Extension of Ethanol Tax Credit and Trade Policy

Volumetric Ethanol Excise Tax Credit (VEETC) – the Blender's Credit

Commonly referred to as the "blender's credit," the Volumetric Ethanol Excise Tax Credit (VEETC) is a federal tax credit of 45 cents per gallon of ethanol that serves as an incentive for the petroleum industry to blend ethanol into its gasoline so consumers can have access to ethanol at the retail level. A provision in the 2008 Farm Bill reduced the value of the credit from 51 cents to 45 cents per gallon. VEETC is currently authorized through 12/31/10 and needs to be extended.

Ethanol Trade Policy – Ad Valorem Tariff and Secondary Tariff

U.S. ethanol imports are subject to a very low 2.5 percent ad valorem tariff. For comparison purposes, Brazil levies a 20 percent ad valorem tariff on ethanol imports. All ethanol blended with gasoline in the U.S. qualifies for VEETC, no matter the country of origin of the ethanol. To offset this fact and to ensure that taxpayer dollars are not invested to support the production of foreign ethanol production, U.S. ethanol imports from non-Caribbean Basin countries are subject to a 54 cent per gallon secondary tariff. This secondary tariff is in effect through 12/31/10 and needs to be extended.

Small Ethanol Producer Tax Credit

The Small Ethanol Producer Tax Credit provides a nonrefundable federal income tax credit of 10 cents per gallon of ethanol produced on the first 15 million gallons of production from a plant with an annual capacity of less than 60 million gallons of ethanol. This equates to a maximum $1.5 million tax credit annually for small ethanol producers.

ACE supports legislation in Congress to extend the ethanol tax credit (VEETC, the tariff, and Small Ethanol Producer Tax Credit).

If Congress fails to extend the tax credit, U.S. jobs will be lost in the biofuels sector, American consumers will pay more at the pump because less ethanol will be available, and the U.S. will become more dependent upon expensive sources of foreign oil.

The ethanol tax credit more than pays for itself.

- VEETC and the Small Ethanol Producer Credit together cost an estimated $5 billion in 2009.
- The combination of increased GDP and higher household income from the ethanol industry generated $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.

(Source: "The Contribution of the Ethanol Industry to the Economy of the United States," John Urbanchuk, LECG, LLC, 2/12/2010)

The ethanol tax credit supports 400,000 American jobs.

- 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 R&D activities. (Source: Urbanchuk, 2/12/2010)
- If VEETC is allowed to expire, U.S. ethanol production will decline and American jobs will be lost. If VEETC is allowed to expire, ethanol production would decline by an estimated 4 billion, the equivalent of shuddering two out of every five ethanol plants operating today. This would result in the loss of more than 112,000 jobs in all sectors of the economy.

(Source: "Importance of the VEETC to the U.S. Economy and the Ethanol Industry" by John M. Urbanchuk, ENTRIX, 2010)

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The ethanol tax credit directly benefits consumers.

- The blender's credit is unique because it is designed to be passed along to consumers in the form of lower prices at the pump. In many areas of the country, motorists can choose the E10 blend at the pump and save between 5 and 10 cents per gallon compared to standard gasoline.
- Ethanol is blended into nearly 90 percent of the gasoline in the United States.
- During the summer of 2008, the U.S. was spending $1 billion per day on oil imports, effectively transferring more wealth to foreign oil suppliers in one week than what the blender's credit cost U.S. taxpayers in one year.

Government support for renewable fuels is far less than that for petroleum.

- From fiscal years 2002 to 2008, the U.S. government spent $72 billion on subsidies for fossil fuels.
- During the same period, the renewable fuels industry received $29 billion in funding credits. "Renewable fuels" include not just biofuels, but also wind, solar, biomass, hydropower, and geothermal energy production.
- Most of the largest subsidies to fossil fuels were written into the U.S. Tax Code as permanent provisions; by comparison, many incentives for renewables are time-limited initiatives, including VEETC.

  (Source: "Estimating U.S. Subsidies to Energy Sources: 2002-2008," Environmental Law Institute, Sept. 2009)

A robust ethanol industry reduces the cost of farm programs.

- The blender's credit reduces the cost of federal farm programs. Ethanol production helps create demand for corn, and farmers are able to obtain a fair market price for their product instead of relying on price-supports.
- In 2007 alone, the blender's credit saved the federal government $3.45 billion because the USDA did not have to make counter-cyclical program payments. (Source: *The Farm Gate,* 10/21/08, University of Illinois Extension)
- If VEETC expires, corn prices would drop an estimated 15 cents/bushel between 2010-19. (Source: FAPRI March 2010)
- USDA estimates that every $0.10 per bushel increase in corn prices saves about $1 billion in loan deficiency payments.

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