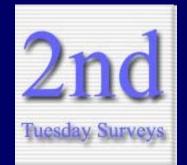


CAP AND TRADE –

Potential impacts to Pulp/Paper Mill Operations

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Environmental Experience to date — Paperitalo Publications 2nd Tuesday Survey, August 2009

Concerning compliance to date, where have been your greater expenditures?

- 31% Air Controls
- 44% Water Controls
- 25% Balanced

Only 46% say environmental mandates have helped them find more economical ways to manufacture their products.

13% have previously worked in a mill closed because environmental compliance was too costly. 49% say "perhaps" or it is "very likely" environmental compliance costs will close their mill in the next ten years.

8% say environmental officers visiting their mill are "very hostile."

11% say environmental officers visiting their mill "do not understand their business."

Poster child of the carbon cap & trade market



JP Morgan is selling this stove in Uganda.

It costs \$6.00 (without the pot) .

They claim it saves 2 – 3 tons of carbon emissions per year.

Each ton generates a credit worth \$10 to \$15 per year to JP Morgan in sales (2008 prices).

I suspect the users of this stove are not sharing in the wealth.

This is the problem for pulp and paper...

Who spends the money and who gets the money?

This talk is about the money...

Who is driving cap and trade
What are their motives
What are the benefits (good & bad) for pulp and paper.

We will not argue the validity of a cap and trade policy.

Some of the Players

- JP Morgan Chase
- Citigroup
- Barclay's
- Goldman Sachs
- Bank of America
- George Soros
- Chicago Climate Exchange (CCX)
- Chicago Climate Futures Exchange (CCFE)

Who are some of the members of CCX?

- AbitibiBowater
- Aracruz
- Boise
- Domtar
- DTE Energy Inc.
- International Paper
- MeadWestvaco
- Neenah Paper
- NewPage
- Tembec
- Temple Inland
- Smurfit-Stone

Interesting membership categories at CCX

 Offset Aggregators. Approximately 75 of these, with names such as "Carbon Farmers, LLC" as well as names you know.

Offset Providers. Approximately 30 of these including "CO₂ Australia" and "Gazprom Marketing & Trading Ltd."

Cap & Trade...

- Is already well established, the US is just behind
- Big players have made big investments
- Big players see big profits
- With this momentum, it is unavoidable in the US

Terminology

CDM—Clean Development Mechanism—an arrangement under the Kyoto Protocol allowing industrial countries (Annex A countries) to invest in projects that reduce emissions in developing countries.

Terminology

JI—Joint Implementation—another Kyoto Protocol device—which allows a country with an emissions reduction or limitation commitment in an Annex B party to earn Emission Reduction Units (ERUs) from an emission-reduction or emission removal project in another Annex B party. These are some of the items that are traded today in a market worth around USD 100 billion.

Why do US pulp and paper mills care about this?

Copenhagen is coming

- The US cap & trade bill is coming
- Both will model from and expand on the Kyoto Protocol.
- The US will adopt Copenhagen if it can be voted on during the current session of Congress (the one ending 31 Dec 2010).

Who is pushing cap & trade?

Well meaning environmental advocates.

- Politicians driven by well meaning environmental advocates and those standing to make a lot of money.
- People that can play the emotional and money side (the aforementioned George Soros, for example who, in one of his funds is 50% invested in oil & gas production, while he backs moveon.org)

Direct challenges

- You will participate—look at the list of forest products companies already involved in the CCX
- You will participate because of law and because of public relations
- Your mix of products may change because there is a new cost of production to calculate
- Writeoffs of unusable assets, financing of new capital requirements will be important business considerations

Indirect Challenges

The US EPA says consumer goods cause 42% of US Greenhouse Gases—an example of a packaging opportunity?

- Recycled mills are going to have new, real cost advantages
- Subsidies will distort the traditional business model (the black liquor tax credit was just a precursor of things to come)

So where is the impact to pulp/paper operations?

Everywhere markets products raw materials energy transportation capital operating costs monitoring and compliance

References

- Paperitalo Publications 2nd Tuesday Surveys (<u>http://www.taiimc.com</u>)
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- United Nations Framework Convention on Climate Change (<u>http://unfccc.int/2860.php</u>)
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- Moveon.org (http://www.moveon.org)

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