final rule, continue to operate under the hastily assembled NOFA well after the beginning of fiscal 2010, potentially making funds available before the process of rulemaking and public input has taken place.

To give you a sense of the impact on our industry, you should know this:

- Every type of fiber used to make composite panels is listed on the "CHST Eligible Material List";
- Composite panel production does not qualify for the purchase of subsidized biomass; and
- A \$500 million subsidy is \$100 million more than it would take to purchase all the raw material needed by the composite panel industry in 2010. It could wipe out our fiber supply in one grand gesture, and for no good reason.

During our meeting with your staff, we were asked how much fiber our industry consumed annually so we know that little or no research has been done to assess the potential impact of the BCAP program on industries like ours. Following the meeting, we met with representatives of the Office of Management and Budget (OMB) and followed this with a letter describing the potential adverse BCAP impacts. This week we provided a second letter to OMB describing CPA's proposed remedy, and both letters are attached for your consideration.

Many of our members have already begun to report the impact of BCAP on their operations. It is occurring in precisely the manner projected in the impact assessment we provided OMB in our October 30th letter. *Just today, we were told that an approved Biomass Conversion Facility was able to outbid a member plant on the raw materials from a long time supplier. Our member was told that unless he increased the amount he paid by 33%, effective immediately, he could not have this wood. This represents governmental policy with extraordinary and immediate adverse consequences, and it must be changed.*

CPA supports a BCAP program that increases fiber supply and truly expands the use of alternative fuels based on unutilized biomass and, in particular, biomass crops. We do not believe BCAP does this as now structured. Instead, it is redirecting existing wood fibers used in a manufactured product so the fiber can be burned in a biomass boiler.

Specifically, CPA recommends the amendment of the BCAP "CHST Eligible Material" list such that all industrially-produced shavings, sawdust, wood chips (i.e., industrial white wood co-products) are excluded from eligibility for the subsidy. Pulp chips and roundwood should also be excluded as this type of material is a vital source of supply for our industry. As with industrially produced co-products, these wood products are currently flowing to industrial plants; allowing them on the BCAP list will simply re-direct the fiber to a boiler rather than contribute to an expanded wood fiber supply. CPA uses the terms "roundwood" and "pulpwood" interchangeably in this recommendation, and by use of the term "white wood" we are not advocating for the exclusion of bark under the CHST.

CPA believes that wood resources used for products and purposes where value can be quantified, insofar as domestically-produced consumer products, should not be federally subsidized to be used as alternative fuels. Thus, highly valued raw materials, currently used for purposes that are economically and environmentally sound, should not be diverted by BCAP through an expanded, and we believe unwarranted expansion, of the "wood waste" and "wood residues" terms. Unless these wood fiber resources are excluded as described above, BCAP will do little or nothing to expand the current U.S. fiber supply, and will fail to incentivize the biofuel industry to develop resources substantially beyond those already available.

CPA's recommendation would improve BCAP by eliminating the financial penalty on those industries presently turning fiber, currently listed under CHST, into manufactured products with dramatically higher value than biomass fuels. CPA is preparing a comprehensive economic impact assessment for purposes of the comments we expect to file in response to the anticipated BCAP rulemaking. As a starting point, we expect the impact to be similar to what has happened in Europe. There, the economic impact of using wood for products versus fuels is 10 times greater and the jobs impact is 27 times greater. For the U.S., those numbers mean that BCAP's negative impact could be in the billions of dollars and jeopardize 20,000-30,000 American jobs.

CPA believes that the position we are advancing is statutorily supported, equitable and sensible. It also permits USDA to serve the intent of Congress by encouraging the development of alternative fuels through the use of underutilized agricultural and other biomass materials.

There is much urgency in your consideration of CPA's request, and I would appreciate the opportunity to follow-up with you as soon as possible.

Very truly yours,



Thomas A. Julia
President
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cc: Mike Linsenbigler, USDA FSA
Kelly Novak, USDA FSA
Robert Bonnie, USDA
Deirdre Holder, USDA
Dom Mancini, OIRA

Attachments (2)