THE ETHANOL MARKETING TAX INCENTIVE
CHANGES IN THE 1990 RECONCILIATION ACT

UNTIL ACTION LAST YEAR BY CONGRESS, THE SIX CENTS PER GALLON EXEMPTION FROM THE NINE CENT EXCISE TAX ON GASOLINE, IF THE TAXABLE PRODUCT WAS BLENDED IN AT LEAST A TEN PERCENT MIXTURE, WAS TO EXPIRE SEPTEMBER 30, 1993.

AS PART OF THE OMNIBUS RECONCILIATION ACT OF 1990, THIS EXCISE TAX EXEMPTION AND THE BLENDERS CREDIT FOR ETHANOL BLENDED FUELS WAS EXTENDED TO THE YEAR 2000.

THE MOST SIGNIFICANT MODIFICATION OF THE INCENTIVE IS THE PROVISION WHICH WILL REDUCE THE EXCISE TAX EXEMPTION FROM 6 CENTS TO 5.4 CENTS PER GALLON, AND THE BLENDERS TAX CREDIT HAS BEEN REDUCED FROM 60 CENTS TO 54 CENTS PER GALLON. THESE CHANGES IN THE INCENTIVE BECAME EFFECTIVE DECEMBER 1, 1990.

THE REDUCTIONS WERE AIMED AT GENERATING REVENUES TO PERMIT A NEW SMALL PRODUCER TAX CREDIT OF TEN CENTS PER GALLON TO BE MADE AVAILABLE TO QUALIFIED ETHANOL PRODUCERS DEFINED AS THOSE HAVING A FUEL PRODUCTION CAPACITY OF NOT IN EXCESS OF 30 MILLION GALLONS ANNUALLY. THE PRODUCER CREDIT WILL BE LIMITED TO THE FIRST 15 MILLION GALLONS OF PRODUCTION AND IS NOT AVAILABLE FOR DISTILLATION PRODUCTION. FOR PURPOSES OF DETERMINING THE 30 MILLION GALLON CAP, THE 15 MILLION GALLON LIMITATION, THE AGGREGATE CORPORATE CAPACITY WILL APPLY. THIS CREDIT SHALL APPLY TO ETHANOL PRODUCED, SOLD OR USED IN TAXABLE YEARS BEGINNING AFTER DECEMBER 1, 1990.

Conference Agreement

The conference agreement generally follows the Senate amendment with the following two modifications. First, rather than extending the section 29 credit permanently, the conference agreement extends both the drilled or placed-in-service date and the sunset date of the credit for two years. Thus, the credit will apply with respect to qualified fuels which are produced from a well drilled before January 1, 1998, or produced in a facility placed in service before January 1, 1998, and which are sold before January 1, 2003.

Second, the conference agreement specifies that the amount of credit allowable under section 29 with respect to any qualifying production from an enhanced oil recovery project must be reduced by the amount of general business credit claimed with respect to that project for the taxable year or any prior taxable year that is attributable to the enhanced oil recovery credit provided under a separate provision of the conference agreement.

b. Alcohol fuels credit, exemption, and tariff

Present Law

An income tax credit of 60 cents per gallon is allowed to producers and blenders of alcohol (190 or greater proof) used as fuel, sold at retail for use as fuel, or mixed with fuel in a mixture used as fuel in a motor vehicle driven on highways. Alcohol with a proof greater than 150 but less than 190 is allowed a credit of 45 cents per gallon. The alcohol fuels may be blended with gasoline, diesel fuel, or special motor fuels. The income tax credit is scheduled to expire after December 31, 1992.

Alternatively, in lieu of the income tax credit, a 6-cents-per-gallon excise tax exemption from excise taxes on gasoline, diesel fuel, or special motor fuels used to finance the Highway Trust Fund is allowed on the sale of an alcohol fuel mixture that consists of 10-percent alcohol fuel and 90-percent motor fuel. The excise tax exemption terminates after September 30, 1998.

In addition, a tariff of 15.85 cents per liter (metric equivalent of 60 cents per gallon) of imported alcohol fuel is levied to offset the domestic alcohol fuels tax credit and excise tax exemption. Certain quantities of alcohol fuel may be imported duty-free from Caribbean Basin Initiative (CBI) countries, if the alcohol fuel meets statutory requirements with respect to value added in the CBI. Imports of ETBE (ethyl tertiary butyl ether) enter with a duty rate of 6.66 cents per liter. The three import provisions terminate after December 31, 1992 (except that the ETBE tariff also expires on an earlier date, if any, that Treas. Reg. 1.40-1 is withdrawn or declared invalid).

House Bill

No provision.

Senate Amendment

A new 10-cents-per-gallon income tax credit is allowed for production of up to 15 million gallons per year of ethanol by an eligible small ethanol producer, defined as a person with a productive capacity for alcohol not in excess of 20 million gallons of alcohol per year. Appropriate anti-abuse rules are included (1) to recapture the credit in event of failure to use ethanol or an ethanol fuel mixture as fuel and (2) to prevent the credit from benefiting directly or indirectly any producer with a productive capacity in excess of 20 million gallons of alcohol per year or any person with respect to more than 15 million gallons of ethanol per year.

The income tax credit of 60 cents per gallon for ethanol fuels or ethanol fuel mixtures is decreased to 55 cents per gallon for 190 or greater proof ethanol. The credit for 150 to 190 proof ethanol is reduced from 45 cents to 40 cents per gallon.

The excise tax exemption is reduced from 6 cents per gallon to 5.5 cents per gallon for a 10-percent ethanol fuel/90-percent motor fuel mixture.

The credit and the excise tax exemption for alcohol fuels and alcohol fuel mixtures are extended through December 31, 2000, and September 30, 2000, respectively. In addition, at any time prior to January 1, 2001, the credit and the excises tax exemption will terminate, or will be reinstituted, at the same time that the Highway Trust Fund financing rates under the motor fuels excise taxes expire, are terminated, or are reinstituted. Unused credits may be carried forward only for two taxable years after termination of the credit.

Appropriate adjustments are made in the tariff schedules to reduce the tariff on ethanol from 15.85 cents per liter to 14.53 cents per liter. These adjustments conform the tariff rate to the reduced income tax credit of 55 cents per gallon. The tariff and the CBI exemption terminate after September 30, 2000, and in the case of ETBE, the earlier date, if any, on which Treas. Reg. sec. 1.40–1 is withdrawn or declared invalid. The tariff rate is inapplicable during any period when the Highway Trust Fund financing rate is not in effect.

The provisions of the Senate amendment are effective after December 31, 1990.

Conference Agreement

The conference agreement follows the Senate amendment with modifications.

The additional alcohol fuels credit of 10 cents per gallon is made available to producers with annual production capacity of up to 30 million (instead of 20 million) gallons of alcohol. The ethanol blender credit is reduced to 54 cents per gallon, and the ethanol exemption from the gasoline tax is reduced to 5.4 cents per gallon of gasohol mixture. Corresponding adjustments are made to the tariffs on ethanol and ETBE. The tariff on ethanol will decrease to 14.27 cents per liter (11.34 cents per liter on imports from Canada) and the tariff on ETBE will decrease to 5.99 cents per liter (4.76 cents per liter on imports from Canada).

The conference agreement modifies the anti-abuse rules in the Senate amendment to provide that in the case of flow-thru entities, the productive capacity limitation will be applied at both the entity and interest holder levels.

The conference agreement includes an extension of the tax and tariff provisions relating to ethanol. As under present law, the tariff provision on ETBE would cease to have effect in the event that Treasury regulation sec. 1.40–1 (relating to ETBE) is withdrawn or judicially declared invalid. The conferees intend that no inference be drawn as to Congressional acquiescence in such regulation under present law.

c. Tax credit for costs attributable to enhanced oil recovery projects and qualified exploratory costs

Present Law

Enhanced oil recovery

Under present law, no tax credit is allowed for costs related to enhanced oil recovery projects (generally these projects are referred to as tertiary recovery projects).

Exploratory drilling costs

Under present law, an operator who pays or incurs intangible drilling or development costs ("IDCs") in the development of a domestic oil or gas property may elect either to expense or capitalize such amounts. If a taxpayer elects to expense IDCs, the taxpayer deducts the amount of the IDC as an expense in the taxable year the cost is paid or incurred. Generally, if IDCs are not expensed, but are capitalized, they can be recovered through depletion or depreciation, as appropriate, or under a special election, they may be amortized over a 60-month period. In the case of a nonproductive well ("dry hole"), IDCs may be deducted, at the election of the operator, as an ordinary loss in the taxable year in which the dry hole is completed. In the case of an integrated oil company, 30 percent of the IDCs on productive wells must be capitalized and amortized over a 60-month period.

House Bill

No provision.

Senate Amendment

General rule

The Senate amendment adds a new domestic energy exploration and production tax credit as a component of the general business credit. The exploration and production credit is equal to 15 percent of qualified costs attributable to qualified enhanced oil recovery ("EOR") projects and to certain exploratory drilling in the United States. To the extent that a credit is allowed for these costs, the taxpayer must reduce the amount otherwise deductible or required to be capitalized and recovered through depreciation, depletion, or amortization, as appropriate, with respect to these costs.

UNIVERSITY OF MINNESOTA

State and Local Policy Program
Hubert H. Humphrey Institute of Public Affairs

Draft

Ethanol and Public Policy
November 4, 1991

Agenda

8:00	**Registration**
8:30	**Welcome and Overview of Policy Issues**
	G. Edward Schuh, Dean, Hubert H. Humphrey Institute of Public Affairs
	History of Issues Regarding Ethanol
	Eric Vaughn, President, Renewable Fuels Association, Washington, D.C.
9:15	**Panel 1: Where is the industry now in terms of technology and micro-economics?**
	W. Robert Schwandt, Consultant to Ethanol and Agri-business. Michael Ladisch, Purdue University (Charles Wyman, alternate)
10:30	**Break**
10:45	**Panel 2: What is the importance of ethanol as a value added industry? What should be the state's role?**
	Mark Dungan, USDA, Special Assistant to Secretary Madigan Someone to speak about value added industry
12:15	**Lunch**
	Senator Bob Dole (invited)
1:45	**Panel 3: Ethanol as a public policy issue.**
	Dr. Gary Whitten, Chief Scientist, Systems Applications, Inc. Milt Copulous, Heritage Foundation Barbara Charnes, Coloradans for Clean Air Gale Johnson, University of Chicago
4:00	**Participant Feedback**
	Lee Munnich, Moderator
4:30	**Quality Check and Wrap-up**
	Barbara Lukermann?
4:40	**Adjourn**

SPEAK — Monday - Nov. 4 or Monday - Nov 18

UNIVERSITY OF MINNESOTA

Twin Cities Campus

State and Local Policy Program
Hubert H. Humphrey Institute of Public Affairs

150 Humphrey Center
301 19th Avenue South
Minneapolis, MN 55455
612-625-7357
Fax: 612-625-6351

Minneapolis, MN

August 16, 1991

Senator Robert Dole
141 Hart Senate Office Building
Washington D.C. 20510

Dear Senator Dole:

It is my pleasure to invite you to address the conference "Ethanol and Public Policy" at the Humphrey Institute of Public Affairs in November. This conference will involve regional business, government and academic leaders who are wrestling with the numerous complex issues surrounding the production, support and use of ethanol.

As the enclosed draft agenda illustrates, panelists of national stature will speak on current and future technological issues; the microeconomics of ethanol production; the importance of ethanol as a value added industry; appropriate roles for state policy; energy security; consumer awareness; and environmental issues. We want the luncheon address to give a political perspective, and your strong interest in and involvement with the public policy issues of ethanol make you an ideal keynote speaker for our conference.

We can offer you Monday, November 4 or Monday, November 18 as conference dates, and we hope one of these dates will work for you. Please let us know your preference. To complement your trip to the Twin Cities, we would be pleased to arrange a breakfast for you with Minneapolis business and community leaders.

I hope you will be able to join us as keynote speaker on November 4. If you have any questions about the conference, I encourage you to call Lee Munnich, Senior Fellow and Director of the State and Local Policy Program (612-625-7357), who is responsible for the program. We will follow up with your staff by phone on Friday, August 23.

Sincerely,

G. Edward Schuh

G. Edward Schuh
Professor and Dean

8-22-91 Deferim Ister

9-3-91 Senator Boschwitz called to encourage Sen Dole to go to this conference

9-3-91 advised Jo-Anne of fundraiser f/Specter on Nov 4

WELCOME ABOARD!

SAFETY and ROUTE INFORMATION

MARVIN WINDOWS

Meet the Crew . . .

All five of the Marvin pilots are full time employees of Marvin Windows, chosen for their background and experience. Pilots attend training in the Cheyennes and Diamond Jet twice yearly at Flight Safety International in Houston, Texas and Lakeland, Florida. Flight Safety Internationals courses include ground instruction in aircraft systems and extensive training in complex detailed airplane simulators.

HENRY KLINER Chief pilot, has been a pilot for Marvin Windows since 1982. Henry is rated in all the Marvin aircraft and during 1989 noted the ten thousandth hour in his pilot log book. Henry owns his own airplane, a nearly antique 1948 Aeronca "Champ" which he uses to his advantage in two of his primary interests, hunting and fishing.

BILL PINNEY has been employed by Marvin Windows as a pilot since 1987. Before coming to Marvin Windows Bill was chief pilot of an aircraft Charter company in Minneapolis and flew as a bush pilot in Alaska.

PETE GRANGER has been a pilot for Marvin Windows since late 1988. Pete came to Marvins after a short term with a commuter airline in Las Vegas, Nevada, following an Air Force career of 21 years, which included two tours of duty in Viet Nam, one as a Forward Air Controller and the other as a fighter pilot. Pete was an Air Force Instructor pilot and Maintenance Test pilot, and retired a Lieutenant Colonel.

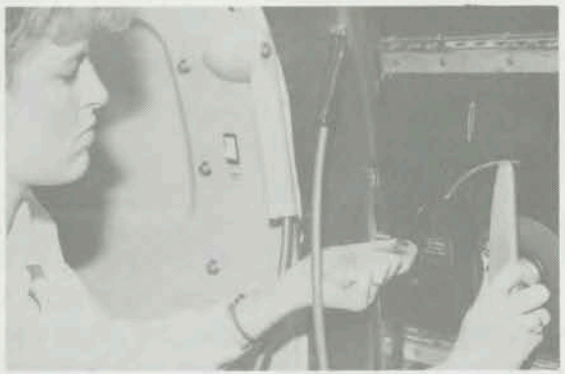
REO PRATT started flying for Marvin Windows in January, 1989 after 10 years flying for an All-Cargo airline in Minneapolis, three of which he spent as Chief Pilot and Instructor Pilot/Check Airman.

TREVOR OGDEN flew for a Minnesota commuter airline for nine years prior to coming to Marvin Windows in June of 1989. Trevor received a flying lesson for his fifteenth birthday and has been flying extensively ever since. His career has included flight instructing, as well as flying night freight on contract for United Parcel Service.

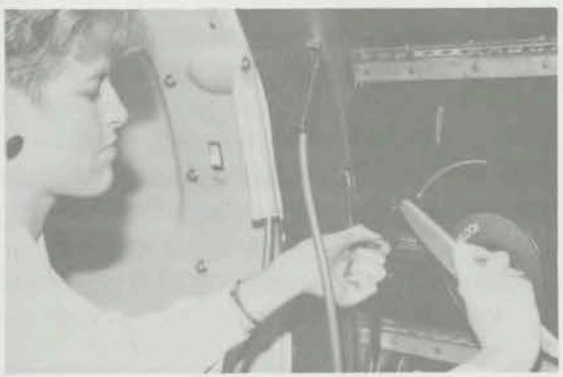
HAZEL KLINER handles all of the flight department scheduling and coordination, as well as corporate travel. Hazel holds a pilots license, as well as having more than five years of experience as the Marvin Windows Flight "dispatcher."

Safety Information

It is important that you keep your seat belt fastened at all times during flight, and mandatory that it be fastened for takeoff and landing. A tray table is available between each facing pair of club seats, and may be used in flight except during turbulent conditions. The tray tables must be stowed for takeoff and landing. Other safety information concerning doors, emergency exits and use of passenger



oxygen is included in this pamphlet. Please read it carefully. Normally the pilot will open and close the main cabin door. In an emergency a passenger may need to open the door, and if able, assist other passengers in exiting quickly. To open the main door in all three Cheyennes, pull on the small silver knob (located to the left of the large handle) and rotate the handle counter-clockwise.



The Planes . . .

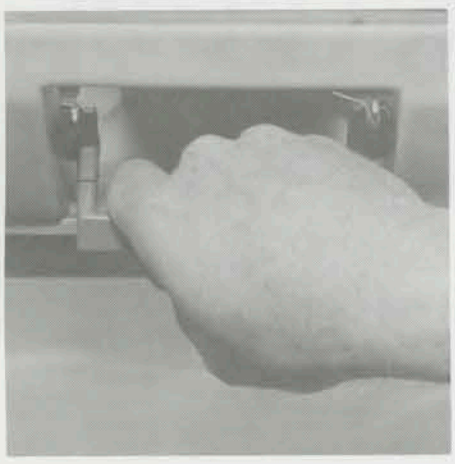
The Marvin Windows Flight Department operates five airplanes: three Piper Cheyennes, a Piper Aztec, and a Mitsubishi Diamond IA (now commonly referred to as a "Beech Jet"). The three Piper Cheyennes are each a different model Cheyenne: a Cheyenne II,, a Cheyenne IIXL, and a Cheyenne III. Below are photographs of each with a brief description.

The Piper Cheyenne II and IIXL shown here are virtually indistinguishable at a glance. While the Pratt and Whitney turbine engines are different models, they are housed in the same nacelles, and identical in appearance. The IIXL (N630MW) is about two feet longer, seats one more passenger than the II, and allows more flexibility in baggage capacity due to its longer fuselage. Both airplanes cruise at about 240 knots true airspeed and will consistently show ground speeds in excess of 300 miles per hour.

The Piper Cheyenne III, (N620MW) is easily identified by it's high "T" tail. It seats eight passengers plus one pilot, and can be recognized from the inside by it's lighter beige interior and the fact that the last two passengers sit side by side on a "bench" seat when eight passengers are carried. It cruises a little faster than the other Cheyennes (260 knots true airspeed) and makes the trip between Minneapolis and Warroad 5 to 10 minutes faster.

The old, and the new. The Piper Aztec was the first company aircraft, and was welcomed by employees who had previously made the seven hour drive regularly. While it flies lower and slower than the Cheyennes, it affords a better view of the countryside and still makes the Minneapolis - Warroad trip in under two hours, and is a respected member of the family. The Diamond Jet was purchased in January of 1989 and is used primarily for transportation to other Marvin plants and distributors. The Diamond cruises at 400 knots true air speed at altitudes of 35,000 to 40,000 feet, and carries up to seven passengers, plus a required crew of two pilots.

Emergency Exits

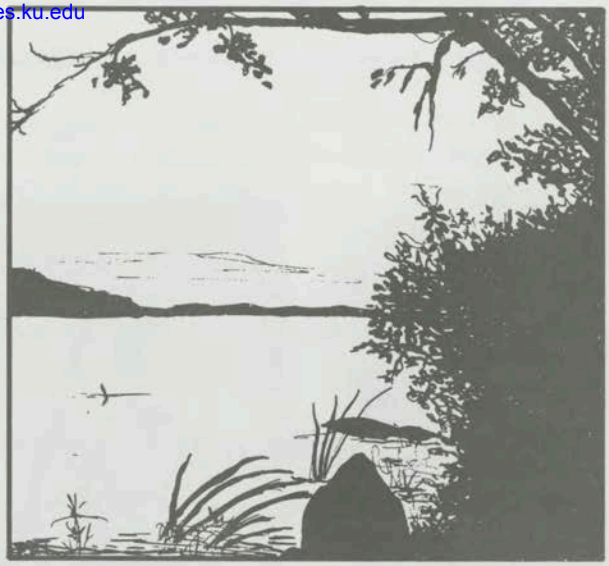


Should it become necessary to leave the aircraft in an emergency, all available exits should be used. The Piper Cheyennes and the Diamond Jet all have an emergency exit over the right wing which is also the window for the passenger seated in the forward (aft facing) club seat on the right hand side of the airplane. To operate the exit, remove the handle cover, pull on the handle and bringing the plug door inside, turn it at an angle and pitch it outside. Then exit quickly by climbing onto the wing and moving TO THE REAR of the airplane. Assist other passengers if possible, and get away from the (disabled) airplane.

It is very unlikely that you will need supplemental breathing oxygen in flight. Even if a decompression should occur, the Cheyennes generally cruise at altitudes which will allow a quick descent to a comfortable altitude. However, should it be necessary, the pilot will direct you to use the oxygen masks, located in a recess in the cabin ceiling above the center aisle. Pull off the cover, pull the mask to you, and don it by slipping the elastic over the top and back of your head. The mask should cover your nose and mouth; breathe normally. Emergency passenger oxygen may also be used for medical reasons during flight, at the direction of the pilot.

ROUTE INFORMATION

A high percentage of the flights of Marvin Windows airplanes occur between Warroad and Minneapolis. An outline map of the state of Minnesota depicts the locations and approximate route. Warroad lies at the southwest corner of the Northwest Angle. Most people are not aware of the existence of the "Angle", the only part of the Continental United States which is North of the forty-ninth parallel. (Many maps of the United States fail to show proper National Boundaries when they do not include the Northwest Angle.) As you descend for landing at Warroad International Airport on a reasonably clear day you will be able to see the Canadian provinces of Manitoba and Ontario and both Minnesota and North Dakota. At altitude on a clear night you will be able to see city lights of Winnipeg, Manitoba; Grand Forks, North Dakota; International Falls and Duluth, Minnesota as well as many smaller cities in Northern Minnesota and North Dakota. The flight from Minneapolis to Warroad in the Piper Cheyennes will take about one hour twenty minutes depending on wind and weather, and will be flown at an altitude of 15,000 to 24,000 feet.



The "Lake of the Woods" covers most of the Northwest angle, is more than 60 miles across, and has more than 14,000 islands, Lake of the Woods topography varies from shallow and swampy to deep and rocky. The lake comprises some of the best fishing in the world with beautiful wilderness scenery year round.

REMARKS OF

SENATOR BOB DOLE

ETHANOL: FUEL OF THE FUTURE

THANK YOU VERY MUCH.

DRAMATIC CHANGES IN

NATIONAL ENVIRONMENTAL

REQUIREMENTS AND A

HEIGHTENED AWARENESS OF

THE TREMENDOUS BENEFITS TO

RURAL ECONOMIES, INCREASED EXPORT MARKETS, DOMESTIC ENERGY SECURITY AND REDUCTIONS IN FARM PROGRAM COSTS ARE ALL COMING TOGETHER TO CREATE THE MOST EXCITING MARKETPLACE OPPORTUNITIES EVER FOR ETHANOL AND ETHANOL BLENDED FUELS IN THE UNITED

STATES.

BEGINNING AS A 10 MILLION GALLON A YEAR INDUSTRY, ETHANOL PRODUCERS ARE SELLING OVER 1 BILLION GALLONS OF ETHANOL ANNUALLY WITH BLENDERS PROVIDING OVER 9 BILLION GALLONS LAST YEAR OF ETHANOL-ENHANCED FUELS IN

45 STATES. OVER A TRILLION MILES HAVE BEEN DRIVEN ON ETHANOL BLENDED GASOLINES SINCE 1980 MAKING ETHANOL THE MOST SUCCESSFUL ALTERNATIVE LIQUID FUEL IN THE COMMERCIAL MARKETPLACE.

THE PROSPECTS FOR ETHANOL'S FUTURE ARE

4

BRIGHTER TODAY THAN AT ANY TIME IN ITS HISTORY. ETHANOL REMAINS THE CLEANEST AND HIGHEST PERFORMANCE OCTANE FUEL ADDITIVE IN TODAY'S MARKETPLACE. AS THE ONLY RENEWABLE FUEL, IT IS TRULY "AMERICA'S FUEL".

ENERGY SECURITY

ACCORDING TO THE U.S. OFFICE OF TECHNOLOGY ASSESSMENT, "IN LESS THAN 20 YEARS, AMERICA COULD BE DEPENDANT ON FOREIGN SOURCES FOR ALMOST THREE QUARTERS OF ITS OIL". FURTHER, IN 1990, IMPORTS

6

SUPPLIED 42 PERCENT OF U.S. OIL NEEDS -- 7.1 MILLION BARRELS PER DAY OUT OF TOTAL CONSUMPTION OF 16.9 MILLION BARRELS PER DAY.

THE IRAQI-KUWAIT CONFLICT HAS ONLY SERVED TO UNDERSCORE THAT SUPPLY DISRUPTIONS IN MAJOR OIL PRODUCING AREAS OF THE

7

WORLD CAN OCCUR. AS A NATION, IT IS IMPORTANT TO RECOGNIZE THE NEED TO PREPARE FOR PROLONGED SUPPLY DISRUPTIONS -- BEFORE THEY OCCUR. ETHANOL IS, AND SHOULD BE, PART OF THAT STRATEGY.

AS A MATTER OF DOMESTIC ENERGY SECURITY, ETHANOL IS

DERIVED FROM A WIDE VARIETY OF RENEWABLE FEEDSTOCKS INCLUDING GRAIN, CHEESE WHEY, CITRUS WASTES, FORESTRY RESIDUES, AND OF COURSE, THE MOST PREDOMINANT, CORN.

CONSIDER THESE FACTS FROM THE RENEWABLE FUELS ASSOCIATION:

* ETHANOL PRODUCTION ADDS 15 CENTS A BUSHEL TO THE MARKET PRICE FOR CORN.

* FOR EACH 100 MILLION BUSHELS OF CORN USED TO PRODUCE ETHANOL, 2250 NEW RURAL JOBS ARE CREATED.

* ACCORDING TO THE NATIONAL ADVISORY PANEL ON ETHANOL COST-

EFFECTIVENESS, EACH

BILLION GALLONS OF

ETHANOL PRODUCTION

INCREASES EMPLOYMENT BY

MORE THAN 4,400 FARM JOBS

AND 3,700 INDUSTRIAL JOBS.

* FUEL ETHANOL PRODUCTION

CREATES NEW DOMESTIC

MARKETS FOR U.S.

AGRICULTURAL PRODUCTS

AND SUPPLEMENT

CONVENTIONAL AND EXPORT

MARKETS --- INCLUDING OVER

$600 MILLION IN EXPORTS

LAST YEAR, PRIMARILY OF

CORN GLUTEN.

AS FARMERS PRODUCE

MORE CORN IN A "VALUE

ADDED" MARKET, CONSUMERS

BENEFIT FROM CLEANER AND

MORE COST COMPETITIVE GASOLINE; TAXPAYERS BENEFIT FROM REDUCED FARM PROGRAM COSTS AND REDUCED OIL DEPENDENCE AND THUS A SMALLER TRADE DEFICIT.

* THE 900 MILLION GALLONS OF FUEL ETHANOL PRODUCED IN THE U.S. IN 1990 REDUCED OIL IMPORTS BY MORE THAN 40

MILLION BARRELS OF CRUDE OIL; A LITTLE MORE THAN 28 GALLONS OF CORN-DERIVED ETHANOL DISPLACES ONE BARREL OF IMPORTED OIL; ONE ACRE OF CORN PRODUCES THE EQUIVALENT OF 10 BARRELS OF [redacted] OIL.

* A REPORT PREPARED BY THE U.S. GAO CONCLUDED THAT

THE PRODUCTION OF ETHANOL ACTUALLY SAVES THE FEDERAL GOVERNMENT MONEY BECAUSE OF REDUCED FARM PROGRAM COSTS AND INCREASED FARM INCOME. THE AVERAGE NET IMPACT TO THE FEDERAL GOVERNMENT WOULD BE A SAVINGS OF $460 MILLION TO $610 MILLION ANNUALLY.

* ABOUT HALF THE INDEPENDENT MARKETERS USE ETHANOL TO MAKE THEM MORE COST COMPETITIVE WITH OTHER NAME BRANDS AND ACCOUNT ABOUT 80-85 PERCENT OF THE ETHANOL PRODUCED.

ETHANOL OF COURSE DERIVES ITS WELL DESERVED REPUTATION AS A RELIABLE

DOMESTIC SOURCE OF ENERGY

BECAUSE IT IS RENEWABLE.

ACCORDING TO THE NATIONAL

CORNGROWERS ASSOCIATION,

THE U.S. CORN INDUSTRY HAS

THE CAPACITY TO PRODUCE

ENOUGH CORN TO SATISFY

DEMAND FOR FIVE BILLION

GALLONS OF ETHANOL

ANNUALLY BY THE YEAR 2000,

AND EIGHT BILLION GALLONS BY 2010 -- THE EQUIVALENT OF 3.2 BILLION BUSHELS OF CORN. MOREOVER, THE CORNGROWERS REPORT, THIS LEVEL OF PRODUCTION CAN BE MET WITH RELATIVELY SMALL INCREASES IN TOTAL AREAS PLANTED TO CORN WITH NO IMPAIRMENT IN OUR ABILITY TO

SUPPLY CORN TO WORLD MARKETS, AND A NEGLIGIBLE IMPACT ON LIVESTOCK AND POULTRY PRODUCERS AND CONSUMER FOOD PRICES.

I HAVE ALREADY TOUCHED ON FARM PROGRAM SAVINGS, HOWEVER, I THINK WE COULD ALL AGREE THAT THIS MARKET WOULD ONLY SERVE TO

FURTHER INCREASE FARM PROGRAM OUTLAY SAVINGS AND REDUCE THESE EXPENDITURES.

ETHANOL: AMERICA'S TRANSPORTATION FUEL

ONCE DERIDED AS BAD FOR CAR ENGINES, ETHANOL

20

BLENDED FUELS ARE APPROVED UNDER THE WARRANTIES OF ALL 19 DOMESTIC AND FOREIGN AUTOMOBILE MANUFACTURERS MARKETING VEHICLES IN THE UNITED STATES. WITH THE INCREASED EMPHASIS TO REDUCE AUTO EMISSIONS AND ADDRESS ENVIRONMENTAL CONCERNS ABOUT FUELS, THE

GROWTH POTENTIAL FOR ETHANOL FUELS, INCLUDING ETHER MARKETS IN THE FORM OF ETBE, IS TREMENDOUS.

I PREDICT THAT REFINERS WILL FIND RENEWED INTEREST TO INCREASE ETHANOL AND ETBE USE BECAUSE OF THE NEW DEMANDS FOR OXYGEN-BLENDED FUELS. BECAUSE OF

LOWER VOLATILITY AND SUPERIOR BLENDING CHARACTERISTICS, ETBE MAY BECOME THE OCTANE/OXYGENATE FUEL OF CHOICE BY REFINERS OVER MTBE, THE PETROLEUM DERIVED OXYGENATE MANUFACTURED TODAY BY SEVERAL OIL COMPANIES.

HOWEVER, LETS FACE IT, MAJOR PETROLEUM REFINERS ARE RELYING MORE AND MORE ON IMPORTED METHANOL AND MTBE. REGARDLESS OF THE POLICY IMPLICATIONS OF SHIFTING FROM IMPORTED OIL TO IMPORTED METHANOL OR ITS DERIVATIVES, PUBLISHED REPORTS INDICATE THAT MORE

THAN 70 PERCENT OF THE PLANNED MTBE PRODUCTION EXPANSION IS LOCATED OVERSEAS. MOREOVER, INDUSTRY ANALYSTS PREDICT THAT APPROXIMATELY ONE-QUARTER OF THE WORLD MTBE SUPPLY WILL COME FROM SAUDI ARABIA BY 1995. BY 1995, NON-U.S. CAPACITY IS EXPECTED TO

EXCEED 4.5 BILLION GALLONS ANNUALLY --- MORE THAN TRIPLE U.S. CAPACITY.

ON THE OTHER HAND, AMERICA'S CITIES, REQUIRED UNDER THE CLEAN AIR ACT TO REDUCE CARBON MONOXIDE AND OZONE LEVELS, SHOULD BE LOOKING TO ETHANOL AS AN EFFECTIVE WEAPON AGAINST

AIR POLLUTION. THE OXYGEN CONTENT OF ETHANOL IS TWICE THAT OF OTHER OXYGENATED FUELS AND ITS ABILITY TO REDUCE CARBON DIOXIDE AND OZONE IS GREATER THAN ANY ALTERNATIVE OXYGENATED FUEL. ALSO, EPA HAS CONCLUDED THAT ETHANOL BLENDS WILL DRAMATICALLY

REDUCE EMISSIONS OF EXHAUST HYDROCARBONS, FURTHER CONTRIBUTING TO OZONE REDUCTION. IN ADDITION, THE CARBON DIOXIDE BENEFIT OF ETHANOL BLENDS HELPS REDUCE THE THREAT OF GLOBAL WARMING.

OTHER MARKET OPPORTUNITIES EXIST IN THE

DEVELOPMENT OF MASS TRANSIT VEHICLES --- PARTICULARLY BUSES THAT EPA IS REQUIRING TO REDUCE EMISSIONS. ETHANOL RESEARCH AND DEVELOPMENT IS CURRENTLY FOCUSED ON CLEANER DIESEL ENGINE DEVELOPMENT, FUEL BLEND TESTING, ETHANOL FUEL CELL

BATTERY SYSTEMS AND OTHER TECHNOLOGIES DESIGNED TO IMPROVE EFFICIENCY AND THE ENVIRONMENTAL IMPACTS OF FLEETS.

AS MANY OF YOU KNOW, THE PRESIDENT'S ENERGY SECURITY PLAN, CALLING FOR A PHASE-IN REQUIREMENT FOR FLEETS OF TEN OR MORE

VEHICLES TO BE FUELED BY ETHANOL, METHANOL OR NATURAL GAS, HAS ADDED TO THE INTEREST TO FURTHER DEVELOP THESE ALTERNATIVE FUEL TECHNOLOGIES.

MORE NEEDS TO BE DONE

WHILE EFFORTS ON ALL FRONTS ARE CONTINUING AT A STEADY PACE, MORE NEEDS TO BE DONE TO MAINTAIN AND EXPAND ETHANOL MARKET SHARE WHERE POSSIBLE. KEY TO THE DEBATE IS THE POLICY DILEMMA OF WHERE

GOVERNMENT -- OR CONGRESS - - OUGHT TO APPROPRIATELY WEIGH IN.

WE HAVE EXPERIENCED IN KANSAS SEVERAL PROBLEMS IMPACTING ETHANOL PRODUCTION AND MARKETING BECAUSE OF OIL COMPANY OBJECTIONS AND PRACTICES AFFECTING THE FUEL

DISTRIBUTION SYSTEM. WHILE THESE SPECIFIC CONCERNS IN MY STATE HAVE EBBED FOR THE TIME BEING, THE THREAT TO A HEALTHY MARKETPLACE COMPETITION BETWEEN ETHANOL AND MTBE MAY BE IMPAIRED BY ANTI-ETHANOL STRATEGIES.

FOR EXAMPLE, WHILE THE

GASOHOL COMPETITION ACT OF 1990 MADE IT UNLAWFUL TO IMPOSE RESTRICTIONS OR OTHERWISE DISCRIMINATE AGAINST THE SALE OF ETHANOL BLENDED GASOLINES, SOME PRACTICES -- SUCH AS PIPELINE SHIPMENT OF PRE-OXYGENATED FUELS THAT PRECLUDE BLENDING OF ETHANOL, AND

DISCRIMINATING PUMP LABELING REGULATIONS WHICH CONFUSE CONSUMERS -- CREATE MARKETPLACE BARRIERS THAT SHOULD BE REMOVED.

IN ADDITION, IT IS IMPORTANT THAT CONGRESS AND THE ADMINISTRATION ADOPT POLICIES THAT PROVIDE

A HEALTHY INVESTMENT CLIMATE FOR EXPANDED ETHANOL PRODUCTION CAPACITY. TODAY, THEIR ARE MORE THAN 50 ETHANOL PRODUCTION FACILITIES WITH A COMBINED CAPACITY OF 1.2 BILLION GALLONS OPERATING IN 22 DIFFERENT STATES. I AM AWARE OF PLANS TO DEVELOP

SOME 500-600 MILLION GALLONS A YEAR OF NEW ETHANOL PRODUCTION CAPACITY, BUT A TIGHT INVESTMENT CLIMATE ISN'T MAKING THIS JOB ANY EASIER. IT MAY BE THAT WE WILL HAVE LOOK TO THE TAX CODE FOR INCENTIVES TO DEVELOP THE NEXT GENERATION OF ETHANOL

PRODUCTION FACILITIES.

CONCLUSION

AS WE PREPARE FOR THE DEBATE DEFINING AMERICA'S NATIONAL ENERGY STRATEGY, A DEBATE I BELIEVE WE SHOULD HAVE --- THAT IS CURRENTLY

BEING FILIBUSTERED BY SENATORS WHO ARE CONCERNED ABOUT OIL PRODUCTION IN THE NATIONAL WILDLIFE REFUGE IN ALASKA, AND CHANGES TO CORPORATE AVERAGE FUEL ECONOMY STANDARDS FOR AUTOMOBILES -- IRONICALLY, ISSUES THAT WOULD BE LESS

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CONTENTIOUS IF WE HAD RENEWABLE FUELS LIKE ETHANOL IN THE MARKETPLACE TO THE DEGREE THAT WE NEED THEM --- I BELIEVE THE FUTURE FOR CONTINUED EXPANSION AND GROWTH FOR THE ETHANOL INDUSTRY IS BRIGHT. WE WILL WORK TOGETHER TO ADDRESS THIS AGENDA AND

CONTINUE TO PRESS FOR WAYS TO PROVIDE CLEAN, RENEWABLE FUELS FROM AMERICA, FOR AMERICA.

THANK YOU.

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