No Deal for Taxpayers

Ethanol Subsidies Must End

A small group Senators are attempting to snatch fiscal defeat from the jaws of taxpayer victory on ethanol subsidies. Last month the Senate voted 73-27 to immediately repeal the wasteful Volumetric Ethanol Excise Tax Credit (VEETC), the largest and most egregious ethanol subsidy. But days after the vote was gaveled down, a few Senators proposed a “compromise” that would sell taxpayers short on the repeal’s full savings and lock taxpayers into another batch of subsidies.

Sen. Dianne Feinstein (D-CA), one of the sponsors of the elimination proposal, teamed up with two corn state Senators, Sens. John Thune (R-SD) and Amy Klobuchar (D-MN) to offer a new “compromise” proposal that would end VEETC, but would direct roughly a third of the savings– an estimated $668 million – for other energy subsidies: the Cellulosic Biofuel Production Tax Credit, the Small Producer Tax Credit, and the Alternative Fueling Infrastructure Tax Credit. The dollar amounts cited for the legislation assume enactment by August 1, after which the remaining value of VEETC continues to fall as the clock ticks down to year’s end.

VEETC should be eliminated immediately and all of the savings should go towards reducing this year’s $1.65 trillion deficit. While the proposed deal will end the VEETC, it would still continue unnecessary subsidies for the ethanol industry and drain taxpayer dollars. Some of the continued subsidies would go to the production of cellulosic biofuel, which is not currently commercially viable, even with production tax credits. The small producer credit is really just a general industry subsidy because most cellulosic biofuel producers in the United States are technically “small producers.” Finally, investing in ethanol infrastructure is inefficient, wasteful, and a poor use of taxpayer dollars. More importantly, the $668 million price tag associated with these subsidies is only an estimate, and the actual cost to taxpayers could be far higher because two of the tax breaks do not have a cap. A more complete discussion of these subsidies follows:

- The Cellulosic Biofuel Production Tax Credit is currently set to expire on December 31, 2012. The VEETC deal proposed by Senator Feinstein and her colleagues would give this subsidy a 3-year extension, continuing to provide a tax credit of $1.01 per gallon of cellulosic biofuel produced through 2015. The government mandate for cellulosic ethanol will be 50 million gallons in 2013, 100 million gallons in 2014, and 155 million gallons in 2015, with all unused gallons rolling over to the next year. This extension would not only extend the current cellulosic biofuel tax credit but would also include a depreciation allowance for cellulosic plants and expand the definition of cellulosic biofuel to include fuels from algae. According to the Congressional Budget Office, producing cellulosic biofuel is not currently commercially viable, even with tax credits, and so the money being allocated for cellulosic ethanol investment is not an efficient means of achieving the intended goal of commercializing the industry.[i] This extension will cost taxpayers an estimated $308 million.

- The Alternative Fueling Infrastructure Tax Credit currently expires on December 31, 2011. Under the proposed deal this tax credit would also receive a 3-year extension, remaining active through 2014. This infrastructure tax credit covers technology neutral investments in electricity charging stations, blender pumps, and natural gas fueling stations. Even though the Joint Committee on Taxation estimates that approximately half of the qualifying investments will be in non-ethanol infrastructure, this still allocates large amounts of taxpayer dollars towards ethanol infrastructure. Existing Underground Storage Tank (UST) systems and dispensing equipment might be degraded or damaged (excessive swelling or cracking) by intermediate blends of ethanol fuel, causing leaks. The cost of upgrading these systems falls both on taxpayers and independent business owners, who make up about 52 percent of retail fueling outlets.[ii] The National Association of Convenience Stores, an international trade association comprised of more than 2,200 member companies and more than 1,800 retail suppliers, calculated that the cost for an average individual gas station owner to completely retrofit their equipment for E85 ethanol use by replacing two underground storage tanks and four fuel dispensers would be $200,000. In 2009, the average single convenience store's pre-tax profits were $33,000, hardly enough to pay for new ethanol infrastructure without substantial government support.[iii] Although the Investment Tax Credit will be reduced from 30% to 20% starting in 2012, the Alternative Fueling Infrastructure Tax Credit alone is still estimated to cost taxpayers $253 million.

- Finally, the Small Producer Tax Credit, which is due to expire on December 31, 2011, will receive a 1-year extension through 2012 if the VEETC deal proposed by Senators Feinstein, Thune, and Klobuchar is passed. "Small producers" are eligible for a tax credit for every gallon of cellulosic ethanol they produce. Any ethanol producer with production capacity below 60 million gallons per year counts as a qualified small producer and may claim credits on the first 15 million gallons of ethanol produced in a given year. Under the VEETC deal, the current small producers credit of 10 cents will be reduced to 7 cents. At this point, however, there are very few large-scale commercial cellulosic ethanol facilities and so most cellulosic biofuel producers in the United States are "small producers."[iv] Despite the short one-year extension, the Small Producer Tax Credit is still estimated to cost taxpayers $107 million.

For more information, please visit www.taxpayer.net or contact Autumn Hanna at (202) 546-8500

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[i] Congressional Budget Office, "Using Biofuel Tax Credits to Achieve Energy and Environmental Policy Goals," July 2010. http://cbo.gov/ftpdocs/114xx/doc11477/07-14-Biofuels.pdf

[ii] Government Accountability Office, "Biofuels: Challenges to the Transportation, Sale, and Use of Intermediate Ethanol Blends," June 2011. http://www.gao.gov/new.items/d11513.pdf

[iii] John Eichberger, "Testimony of John Eichberger, Vice President of Government Relations, National Association of Convenience Stores before the Senate Committee on Energy and Natural Resources, April 7, 2011, Hearing to review Department of Energy biofuel programs and biofuel infrastructure issues, and to consider S.187, the Biofuels Market Expansion Act of 2011," *National Association of Convenience Stores,* April 7, 2011. http://energy.senate.gov/public/_files/EichbergerTestimonyNACS.pdf

[iv] Reuters News, "TABLE-Open and planned US cellulosic ethanol plants**,"** Feb 19, 2009 http://uk.reuters.com/article/2009/02/19/ethanol-cellulosic-capacity-idUKN1952406520090219