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DOLE PROMOTES ETHANOL AT CONGRESSIONAL HEARING;
GOOD FOR AGRICULTURE, GOOD FOR THE ENVIRONMENT.
CALLS FOR EXTENSION OF TAX EXEMPTION TO
HELP KEEP INVESTMENT IN ALTERNATIVE FUEL

WASHINGTON -- SENATOR BOB DOLE (KS) ISSUED THE FOLLOWING STATEMENT BEFORE THE HOUSE WAYS AND MEANS COMMITTEE HEARING ON ETHANOL FUELS.

THIS HEARING OCCURS AT AN IMPORTANT MOMENT. AMERICA'S DEPENDENCE ON OIL IMPORTS HAS REACHED ITS HIGHEST LEVEL EVER -- 46%! IF WE ARE NOT TO RISK RELEARNING THE LESSONS OF 1974, WE MUST INCREASE FUEL CONSERVATION AND ECONOMY AT HOME, AS WELL AS ENHANCE OUR DOMESTIC PRODUCTION.

IN ADDITION, AS WE ARE HEARING EVERY DAY ON THE SENATE FLOOR, ONE OUT OF EVERY TWO AMERICANS LIVES IN AN AREA THAT DOES NOT MEET EPA'S POLLUTION CONTROL STANDARDS. THE COST TO AMERICAN BUSINESS OF CLEANING UP OUR AIR WILL BE HUGE -- \$19 BILLION PER YEAR IF THE PRESIDENT'S PROPOSALS ARE ENACTED; UP TO \$100 BILLION IF THE COMMITTEE ALTERNATIVE PREVAILS.

INCREASED RELIANCE ON ETHANOL FUELS CAN HELP TO ADDRESS BOTH OF THESE PROBLEMS. ETHANOL PRODUCTION REDUCES FEDERAL FARM PROGRAM COSTS BY PROVIDING EXPANDED MARKETS FOR U.S. FARMERS. WHEN ADDED TO GASOLINE, IT IMPROVES THE QUALITY OF THE FUEL AND THE PERFORMANCE OF THE AUTOMOBILE; IT LESSENS OUR DEPENDENCE ON IMPORTED OIL, AND IT DRAMATICALLY IMPROVES THE QUALITY OF THE AIR WE BREATHE. MOREOVER, THE TAX INCENTIVES WHICH ENCOURAGE THE USE OF ETHANOL-BASED FUELS ACTUALLY SAVE THE FEDERAL GOVERNMENT MONEY BECAUSE THE SAVINGS UNDER OUR FARM PROGRAMS EASILY EXCEED THE LOSS TO THE HIGHWAY TRUST FUND.

EXCISE TAX EXEMPTION AND ALTERNATIVE BLENDER'S CREDIT

CURRENT LAW PROVIDES A SIX CENTS PER GALLON EXEMPTION FROM THE NINE-CENT FEDERAL EXCISE TAX FOR "GASOHOL" (GASOLINE THAT IS BLENDED IN A MIXTURE WITH AT LEAST 10% ETHANOL OR OTHER ALCOHOL). ALTERNATIVELY, BLENDERS OF FUELS RECEIVE A 60 CENT PER GALLON TAX CREDIT FOR THE USE OF ALCOHOL, SO THAT 10% ETHANOL BLENDS ALSO SAVE 6 CENTS OF THE 9 CENT FEDERAL EXCISE TAX PER GALLON OF FUEL. BOTH OF THESE CREDITS GO DIRECTLY TO THE FUEL PRODUCER/SELLER, GENERALLY A MAJOR OIL COMPANY, NOT TO THE CORN GROWER OR TO THE PRODUCER OF THE ETHANOL.

NEVERTHELESS, THESE INCENTIVES HAVE ATTRACTED INVESTMENT TOTALING MORE THAN \$2 BILLION INTO DOMESTIC FACILITIES WHICH PRODUCED OVER 900 MILLION GALLONS OF ETHANOL IN 1989. THIS PRODUCTION CONSUMED 360 MILLION BUSHELS OF CORN AND, ACCORDING TO INDUSTRY ESTIMATES, CAUSED A SAVING OF \$600 MILLION IN FEDERAL FARM PROGRAM COSTS. THE COST TO THE HIGHWAY TRUST FUND WAS ONLY \$485 MILLION. CLEARLY, THIS IS MONEY WISELY SPENT.

PRELIMINARY DATA COMPILED BY THE GENERAL ACCOUNTING OFFICE ON THE BUDGETARY IMPACTS OF INCREASED USE OF ALCOHOL FUELS PROJECT CONTINUED SAVINGS IF THE FUEL TAX INCENTIVES FOR ETHANOL ARE CONTINUED FOR ANOTHER EIGHT YEARS! IN ADDITION TO A NET SAVING TO THE GOVERNMENT, THE GAO ALSO FINDS THAT THE INCREASED DEMAND FOR CORN FROM ETHANOL PRODUCERS WOULD INCREASE FARM INCOME SUBSTANTIALLY. THIS WOULD BE WELCOME RELIEF FOR THE HARD-PRESSED MIDWESTERN FARMERS WHO HAVE ENDURED TWO CONSECUTIVE YEARS OF SEVERE DROUGHT.

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UNFORTUNATELY, THE SCHEDULED 1993 EXPIRATION OF THESE TAX BENEFITS HAS BROUGHT ADDITIONAL INVESTMENT IN THE ETHANOL INDUSTRY TO A STANDSTILL. LENDERS WILL NOT RISK CAPITAL WITHOUT ASSURANCES THAT THE INCENTIVES WHICH MAKE THESE FACILITIES PROFITABLE WILL REMAIN IN THE CODE. THE LOSS OF THIS INVESTMENT AFFECTS FUEL CONSERVATION, AIR QUALITY AND FARM PRICES, AS WELL AS THOSE SEEKING TO INVEST IN THE PRODUCTION OF ETHANOL FUELS.

ETBE

ETHYL TERTIARY BUTYL ETHER ("ETBE") IS A NEW FUEL PRODUCED WITH ETHANOL WHICH HAS SEVERAL SIGNIFICANT ADVANTAGES. ETBE CAN BE SHIPPED IN PIPELINES, HAS LESS VOLATILITY, MORE OCTANE AND MORE WEIGHT THAN OTHER ETHANOL BLENDS. THIS PROCESS WILL OPEN UP NEW MARKETS, NOW DOMINATED BY IMPORTED METHANOL, FOR A DOMESTICALLY MANUFACTURED ETHANOL FUEL.

IN NOVEMBER, TREASURY ISSUED PROPOSED REGULATIONS, CLARIFYING THAT ETBE QUALIFIES FOR THE ALTERNATIVE BLENDER'S CREDIT. IN DESCRIBING THIS DECISION, PRESIDENT BUSH STRESSED THAT THIS CREDIT "WILL MEAN MORE MARKETS FOR GROWERS AND CLEANER AIR FOR ALL AMERICANS". HIS ACTION HAS THE POTENTIAL TO GREATLY IMPROVE ACCESS TO SAFE, CLEAN BURNING FUEL; HOWEVER, WITHOUT AN EXTENSION OF THE UNDERLYING BLENDER'S CREDIT, NEW INVESTMENT IN ETBE WILL NECESSARILY REMAIN LIMITED.

IMPORTED ETHANOL

1. TARIFF

IMPORTED ETHANOL IS SUBJECT TO A DUTY OF 60 CENTS PER GALLON WHICH IS INTENDED TO COMPENSATE FOR THE EXCISE TAX BENEFITS WHICH WILL BE REALIZED WHEN THE PRODUCT IS USED IN GASOHOL. THE COMPENSATING TARIFF PREVENTS THE TAX INCENTIVES FOR DOMESTIC PRODUCTION OF GASOHOL FUELS FROM BEING USED BY FOREIGN PRODUCERS. IT IS IMPORTANT THAT THIS TARIFF REMAIN IN THE LAW.

MOREOVER, ASSUMING THAT ETBE WILL REMAIN ELIGIBLE UNDER THE BLENDER'S CREDIT, IT IS IMPORTANT THAT THE CREDIT APPLY ONLY TO ETBE PRODUCED WITHIN THE UNITED STATES OR THAT IMPORTED ETBE ALSO BE SUBJECT TO A COMPENSATING TARIFF. WITHOUT THIS LEGISLATION, THE TARIFF PROTECTION AGAINST DIVERSION OF THE GASOHOL TAX INCENTIVES TO FOREIGN PRODUCERS WILL BE EASILY CIRCUMBENTED.

2. C.B.I.

AS AMENDED BY THE TAX REFORM ACT OF 1986, THE CARIBBEAN BASIN INITIATIVE SUSPENDED THE DUTY ON ETHANOL IMPORTED FROM THE CARIBBEAN WITH AT LEAST 75% LOCAL FEEDSTOCK CONTENT. PLANTS ALREADY UNDER CONSTRUCTION WERE EXEMPT FROM THE LOCAL CONTENT REQUIREMENT UNTIL 1990, TO ALLOW TIME TO DEVELOP LOCAL SUPPLIES. LAST YEAR, HOWEVER, THIS REQUIREMENT WAS MODIFIED TO SUSPEND THE LOCAL FEEDSTOCK REQUIREMENT FOR CARIBBEAN IMPORTS OF UP TO 60 MILLION GALLONS OR 7% OF THE DOMESTIC ETHANOL MARKET. INCREASING LOCAL CONTENT REQUIREMENTS OF UP TO 50% ARE IMPOSED ON ADDITIONAL IMPORTS.

WHILE I SUPPORT THE EXTENSION OF U.S. TAX BENEFITS TO ENCOURAGE THE DEVELOPMENT OF A GRASS-ROOTS ETHANOL INDUSTRY IN THE CARIBBEAN BASIN, I SEE NO REASON TO EXTEND THESE BENEFITS TO ETHANOL PRODUCED FROM EUROPEAN WINE WHICH IS RUN THROUGH A DEHYDRATION TOWER LOCATED THERE. IF LOCAL FEEDSTOCK SUPPLIES ARE INADEQUATE TO MAINTAIN THESE FACILITIES AT THE PRESENT TIME, CARIBBEAN PRODUCERS SHOULD BE REQUIRED TO INVEST THEIR U.S. TAX SAVINGS TO INCREASE THOSE SUPPLIES. WITHOUT ANY LOCAL INVESTMENT REQUIREMENT, THE CBI BENEFITS WILL NOT ACHIEVE THEIR GOAL OF PROMOTING ECONOMIC DEVELOPMENT IN THIS TROUBLED REGION.

CONCLUSION

ETHANOL PRODUCTION IS GOOD FOR AMERICA. IT PROVIDES AN IMPORTANT MARKET FOR OUR FARM ECONOMY. IT WILL IMPROVE THE QUALITY OF OUR AIR. AND IT PLAYS AN IMPORTANT PART IN A STRONG DOMESTIC ENERGY POLICY AS AN ALTERNATIVE TO RISING FOREIGN OIL IMPORTS.

HOWEVER, THE IMPENDING SUNSET OF THE GASOHOL TAX INCENTIVES HAS ALREADY HAD THE EFFECT OF FREEZING OUT PRIVATE INVESTMENT AND FUTURE DEVELOPMENT OF THIS INDUSTRY, AND IT WILL SOON THREATEN THE INDUSTRY'S MARKETING AND INFRASTRUCTURE. THUS, WE MUST ACT QUICKLY TO EXTEND BOTH THE FUEL TAX EXEMPTION AND THE ALTERNATIVE BLENDER'S CREDIT IF WE ARE TO SECURE THE BENEFITS OF INCREASED ETHANOL PRODUCTION FOR THE FUTURE.