



COMPOSITE PANEL ASSOCIATION

Advancing the wood-based panel and decorative surfacing industries

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USDA Action Threatens US Wood Products

A regulation now under consideration by the US Department of Agriculture (USDA) threatens the existence of many US-based wood products manufacturers and could shut down entire industries next year if implemented in its current form.

The USDA's Biomass Crop Assistance Program (BCAP), while well intended, is being rushed through by its proponents without any consideration of its unintended consequences. BCAP will take wood out of the hands of an industry making important consumer and construction products and hand it over to the biomass fuel industry to burn. Worse, taxpayers will foot a bill for a \$500 million subsidy to make this happen in 2010, with no net benefit to the US economy or the environment.

BCAP's approach is bad public policy – bad for the economy, bad for jobs and bad for the environment. It is especially ironic because BCAP, as structured today, will serve to *increase* global warming instead of mitigating it.

The way to fix BCAP is simple – i.e., change the list of raw materials eligible for a federal subsidy. Here is why this must be done now before a regulation is issued and money is allocated.

The US Census shows that industries dependent on composite wood panels accounted for \$68 billion in sales and more than 350,000 American manufacturing jobs in 2006. What happens to this economy, this tax base and these jobs if the raw materials needed to make composite wood panels go away? Wood products sequester carbon for decades, even centuries, and then they can be recycled. How is the environment helped if this wood is instead burned, with CO₂ immediately released into the atmosphere?

As proposed by USDA's Farm Service Agency, BCAP has a laudable goal of fostering the diversification of America's fuel supply by subsidizing "renewable biomass" alternatives to traditional fossil fuels. Unfortunately, BCAP's list of eligible materials includes residual wood already being used for higher value purposes in homes, furniture, cabinets, doors, flooring and other consumer and construction products.

The 2008 Farm Bill states that renewable biomass includes materials that "would not otherwise be used for higher-value products." BCAP's inclusion of wood used for higher value products is contrary to this directive and represents a fatal flaw in the way the program has been crafted. BCAP's purpose was to incentivize the

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collection of unused and under-utilized wood and agriculture scraps resulting from farming and timber activities. Congress never intended that it divert materials currently used for the production of higher value products, particularly those that sequester carbon rather than releasing it through combustion.

BCAP funding, reportedly a \$500 million apportionment through the Commodity Credit Corporation in 2010, is now under review by the US Office of Management and Budget (OMB). OMB has been asked by the Composite Panel Association (CPA) and others to stop this massive subsidy from moving forward until the unintended consequences are fully resolved. All stakeholders need to be heard from and the economic impacts must be fully considered. Concurrently, OMB is also considering a draft BCAP regulation. CPA has also asked that this draft be amended consistent with our recommendations about the scope of the program.

What is specifically wrong with the program? BCAP takes high value sawdust and wood chips that have been used for decades to manufacture most home and office furniture, cabinets and other composite wood products, and subsidizes them so they can be diverted for use as bio-fuel.

The magnitude of the proposed 2010 BCAP subsidy is enough to wipe out the entire feedstock of US composite panel manufacturers (estimated at \$400 million in 2010) in one swift, misdirected federal intervention. This would undermine an important domestic industry and create havoc for its customers, the tens of thousands of manufacturers of wood-based finished products across the United States.

The remedy for USDA's flawed approach is an amended BCAP program that increases fiber supply and truly encourages the development of alternative fuels based on unutilized and under-utilized raw material – biomass crops in particular.

BCAP's list of eligible materials should be restructured to meet this objective and the program's original intent as described in the 2008 Farm Bill. This means removing higher value industrial raw materials (like wood chips and sawdust) as materials eligible for a federal subsidy. This simple change would incentivize US landowners to expand the bio-based domestic fuel supply, and would do no harm to the emerging bio-fuels industry.

The US composite panel industry started in the 1950's and was founded on the principal of recycling – using wood industry residuals to maximize the utilization of every tree. Before the industry existed, sawdust and wood residuals were incinerated or dumped in landfills, which was neither good for the economy nor the environment. Now, composite panels have become a global industry with a large positive economic and environmental impact.

CPA is a fifty-year old trade association that represents more than 95% of the composite panel (particleboard, medium density fiberboard and hardboard) manufacturing in North America. Every one of our member facilities in the United States has a raw material requirement affected by BCAP.

Alternative energy programs must be part of a sound national energy strategy, and their unintended consequences must be fully considered. For instance, after the Renewable Fuel Standard was enacted in 2005 to encourage ethanol production, corn prices doubled between 2006 and 2007 and many American consumers were harmed. The same could happen with BCAP, except that it could be worse.

If the US composite panel industry suffers as a result of BCAP and manufacturing plants close, consumers will have fewer choices, thousands of American jobs will be eliminated, more finished wood products will be imported, and less environmentally-friendly materials such as plastic, steel and glass will be substituted for composite wood.

CPA has filed letters with OMB and USDA urging BCAP's prompt reconsideration, and urges others to do the same and to ask their Congressional representatives to intervene. BCAP must be fixed before USDA issues the regulation and directs \$500 million in federal subsidies in 2010.

Done right, a federal intervention to support the bio-fuel industry can be a good thing for the United States. Done wrong, it's a taxpayer-funded giveaway that completely misses the mark.

Below are links to more information about BCAP, as well as links to CPA's communications with OMB and the USDA, and a link to how the European Union is addressing the matter.

USDA BCAP

<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=agri&topic=bcap>

General Services Administration

<http://www.reginfo.gov/public/do/eAgendaViewRule?pubId=200904&RIN=0560-AH92>

USDA 2008 Farm Bill

<http://agriculture.house.gov/inside/FarmBill.html>

CPA Letter to OMB – 11-16-09

<http://www.pbmdf.com/cpa30/files/ccLibraryFiles/Filename/000000001691/CPA-OMB%20Letter%20111609.pdf>

CPA Letter to USDA – 11-18-09

<http://www.pbmdf.com/cpa30/files/ccLibraryFiles/Filename/000000001692/USDA%20SA%20Letter%20111709.pdf>

Europe Union's Position on Carbon Sequestration in Wood Products

<http://www.pbmdf.com/cpa30/files/ccLibraryFiles/Filename/000000001690/EU-Position-Paper.pdf>

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