

FOCUS

CAP AND TRADE –

Potential impacts to Pulp/Paper Mill Operations

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2nd
Tuesday Surveys

**Environmental Experience
to date —
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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 (<http://www.taiimc.com>)
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- United Nations Framework Convention on Climate Change
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- Moveon.org (<http://www.moveon.org>)

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