AMENDMENT 220 -- REPEAL THE VOLUMETRIC ETHANOL EXCISE TAX CREDIT (VEETC) AND SAVE $4 BILLION

- Congress has subsidized domestic ethanol production and, in fact, guaranteed a market for the product for nearly four decades. Federal assistance ranges from tax credits, grants, loans, loan guarantees, to federally-directed markets (the E15 blend wall), and a federal minimum usage mandate (Renewable Fuel Standard)—a primary reason GAO called the VEETC duplicative in its recent report.

- While born of good intentions, federal subsidies for ethanol have failed to achieve their intended goals of energy independence, environmental benefits, and addressing grain surpluses.

- In fact, federal subsidies created an ethanol surplus in 2010, leading the U.S. to become a net *exporter* of ethanol—**397 million gallons in 2010 and 917 million gallons since 2005**.

- The VEETC alone costs taxpayers approximately **$6 billion** annually; cumulative foregone federal tax revenue since its inception in 2005 reached **$24 billion** at the end of 2010; if left intact through 2011 (when it is scheduled to expire), it will have cost taxpayers **$30.5 billion** over its lifetime

- Consumers pay **$1.78 per gallon** of subsidized ethanol-blended fuel through embedded costs before ever filling their tanks. Meanwhile, U.S. biofuels consumption remains a small share of national transportation fuel use—**7.5 percent in 2012 and 7.6 percent in 2030**

- Ethanol burns at two-thirds the efficiency of gasoline (**68 percent** of the energy content of gasoline), ultimately increasing fuel consumption nationally as drivers and boaters are forced to burn more fuel to travel the same distances.

- USDA estimates nearly **40 percent** of last year's corn crop will be used for ethanol production. Increases of corn used for fuel production puts pressure on corn prices, demand for cropland, and the price of animal feed. Those effects, in turn, have raised the price of many farm commodities (such as soybeans, meat, poultry, and dairy products) and, consequently, the retail price of food.

- Auto and marine engine producers and consumers have long heralded engine damage caused by ethanol use. The demise of engines means the demand for more, ultimately causing increased demand for engines and, therefore, fuel consumption in the manufacturing supply chains involving engine production

Repeal the Volumetric Ethanol Excise Tax Credit (VEETC)

Federal support for ethanol production began in the 1970s, largely for the purpose of achieving energy independence

A wide range of federal assistance has been established in piecemeal since that time

Nearly four decades after federal ethanol policy began, our nation remains largely dependent on foreign sources of oil

The Volumetric Ethanol Excise Tax Credit (VEETC) went into effect in 2005 (previously a tax *exemption* since 1978) and provides .45 cents per gallon tax credit to blenders of ethanol in fuel.

Primary recipients are companies who blend ethanol directly at distribution terminals or contract with blenders and receive indirect price benefits. In some cases, the world's largest integrated oil companies either blend themselves, own the terminal or ethanol plant and, thus, receive VEETC.

Some examples of those benefiting from VEETC include Valero, BP, Exxon, Chevron, Koch Industries.

Only 14 percent of ethanol is produced by "locally-owned" plants; whereas, Valero—an oil company—owns the second highest number of U.S. ethanol plants.[1]

Even the President recently released a statement stating the need to address current biofuels incentives claiming, "[W]e will look for ways to

[1] http://www.ethanolrfa.org/page/-/2011%20RFA%20Ethanol%20Industry%20Outlook.pdf?nocdn=1; and http://www.desmoinesregister.com/article/20110325/OPINION01/103250322/-1/COMM07/Guest-opinion-Why-Grassley-should-lose-his-battle-protect-ethanol

reform our biofuels incentives to make sure they meet today's biofuels challenges and save taxpayers money.[2]"

In a recent GAO's study on duplication in the federal government, it found the VEETC is duplicative, because it pays blenders to do something already required by law under the Renewable Fuels Standard (RFS).[3]

The effect is to encourage blenders to blend ethanol *beyond* what is mandated, resulting in a supply glut. For example, the ethanol industry is producing over **13.5 billion gallons annually**, despite the Renewable Fuels Standard mandating only **12.6 billion gallons in 2011**

The VEETC essentially pays oil companies $4.84 per gallon in excess of the Renewable Fuels Standard[4]

As a result, the U.S. is now a net *exporter* of ethanol. Through November of 2010, the U.S. exported **397 million gallons** of ethanol. Exports have reached **917.7 million gallons** since 2005[5]

Exporting a fuel does *not* help our country achieve energy security…although it may help with Europe in this respect.

In fact, one could reasonable argue that exporting blended ethanol actually *increases* our dependence on foreign oil, because it requires oil to produce, resulting in a net loss of domestic oil.

There is nothing to our knowledge in the tax code that prevents ethanol *exports* from generating federal tax credits. We *do* know that *imports*, i.e. from Brazil, do receive it though[6]

Even the ethanol industry admits The VEETC is nearly irrelevant.[7]

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[2] FACT SHEET: America's Energy Security, The White House, Office of the Press Secretary, March 30, 2011

[3] GAO-11-318SP, March 2011, http://www.gao.gov/new.items/d11318sp.pdf

[4] According to the RFA, ethanol production was 13.23 bn gal, but the RFS only mandated 12 bn gal, accounting for 1.23 bn gal in excess production. With a $6 bn annual cost to VEETC (45 cents for each gallon), dividing the $5.96 billion cost by 1.23 bn gal equals $4.84 to subsidize each gal of ethanol produced in excess of the mandate http://www.ethanolrfa.org/news/entry/2010-annual-ethanol-production-13.23-billion-gallons

[5] Congressional Research Service, Table – VEETC Cost Estimates 10Mar11

[6] Sec. 6426(b) and 2 USC 203 of PL 110-43 http://www.consumerenergyreport.com/2011/03/22/clarifying-misconceptions-on-taxpayer-subsidized-ethanol-exports/

The National Petrochemicals & Refiners Association (NPRA)—whose members (Valero, Koch, Exxon, BP, etc.) either directly or indirectly benefit financially from VEETC—officially support the Coburn bill (S. 520) and amendment to SBIR/STTR (#220) to repeal the VEETC.[8]

The VEETC itself is a temporary tax increase on every American. Removing it will allow consumers to stop subsidizing a non-performing fuel and Congress to finally make the first step to paying down the national debt.

It has been made clear, however, the companies benefiting from the VEETC support its elimination.

What has also been made clear is that the **VEETC is a subsidy for oil and gas—and the most egregious example of one.**

Moreover, the duplication of the VEETC causes it to function to incentivize the *consumption* of fuel, something the tax credit was never intended to do.[9]

Federal Ethanol Subsidies Pose Significant Costs on Americans (as Taxpayers AND Consumers)

The VEETC costs taxpayers **$6 billion annually (**GAO's recent report estimates $5.7 billion annually… Since the VEETC is available in unlimited quantities, its cost varies every year)[10]

The VEETC's cumulative foregone tax revenue since its inception in 2005 reached **$24 billion** at the end of 2010.

If left intact through 2011 (when it is scheduled to expire), it will have cost taxpayers **$30.5 billion** over its lifetime.[11]

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[7] Sasha Lyutse, "Top U.S. Oil Refiner Says Corn Ethanol Tax Credit is Unnecessary," Switchboard, Natural Resources Defense Council Staff Blog, July 27, 2010, http://switchboard.nrdc.org/blogs/slyutse/top_us_oil_refiner_says_corn_e.html and http://www.thefreelibrary.com/United+States+%3A+Top+U.S.+oil+refiner+says+corn+ethanol+tax+credit+is...-a0232929183

[8] National Petrochemicals & Refiners Association (NPRA), letter to Senator Coburn, March 30, 2011

[9] Randy Schnepf, Redundancy of ethanol blender's tax credit when coupled with usage mandate, Congressional Research Service MEMO, July 13, 2010.

[10] GAO-11-318SP, March 2011, http://www.gao.gov/new.items/d11318sp.pdf

[11] Congressional Research Service

CBO found consumers pay **$1.78** before they even pay at the pump, just from the embedded costs of ethanol subsidies[12]

A July 2010 analysis from Iowa State University found a one-year extension of the VEETC [and import tariff] would lead to 427 additional direct domestic jobs—of course, this comes at the cost of $6 billion annually, **or roughly $14 million taxpayer dollars per job.**[13]

Meanwhile, U.S. biofuels consumption remains a small share of national transportation fuel use—**7.5 percent in 2012 and 7.6 percent in 2030**[14]

Not only is VEETC a failed fiscal policy, it is a prime example of what happens when politicians pick winners and losers, thus, preempting consumers' determination of the most efficient and cost-effective technologies in the free market.

Ethanol results in a major increase in overall fuel consumption

Ethanol is **a third less efficient** than gasoline (burns at 68 percent the energy content of gasoline), according to the Congressional Budget Office.[15]

By EPA's own admission, ethanol reduces fuel economy.[16]

This will have the effect of increased fuel consumption as drivers will be forced to fill their tanks more frequently to travel the same distances

Consumers will burn more fuel (and pay more) to drive to the grocery store for products likely more expensive due to the diversion of the U.S. corn crop for ethanol.

Federal subsidies for ethanol put more pressure on the U.S. corn crop

[12] Congressional Budget Office, Pub. No. 3155, http://www.cbo.gov/ftpdocs/100xx/doc10057/04-08-Ethanol.pdf
[13] Bruce Babcock, Kanlaya Barr, and Miguel Carriquiry, "Costs and Benefits to Taxpayer, Consumers, and Producers from U.S. Ethanol Policies," Staff Report 10-SR 106, Iowa State University Center for Agricultural and Rural Development, July 2010
[14] http://tonto.eia.doe.gov/oiaf/aeo/otheranalysis/bts.html
[15] The Congressional Budget Office, Using Biofuel Tax Credits to Achieve Energy and Environmental Policy Goals, July 2010, http://www.cbo.gov/doc.cfm?index=11477
[16] U.S. Department of Energy, Energy Efficiency & Renewable Energy, Many Factors Affect MPG, Fuel Variations, http://www.fueleconomy.gov/feg/factors.shtml

Americans pay twice for federal ethanol policy—once as taxpayers and another as consumers as ethanol production has contributed to the increased price of corn as well as all feed grains, land, and other input costs.[17]

While proponents of ethanol cite various justifications for federal subsidies, the Omnibus Budget Reconciliation Act of 1987 encapsulated all of them.

These included energy independence and environmental reasons, which, of course, are not accurate…

The Act also cites, "(4) ethanol can be produced **from grain**, a renewable resource that is **in considerable surplus in the United States**; (5) the conversion of grain into ethanol would reduce farm program costs and grain surpluses[18]

Yet, today's global economic outlook for corn supply and grain feed tells a different story than in the mid-1980s.

Similar to the way USDA began the food stamp program during the Great Depression…as a way to purchase surplus commodities from struggling farmers. The original intent is more than outdated

Today, corn competes globally with the major grains as a feedstock.

Corn is the primary feed grain in the United States for livestock, poultry, eggs, and dairy, accounting for over 90 percent of total feed and production use. It is the largest single cost in raising cows, chickens, turkeys and hogs.

This year, 40 percent of the corn crop will be diverted for ethanol production.[19]

This figure is up from 5 percent in 2000.[20]

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[17] Using Biofuel Tax Credits to Achieve Energy and Environmental Policy Goals, Congressional Budget Office, July 2010, http://www.cbo.gov/ftpdocs/114xx/doc11477/07-14-Biofuels.pdf; R41282, Congressional Research Service, June 11, 2010, http://www.crs.gov/Products/R/PDF/R41282.pdf

[18] Omnibus Budget Reconciliation Act of 1987, Public Law No. 100-203, Title I, §1508(a), 101 Stat. 1330-29 (1987)

[19] Bloomberg, Rising Corn Acreage Failing to Meet U.S. Feed, Ethanol Use, Jeff Wilson, March 29, 2011, http://www.bloomberg.com/news/2011-03-29/rising-corn-acreage-seen-failing-to-meet-increased-u-s-feed-ethanol-use.html

[20] Congressional Research Service, "Agriculture-Based Biofuels: Overview and Emerging Issues," p. 14, January 24, 2011.

Corn prices has again exceeded **$7 per bushel ($6.63 today)**, surpassing their highest level since 2008, putting pressure on consumers. USDA projects that season average prices will reach $4.90 to $5.70 per bushel in 2011, a record high[21]

USDA's 2011 prospective plantings report due out at the end of March is expected to forecast **92 million acres of corn planting in the U.S**. This is compared to 78 million acres for soybeans, 57 million acres for wheat, 12.75 million acres for cotton, and 2.88 million acres for rice.

A national survey conducted by Farm Futures Magazine polled 1,400 farmers' planting schedules and "pegs corn acreage this spring at 91.4 million acres nationally, up from 88 million last year but short of the 5 million acres that traders say are needed to help rebuild tight domestic corn stocks"[22]

The Food and Agriculture Organization of the United Nations recently reported global food production must rise 70 percent by 2050 to keep pace with the global population as it is expected to rise to 9.1 billion.[23]

Emira Woods, Chairperson of *Africa Action* said, "In the midst of a global food crisis and rising hunger, the ethanol industry expropriates land in Africa and elsewhere to grow food that fuels cars. We applaud Senators Coburn and Cardin for introducing legislation to end this shameless subsidy."

With what could be a correlation between rising feed costs and livestock production, the U.S. cattle herd today is at the lowest level since 1958, and USDA projects lower production for both beef and pork in 2011[24]

Lower production typically implies layoffs and plant closures. The trend in feed costs will either be passed along to consumers or increase the cost of

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[21] U.S. Biofuels Policy, February 25, 2011, Grocery Manufacturers Association and various media reports from 2008

[22]Green Fields: Expected Acreage of Corn Isn't Enough, Survey Shows," Des Moines Register, March 26, 2011, http://www.desmoinesregister.com/article/20110327/BUSINESS01/103270337/Green-Fields-Expected-acreage-of-corn-isn-t-enough-survey-shows

[23]Food and Agriculture Organization of the United Nations, How to Feed the World in 2050, http://www.fao.org/wsfs/forum2050/wsfs-forum/en/; World Food Prices Jump to Record on Sugar, Oilseeds, Bloomberg News, January 2011,http://www.bloomberg.com/news/2011-01-05/global-food-prices-climb-to-record-on-cereal-sugar-costs-un-agency-says.html

[24] USDA World Agricultural Supply and Demand Estimates, January 2011

farming and ranching. The last time prices hit current levels, thousands of jobs were lost in rural America.

U.S. pork producers recently raised concerns with the tight global grain markets and the lack of availability of feed:

USDA estimates there are only 20 days of corn carryover stocks—the lowest since 1995[25]

If the VEETC [and import tariff] are allowed to expire [assuming the Renewable Fuels Standard is still in place], **corn prices would likely drop 6.8 percent on average or 35 cents per bushel[26]**

This has a ripple effect on food prices

According to CBO:[27]

"The increased use of ethanol accounted for about **10 percent to 15 percent of the rise in food prices between April 2007 and April 2008.**

In turn, **that increase will boost federal spending for the Supplemental Nutrition Assistance Program** (SNAP, formerly known as the Food Stamp program) **and other child nutrition programs by an estimated $600 million to $900 million in FY 2009."**

Considering these domestic nutrition programs comprise over 60 percent of the farm bill, corn prices driven up by ethanol incentives will continue to be costly to consumers

USDA projects commodity price inflation will contribute to food prices rising 3 to 4 percent in 2011, particularly with meat, poultry, eggs, and dairy products[28]

[25] http://www.oklahomafarmreport.com/wire/news/2011/03/00111_PorkGroupsWorryAbtFeed03152011_073148.php
[26] Bruce Babcock, "Impact on Ethanol, Corn, and Livestock from Imminent U.S. Ethanol Policy Decisions, 10-PB 3, November 2010, Iowa State University Center for Agricultural and Rural Development
[27] CBO, The Impact of Ethanol Use on Food Prices and Greenhouse-Gas Emissions, April 2009 http://www.cbo.gov/ftpdocs/100xx/doc10057/04-08-Ethanol.pdf
[28] USDA Economic Research Service, "Food CPI and Expenditures Briefing Room," http://www.ers.usda.gov/briefing/cpifoodandexpenditures/data/cpiforecasts.htm

Motorists and machine operators have long protested mechanical problems associated with burning ethanol-blended fuel

Mandated ethanol use ultimately shortens engine life cycles and increases the need for new engines.

Specifically, ethanol weakens fiberglass gas tanks, fuel filters, and carburetors in marine engines. Most noticeable though is how ethanol attracts water. In a marine setting, this can be detrimental to engine life.

AAA, the nation's biggest motoring organization, said in July 2009[29] the EPA should reject Growth Energy's request because higher blends may damage exhaust systems, engines and fuel pumps and destroy catalytic converters. General Motors Co., Ford Motor Co. and Chrysler LLC have said the Obama administration should be cautious about increasing the ethanol percentage in gasoline.

As a consequence, additional energy consumption will be added to the loads of relevant supply chains, requiring the need for more steel (and more carbon) to build new engines as well as more fuel necessary to produce and deliver the new products to replenish the market.

All signs indicate the "carbon footprint," as it has been characterized by EPA, grows larger with every decision to continue or increase federal ethanol subsidies.

In this sense, it fails to even accomplish its environmental goals.

There is no measurable environmental benefit either—a prime reason why groups like the Sierra Club, Friends of the Earth, and Environmental Working Group oppose ethanol subsidies

According to CBO:

In 2008, "the use of ethanol reduced gasoline consumption in the United States by only about 4 percent and greenhouse-gasses [for those believing in climate changes theories] from the transportation sector by less than 1 percent."

[29] http://www.businessweek.com/news/2010-10-13/epa-allows-15-ethanol-in-gasoline-for-newer-cars.html

According to the Environmental Working Group:

Contrary to the industry's claims, a recent EPA draft report[30] to Congress concluded that corn ethanol production is more likely to harm the environment than improve it.

Iowa's countryside provides ample evidence of the toll that fence row-to-fence row crop production is taking on our biodiversity, water, air and soil.

Skyrocketing crop prices, fueled by ethanol subsidies that exceed the spending on all farm conservation programs combined, encourage farmers to plow environmentally sensitive land. Ethanol policy is undercutting the progress conservation-minded farmers have made in protecting our natural resources.[31]

According to the New York Times: [32]

Corn farming is the biggest source of pollution associated with ethanol production. Corn requires vastly more fertilizer[33] and pesticides than soybeans or other potential biofuel feedstocks, such as perennial grasses, according to a 2007 report from the National Academy of Sciences.[34]

“Fertilizer and pesticide runoffs from the U.S. Corn Belt are key contributors to “dead zones” in the Gulf of Mexico and along the Atlantic Coast. A 2008 study by independent researchers, published in the academy’s Proceedings journal, calculated that increasing corn production to meet the 2007 renewable fuels target would add to nitrogen pollution in the Gulf of Mexico by 10 to 34 percent.”

Even its former proponents now oppose ethanol:

Former President Bill Clinton suggested the diversion of the corn crop for ethanol production could lead to higher prices and even food riots

[30] http://cfpub.epa.gov/ncea/cfm/recordisplay.cfm?deid=217443
[31] Des Moines Register, Guest opinion: Why Grassley should lose his battle to protect ethanol, Environmental Working Group, March 24, 2011, http://www.desmoinesregister.com/article/20110325/OPINION01/103250322/-1/COMM07/Guest-opinion-Why-Grassley-should-lose-his-battle-protect-ethanol
[32] http://www.nytimes.com/2010/06/25/business/energy-environment/25iht-rbogeth.html?src=busln&pagewanted=print
[33] http://topics.nytimes.com/top/reference/timestopics/subjects/f/fertilizer/index.html?inline=nyt-classifier
[34] http://topics.nytimes.com/topics/reference/timestopics/organizations/n/national_academy_of_sciences/index.html?inline=nyt-org

Former Vice President Al Gore recently admitted he originally supported ethanol, because of his political aspirations. He goes on to say, “It’s hard once such a program is put in place to deal with the lobbies that keep it going.”

"Ethanol is not an ideal transportation fuel. The future of transportation fuels shouldn't involve ethanol." —*Energy Secretary Steven Chu, Nov. 29, 2010*

Conclusion

CBO, GAO, economists, universities, and others have concluded the VEETC is redundant and poor federal policy.

It is no wonder a broad and diverse coalition—including the companies that benefit directly— has united to oppose the VEETC. Members include business associations and oil companies, hunger and development organizations, taxpayer advocates, agricultural groups, religious organizations, and environmental groups.