



End of Ethanol Tariff & Subsidy Doesn't Mean the End of U.S. Ethanol

By Joel Velasco

Earlier this morning, Senator Chuck Grassley (R-Iowa) took to the chamber floor to make a last stand for extending the \$6 billion per year ethanol subsidy and tariff that are set to expire on December 31st. The speech was rife with the same old hyperbole that has been debunked countless times by experts around the globe and repeatedly on this very blog. Here goes another round.

Let's start with Grassley's vision of a world without subsidies and trade protection for ethanol. Throughout the speech, he argued that the U.S. would suffer catastrophic job losses, domestic biofuel production would plummet, gas prices would rise and America would become more dependent on foreign sources of energy. The Senator seems to assume that the U.S. ethanol industry is entirely dependent on subsidies, and without the tax credit and tariff, renewable fuel production in America would cease. That's simply not the case.

The Renewable Fuel Standard (RFS) mandates gasoline blenders use an ever-increasing amount of ethanol, so not only is the market for domestic producers built-in -- it's growing rapidly. Don't just take our word for it. Some of the nation's top producers and blenders -- from Valero and Exxon to Green Plains Renewable Energy -- envision a thriving industry even in the absence of the VEETC and the 54-cent per gallon tariff on imported ethanol. There is simply no scenario where 100,000 jobs - or anything remotely close to that number -- would be lost because U.S. ethanol production will increase from around 12 billion gallons today to some 14.5 billion gallons by 2014 without the tariff or tax credit thanks to the RFS mandates.

Secondly, fuel prices are expected to go down -- not up -- if the tariff and subsidies expire. Recent research from Iowa State University found that competition in the marketplace would reduce ethanol prices by 12 cents per gallon in 2011 and 34 cents per gallon in 2014. Lower ethanol prices mean all drivers see modest savings at the pump. Gas prices would fall by a penny or two per gallon next year and 3-5 cents per gallon in 2014.

Grassley then took aim at his colleagues who voted against repealing oil and gas subsidies, but support eliminating ethanol incentives -- asking how they "reconcile such inconsistency."

We hope reporters will ask Senator Grassley the very same question about his own voting record on the value of competition and perils of trade protection. In 2007 in the context of the prescription drug reimportation debate, Grassley argued that "[i]mports create competition and keep domestic industry more responsive to consumers. In the United States, we import everything consumers want. So why not pharmaceuticals?" He went on to say that "the pharmaceutical companies do not like the idea of opening up America to the global marketplace. They want to keep the United States closed to other markets in order to charge higher prices here."

If Americans deserve access to better, less expensive prescription drugs, why not the same when it comes to renewable fuel? With over 80,000 letters and emails sent to



Congress since this summer calling for an end to the tariff on imported ethanol, it's clear that American consumers want access to the best a global market has to offer. Letting the clock run out on current ethanol policy would not be the "job-killing, gas tax increase" disaster that Grassley assumes. Rather it will create a race to the future and generate better alternative for all Americans.

Lastly, as Americans for Tax Reform [pointed out](#), expiration of the VEETC would not violate its "Taxpayer Protection Pledge" because VEETC's expiration is expected and has already been factored into the 2010 budgeting baseline. Americans for Tax Reform have made it crystal clear that "if legislators choose not to reauthorize the [ethanol] tax credit, they are not in violation of the pledge as they are keeping revenue consistent with 2010 projections." Hundreds of members of Congress have taken this pledge and consider it important. So I hope this mischaracterization of ATR's position on ethanol ([apparently started](#) yby former Representative Bob Barr) gets clarified.

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