Ethanol on the chopping block

By **JOSH FLINT**

Key Points

- February vote indicates ethanol tax credits are in peril.
- VEETC, the current tax credit, expires in December 2011.
- To approve an extension, VEETC may need to be revamped.

DURING the 2011 National Ethanol Conference, a lot was said of February's 286-135 House vote that overwhelmingly supported withholding funding from the U.S. EPA's effort to move E15 to the marketplace.

With a budget shortfall of nearly $1.5 trillion, this vote is indicative of congressional efforts to cut spending. Despite a lot of talk about the recent vote on the "Sullivan Amendment" (the E15 funding block was proposed by Rep. John Sullivan, R-Okla.), industry leaders widely believe the vote will not pass the Senate or President Barack Obama's desk.

Jon Doggett, National Corn Growers Association vice president of public policy, says the industry needs to move past the issue of E15 implementation and focus its efforts on keeping ethanol tax credits. "We can't let this be the issue that keeps ethanol from moving forward," he adds.

Even if ethanol proponents agree to pursue the bare-bones agenda of retaining some form of tax credit, the question persists, "What sort of tax credit has the longevity to survive as Congress attempts to rein in spending?"

Changing VEETC

According to a panel of tax policy analysts, numerous options are available. David DeRamus, managing partner with Bates White economic consulting firm, details several viable plans.

The industry could support another extension of the Volumetric Ethanol Excise Tax Credit, which provides a 45-cent-per-gallon ethanol tax credit to blenders.

As a second option, the industry could support a slight tweak of VEETC where the tax credit is given to the ethanol producer. Another VEETC-with-a-twist option would involve moving the credit to the retailer.

PANEL DISCUSSION: RFA's Bob Dinneen (right) moderates the Washington Insiders Roundtable during the 2011 National Ethanol Conference. The panel included: (from left) Mark Rokala, Cornerstone Government Affairs; Marty Durbin, American Petroleum Institute; Shane Karr, Alliance of Automobile Manufacturers; and Jon Doggett, National Corn Growers Association.

Purdue University's Wallace Tyner supports a change to VEETC where the tax credit is tied directly to oil prices; i.e., as crude oil trends upward, ethanol naturally becomes more competitive. In Tyner's proposal, VEETC incentives kick in only if crude oil is under $100 a barrel. At $50 a barrel, he proposes a 25-cent-per-gallon ethanol subsidy.

Another option is to pay tax credits only on gallons produced over the volume set by the Renewable Fuels Standard mandate. Relying on the RFS mandate to boost ethanol demand has the advantage of shifting the cost of ethanol from the taxpayer to fuel consumers, says Iowa State University's Bruce Babcock.

Moving forward, ethanol supporters must uniformly choose a plan and stick with its promotion. According to the Renewable Fuels Association, this is paramount if ethanol is to receive any support from Congress.