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Lame Duck Congress Goes from Bad to Worse on U.S. Ethanol Policy
By Joel Velasco

Some in Congress are intent on making a bad situation even worse. Despite calls from across the country – including 67 newspaper editorials, over 80,000 letters from clean energy advocates, and opposition from a bi-partisan group of Senators and one of the broadest coalitions imaginable – lame-duck lawmakers are pushing ahead with ethanol earmarks. The plan would charge American taxpayers more than $5 billion per year to subsidize the mature corn ethanol industry, as well as double a trade barrier that denies consumers choice at the pump and makes gas more expensive.

To set the stage, ethanol in the United States benefits from 30 years of government support that includes a tax credit for blending the alcohol-based fuel with gasoline and an import tax (or tariff) on foreign ethanol.

For more than 20 years, the amount of the tax credit and tariff were aligned to achieve a direct offset (commonly referred to as "parity"). An adjustment to the Volumetric Ethanol Excise Tax Credit (VEETC) usually meant the exact same adjustment to the tariff. That symmetry changed, however, starting in 2001, and today the blenders' credit is 45 cents per gallon while the import tax is 54 cents.

	VEETC CREDIT ($/GAL)	IMPORT TARIFF ($/GAL)
1980-1983	0.40	0.40
1984-1989	0.60	0.60
1990-2000	0.54	0.54
2001-2002	0.53	0.54
2003-2004	0.52	0.54
2005	0.51	0.54
2006	0.51	0.54
2007	0.51	0.54
2008	0.51	0.54
2009	0.45	0.54
2010	0.45	0.54

As we've argued all year, the best way to regain parity is to set both the VEETC and tariff at zero. Allowing these subsidies to expire as scheduled at the end of the year will help lower gas prices, save taxpayers money and provide Americans with greater access to advanced renewable fuels like sugarcane ethanol. Unfortunately, the prospects for outright expiration are getting dimmer.

Apparently, the chairman of the tax-writing Senate Finance Committee has floated a proposal that would trim the ethanol subsidy from 45 cents per gallon to 36 cents. It would also extend the tariff on imported ethanol at its current rate of 54 cents per gallon – doubling the difference between the tax credit and the tariff (i.e., the effective trade barrier benefitting corn ethanol) from nine to 18 cents.

The ethanol tariff and subsidies date back to the days of President Jimmy Carter, and the historical basis has always been clear – to offset the tax credit so that America does not subsidize foreign producers. From the politicians who authored the legislation to the interest groups who lobby fiercely to uphold the subsidies, this line of reasoning has remained consistent as you'll see from the many statements below.

Now some in Congress are trying to change the rules by making the tariff a true trade barrier rather than a subsidy offset. The corn lobby may cheer this increased trade protection, but the real losers are American drivers since the lack of competition will keep ethanol prices artificially high.

If you care about improving America's access to clean and affordable renewable fuels, there has never been a more important time to make your voice heard. Visit our online advocacy center to learn about easy ways you can make a big difference at this critical juncture.

My message for Congress is simple as this year's ethanol debate reaches its climax:

* The best option for Americans is to let the ethanol tariff and subsidies expire as scheduled, because competition benefits consumers. Allowing sugarcane ethanol to compete fairly in the U.S. would save Americans money at the pump, cut dependence on Middle East oil and improve the environment.

* Brazil (the world's second largest ethanol producer) ended government subsidies for ethanol more than a decade ago and eliminated its import tariff early this year. America (the #1 ethanol maker) should do the same. As the world's top producers, the United States and Brazil need to lead by example in creating a free market for clean, renewable fuel.

* But should Congress choose to continue the subsidy at a reduced rate instead of eliminating it altogether, we urge lawmakers to reduce the import tax as well and set it at the same amount as the revised blenders' credit. The tariff shouldn't exist at all. But if it must, the ethanol import tariff should be a direct offset preventing Americans from subsidizing foreign production, not a punitive trade barrier.

Who Supports Parity?

The Original Legislative Champions for the Ethanol Tariff

"In all of 1979, ethanol imports from Brazil amounted to only about 2 million gallons … In my view, Federal tax policy should be neutral toward those imports by denying a Federal Tax subsidy for imported alcohol. This is precisely what this tariff in this legislation will accomplish."

- **Sen. Bob Dole Congressional statement, December 1980**

"This duty increase would offset what amounts to a 40 cents per gallon subsidy now available to imported alcohol as a result of the excise tax exemption and the 40-cent tax credit."

- Summary of Revenue Reconciliation Bill, Committee on Finance, U.S. Senate, Cong. Rec. S9613 (daily ed. 23 July 1980); Revenue Increases: Recommendations of the

Committee on Finance, Senate Finance Committee Print (2 July 1980), 25, reprinted in Cong. Rec. S9315, S9316 (daily ed. 2 July 1980)

The Congressional Record

When the ethanol subsidy goes up, the tariff goes up proportionately…

Deficit Reduction Act of 1984 – "*The conference agreement increases the present 5-cents-per-gallon excise tax exemption for alcohol fuels mixtures (e.g., gasohol) to 6 cents per gallon. The alcohol fuels credit and the duty on imported alcohol fuels are correspondingly increased to 60 cents per gallon.*

- Summary of Tax and Spending Reduction Provision of H.R. 4170 as Passed by the House and the Senate, Joint Committee Print (30 June 1984), 72. The increases are directly proportional in light of the requirement that blended fuels contain ten percent alcohol.

…and when the ethanol subsidy goes down, the tariff goes down proportionately

Omnibus Budget Reconciliation Act of 1990 – "*Currently, there is applied to imported ethanol an additional tariff of 15.85 cents per liter to offset the domestic alcohol fuels tax credit … {T}he Committee bill would reduce the existing 60 cents-per-gallon tax credit for ethanol used as a fuel or in a mixture to produce gasohol to 55 cents-per-gallon. Since the ethanol tariff is imposed to offset this credit, the Committee reduces the tariff by a proportionate amount to 14.53 cents-per-liter*

- Explanatory Material Concerning Committee on Finance, 1990 Reconciliation Submission Pursuant to House Concurrent Resolution 310, reprinted in Cong. Record S15632, S15674 (daily ed. 18 October 1990)

Domestic Ethanol Supporters

"We've always supported parity on the secondary tariff with the tax incentive. We think the only reason to have the secondary tariff is to protect the taxpayer, not the industry. And that has been our viewpoint and you know, I think indeed if the tax incentive were to be adjusted, it is quite likely that the secondary tariff would be adjusted as well."

- Bob Dinneen, Renewable Fuels Association President & CEO
Post-Election Conference Call with Reporters on November 3, 2010

"*[T]he tariff [on imported ethanol] ought to be tied to the value of the tax credit, and if the tax credit is slowly phased out, then the tariff can be as well.*"

-**Chris Thorne, Growth Energy Director of Public Affairs**
Comment posted to New York Times Green Inc. blog on July 22, 2010

Bipartisan Group of U.S. Senators

"*The tariff on ethanol makes our country more dependent on foreign oil. The tariff is nine cents per gallon higher than the ethanol subsidy it supposedly offsets, and this lack of parity puts imported ethanol at a competitive disadvantage against imported oil. This…leads to more oil and gasoline imports from OPEC countries that enter the United States tariff-free. Eliminating or reducing the ethanol tariff would diversify our fuel supply, replace oil imports from OPEC countries with ethanol from our allies, and expand our trade relationships with democratic states.*"

- Dear Colleague letter to Senate leadership, November 30, 2010

"*The current real trade barrier on sugar-based ethanol imported from Brazil and other foreign sources gives gasoline imports a competitive advantage. I believe this makes no sense – particularly given our nation's continued addiction to oil imported from the Middle East and other hot spots, as well as the volatility of global markets for the fuels we put in our cars…*"

- Senator Dianne Feinstein (D-CA), March 18, 2009

" *… At a time when we are transferring billions of U.S. dollars to Venezuela and other hostile parts of the world that supply us oil, expanding access to inexpensive, plentiful ethanol from Brazil and other friendly nations is a better alternative…*"

- Senator Judd Greg (R-NH), March 18, 2009

"*The tariff on imported ethanol is an unfair barrier to affordable, environmentally-friendly alternative fuels…*"

- Senator Susan Collins (R-Maine), March 18, 2009

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