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Bill to Extend the Ethanol Tax Credit Introduced in the U.S. House

Sioux Falls, SD (March 25, 2010) – The federal tax credit for ethanol is set to expire on December 31 of this year, but a bill was introduced today by U.S. Representatives Earl Pomeroy (D-ND) and John Shimkus (R-IL) to extend the ethanol credit for five years at the current level of 45 cents per gallon.

The Volumetric Ethanol Excise Tax Credit (VEETC) is known as the "blender's credit" because it goes not to ethanol producers, but to entities that blend ethanol with gasoline as an economic incentive to get renewable fuel to the retail marketplace. This economic incentive is usually passed on to consumers in the form of lower prices at the pump. The American Coalition for Ethanol (ACE) points to the tax credit's benefits to consumers and to the jobs created by the ethanol industry as key reasons the credit should be extended.

"In today's economy, the focus must be on creating jobs, and extending the federal ethanol tax credit will not only save thousands of American jobs, but it will allow new American jobs to be created as U.S. ethanol production and use continues to expand," said Brian Jennings, Executive Vice President of ACE, the nation's largest ethanol advocacy association.

Thirty grassroots members of the American Coalition for Ethanol were on Capitol Hill earlier this week for the organization's second annual DC fly-in. The ethanol advocates met with more than 60 Members of Congress and their staff, asking for the reauthorization of VEETC and for support for more flex-fuel vehicles and ethanol blender pumps.

The Pomeroy-Shimkus "Renewable Fuels Reinvestment Act" also includes a five-year extension of the ethanol Small Producer Credit, the cellulosic ethanol tax credit, and the secondary tariff of 54 cents per gallon.

A recent study by LECG, LLC found that in 2009, the U.S. ethanol industry supported nearly 400,000 jobs in all sectors of the economy, including the ongoing production of ethanol, construction of new facilities, and research and development activities. The same study found that the ethanol industry more than pays for the cost of its tax credit. The two major federal incentives for ethanol, VEETC and the Small Producer Credit, together cost an estimated $5 billion in 2009. The combination of increased Gross Domestic Product and higher household income generated an additional $8.4 billion in tax revenue for the federal government in 2009, showing that the U.S. ethanol industry generated a surplus of $3.4 billion for the federal treasury.

Ethanol benefits gas prices in two ways: by creating a larger domestic supply of fuel which exerts downward pressure on overall gas prices, and through the 45-cent tax credit which is passed along to consumers at the pump. In many areas of the country, motorists can choose the E10 blend at the pump and save 5 to 10 cents per gallon compared to standard gasoline.

"Americans deserve relief for their pocketbooks in these tough economic times, and there is no tax credit that gets to the consumer level more directly than the ethanol tax credit. Letting VEETC expire would be the equivalent of raising taxes on Americans who purchase a U.S.-made, renewable product, but keeping and extending VEETC is an economic and energy security insurance policy that more than pays for itself," Jennings added.

According to a new report by the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri, if VEETC expires U.S. ethanol production will decline and American jobs will be lost. Ethanol production would decline by an estimated 1.4 billion gallons in 2011 and 2012, and by 3.6 billion gallons by 2019. This would result in job losses at ethanol plants and at businesses that service and supply the industry.

A new study, conducted by economic consulting firm ENTRIX, found that the expiration of VEETC would result in the loss of more than 112,000 jobs in all sectors of the economy, and a reduction of domestic ethanol production by 38 percent. This would leave a void in the fuel supply likely filled by increased reliance on imported motor fuels. This study estimates a reduction in the nation's Gross Domestic Product by $16.9 billion if VEETC is allowed to expire, the elimination of $2.7 billion in state/local tax revenues and $2.4 billion in federal tax revenues, and a reduction of U.S. household income by $4.2 billion.

The FAPRI report also found that if VEETC expires, corn prices would drop 15 cents per bushel over the 2010-2019 timeframe. Because ethanol helps create demand for corn, farmers are able to obtain a fair market price for their product; with higher prices for corn, federal counter-cyclical farm program payments are not needed to support prices. USDA estimated that in 2007, farm program payments were reduced by some $6 billion due to the higher value of a bushel of corn. If VEETC expires and corn prices drop, taxpayers will spend more on farm program payments.

The studies referenced here can be found in "Ethanol Research" under the "All About Ethanol" menu heading on www.ethanol.org.

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The American Coalition for Ethanol (ACE) is the grassroots voice of the U.S. ethanol industry, a national advocacy association for the ethanol industry with nearly 1,500 members nationwide, including farmers, ethanol producers, commodity organizations, businesses supplying goods and services to the ethanol industry, rural electric cooperatives, and individuals supportive of increased production and use of ethanol. For more information about ethanol or ACE, visit www.ethanol.org or call (605) 334-3381.