

April 15, 2015

The Honorable John Thune  
Co-Chair  
Business Tax Reform Working Group  
Committee on Finance  
US Senate  
219 Dirksen Senate Office Building  
Washington, DC 20510

The Honorable Ben Cardin  
Co-Chair  
Business Tax Reform Working Group  
Committee on Finance  
US Senate  
219 Dirksen Senate Office Building  
Washington, DC 20510

Dear Senators Thune and Cardin:

The American Forest & Paper Association (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.

U.S. manufacturers of paper and wood products appreciate the opportunity to provide input to the Committee on Ways and Means for the development of bipartisan comprehensive tax reform legislation. The industry supports comprehensive business tax reform that improves economic growth, job opportunities, capital investment, and the competitiveness of U.S. based businesses. Special attention should be paid to ensure that the overall impact of federal tax reform does not result in counter-productive tax increases that will be harmful to economic growth, job creation, capital investment, and global competitiveness.

The U.S. forest products industry – made up of both C-corporations and pass-through entities – is a significant contributor to the U.S. economy, employing nearly 900,000 men and women in above-average wage jobs, investing heavily in equipment and improvements, and exporting products throughout the world. The U.S. forest products industry also supports jobs in other sectors of the U.S. economy. A recent study conducted by the Economic Policy Institute found that each paper industry job supports 3.25 jobs in supplier industries and in local communities as the result of re-spending and tax receipts.

The forest products industry produces about \$200 billion in paper and wood products annually and accounts for approximately 3.8 percent of the total U.S. manufacturing GDP. The industry also ranks among the top 10 manufacturing sector employers in 47 states.

In a typical year, the forest products industry consumes approximately 13 billion cubic feet of wood - the majority of which is purchased from privately-owned forest land – to produce paper, packaging, lumber and other wood products.

We are highly capital intensive and have made significant investments and facility upgrades in recent years. In 2013, the most recent year for which data is available, the paper and wood products industry invested \$9.8 billion in plant and equipment. Items such as recovery boilers, turbine generators, paper machines, and environmental controls are critical to maintaining technologically advanced manufacturing facilities that compete in an extremely competitive global marketplace.

Exports of U.S. pulp and paper result in a net export surplus and exports of paper and wood products account for more than 15 percent of the industry's annual total sales. In 2014, U.S. exports of forest products amounted to \$31.9 billion, of which \$22.2 billion were exports of pulp and paper products, and \$9.7 billion exports of wood and wood products.

Our members are longstanding leaders in making substantial investments in renewable energy equipment and facilities to generate electricity and other usable forms of energy for its operations. On average, about two-thirds of our members' energy needed for forest products production comes from the use of carbon-neutral biomass.. Forest and paper products facilities account for 62 percent of the renewable biomass energy produced by all manufacturing facilities in all sectors.

The U.S. forest products industry provides excellent employee payroll, retirement, and health benefits to its workers. The industry exceeds employment levels in the automotive, chemicals, and plastics industries and meets a payroll of approximately \$50 billion annually. The industry has a generous compensation and benefits structure -- earnings of pulp and paper mill workers exceed the average for all U.S. private sector workers by about 23 percent.

We realize that comprehensive tax reform will not be easy. However, the key goals of lowering the corporate tax rate and a reformed competitive international tax system will help attract and retain business operations and good paying jobs in the United States. Ensuring that the resulting tax code provides a level playing field for all business activity while deflecting attempts to pick "winners and losers" among economic players should be a top priority.

To this end, our industry priorities include:

Priorities for comprehensive federal tax reform:

- Tax rates. The United States has the highest statutory corporate tax rate among OECD countries. This is because most other OECD member countries have lowered corporate rates during the past two decades, while U.S. corporate rates have remained nearly stagnant. A significant reduction in statutory corporate income tax rates to approximately 25%, which would be more in line with the average among

other OECD countries, is needed for U.S.-based companies to be able to compete in the United States and abroad. A tax system with the lowest possible tax rates for all businesses is desirable to foster capital investment, jobs creation, exports, and economic growth.

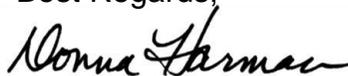
- Business investment. Business investment is another crucial driver of economic growth and jobs. Appropriate treatment of depreciation, interest expenses, and research expenditures is important to ensure that capital intensive manufacturers – such as paper and wood products companies – continue to upgrade existing facilities and invest in new and more efficient equipment.

In addition, rules reflecting the need for long-term investment in timber by the 22 million family forest owners across America are essential to a sustainable supply of forest resources for manufactured products and are good for the environment, the economy and society.

- International tax rules. The global market place is more competitive than ever and home country tax systems can provide a competitive edge as companies seek to enter new markets and compete in existing markets. Unfortunately, the United States has fallen behind as most OECD countries have moved to competitive tax regimes. The U.S. international tax rules should be reformed to include a competitive territorial tax system like those of many other countries, which would allow U.S.-based companies to compete on a level playing field in vital global markets.
- Employee benefit provisions. The U.S. forest products industry is a leader in providing excellent employee payroll, retirement, and health benefits to its workers. Existing law treatment of employee health insurance benefits and employee retirement contributions are integral to the industry's continued ability to provide these benefits to its workforce.
- Transition relief. A major change in federal tax policy could have a negative impact on existing business investment and create considerable uncertainty. Appropriate transition relief and protections against retroactive tax law changes should be an integral part of any federal tax reform effort. For example, the full benefit of net operating losses and unused tax credits should be protected and allowed to be carried forward to future years.

We would be pleased to discuss these priorities with the working group and answer any questions you may have about our industry.

Best Regards,



Donna A. Harman

President and Chief Executive Officer

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cc: Senator Orrin Hatch, Chairman, Committee on Finance  
Senator Ron Wyden, Ranking Member, Committee on Finance  
Thomas Barthold, Chief of Staff, Joint Committee on Taxation