

# THE BARRIERS BLOCKING SUGARCANE ETHANOL



Congress has erected an elaborate system of subsidies and trade barriers that make sugarcane ethanol more expensive and practically unavailable in the United States. As a result, Americans are not reaping the environmental, economic and energy diversity benefits of this clean and affordable renewable fuel.

## A PRIMER ON U.S. ETHANOL POLICY

Corn ethanol has been manufactured in the U.S. for more than 30 years and has blossomed into a thriving industry. American farms and refineries generate nearly half of all ethanol produced around the globe. Despite being a mature and healthy industry, corn ethanol producers in the U.S. still are protected by an interlocking series of government mandates, subsidies and trade barriers.

- Mandates: A Built-in Market** – The U.S. Environmental Protection Agency (EPA) oversees a program that requires adding continually increasing volumes of renewable energy into America’s fuel supply – growing from 12 billion gallons today up to 36 billion by 2022. The Renewable Fuel Standard (RFS) sets aside a minimum mandate of up to 15 billion gallons annually for conventional biofuels, like corn ethanol.

- Subsidies** – Even though the RFS mandates its use, ethanol receives a 45-cents-per-gallon tax credit, known as the Volumetric Ethanol Excise Tax Credit (VEETC) or blenders credit. This subsidy, paid out of the General Fund of the Treasury, costs American taxpayers approximately \$6 billion annually.

- Trade Barriers: Unfair Tax on Imported Fuel Ethanol Coming into the U.S.** – To prevent foreign manufacturers from benefiting from the ethanol tax credit, Congress imposes a 54-cents-per-gallon tariff (or import tax) on ethanol coming into the U.S. from most foreign countries. Since 1980, the amount of the tax credit and tariff historically were aligned to achieve a direct offset, even though the tariff has traditionally generated only a fraction of what the subsidy has cost.

- In 2008, while Congress lowered the subsidy for ethanol to 45 cents, it left the import tax at 54 cents per gallon.

- Currently Congress is considering whether to extend or eliminate the tax credit and import tariff, and recent reports by the Congressional Budget Office and Iowa State University provide compelling information that suggests Americans would benefit from letting both expire. (See back of page for details.)

- In early 2010, Brazil (the second largest producer of ethanol worldwide after the U.S.) eliminated its tariff on imported ethanol, removing a key barrier to building a global biofuels marketplace.

|           | TAX CREDIT (\$/GAL) | IMPORT TARIFF (\$/GAL) | MANDATED USE (1,000 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                   | 4,000,000                |
| 2007      | 0.51                | 0.54                   | 4,700,000                |
| 2008      | 0.51                | 0.54                   | 9,000,000                |
| 2009      | 0.45                | 0.54                   | 10,500,000               |
| 2010      | 0.45                | 0.54                   | 12,000,000               |

## THE CURRENT DEBATE IN CONGRESS

Both the ethanol subsidies and import tariff are scheduled to expire at the end of 2011, and Congress currently is debating whether to extend or change its ethanol policies. Two recent reports should be considered in the debate:

**Congressional Budget Office (CBO)** – The nonpartisan CBO released a July 2010 report which found that the biofuels industry no longer needs tax credits to drive ethanol production since the RFS mandates increasing ethanol consumption. Specific findings include:

- The direct cost of the ethanol blenders credit in FY2009 was nearly \$5.2 billion. In 2010, it is projected to cost taxpayers \$7.6 billion. Since 1980, U.S. taxpayers have spent more than \$41 billion dollars on ethanol subsidies.
- CBO estimates that reducing gasoline consumption by one gallon and replacing it with equivalent energy from corn ethanol costs taxpayers \$1.78 per gallon – on top of the current cost drivers pay at the pump.
- At that rate, CBO says it costs taxpayers about \$750 to reduce greenhouse gas emission by one metric ton with corn ethanol.
- The CBO report concludes: “In the future, the scheduled increase in [RFS] volumes would require biofuels to be produced in amounts that are probably beyond what the market would produce even if the effects of the tax credit were included. To the extent that the mandates determine future production levels, the biofuel tax credits would no longer be increasing production.”

**Center for Agricultural and Rural Development (CARD) at Iowa State University** – A new report issued by CARD in July 2010 examined the impact of changing America’s ethanol policy on production, jobs, price of gas and cost to taxpayers. The following findings delineate what would happen if both the tax credit subsidies and the tariff on imported ethanol expire as planned at the end of 2010:

- **Production:** Eliminating the tax credit and tariffs would have minimal short-term impact on the U.S. corn and ethanol markets because the RFS mandates a growing market. Production in the U.S. would increase to 14.5 billion gallons by 2014 even without subsidies and trade restrictions. U.S. imports of Brazilian sugarcane ethanol would rise modestly to about 740 million gallons that year (less than 5 percent of the total U.S. ethanol market).
- **Jobs:** There is no scenario where +100,000 American jobs – or anything remotely close to the extreme estimates hyped by corn ethanol proponents – would be lost by eliminating the tax credit and tariff. With RFS mandates in place, the study estimates the possible loss of no more than 300 jobs in the ethanol industry in 2014. At a cost of \$6 billion annually (or \$30 billion over five years), this is a steep price to pay.
- **Fuel Prices:** Removing the tax credit and tariff would reduce ethanol prices by 12 cents per gallon in 2011 and 34 cents per gallon in 2014. Because most gas sold in the United States includes 10 percent ethanol – a limit the EPA may increase to 15 percent later this year – lower ethanol prices mean that 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.
- **Taxpayer Savings:** The tax credit prompts blenders to use about 900 million gallons of ethanol each year above mandated levels. Again, at a cost of \$6 billion annually, that “extra” ethanol costs almost \$7 per gallon.

## THE BOTTOM LINE FOR AMERICANS

The current system of subsidies and trade barriers that Congress instituted to protect corn ethanol distorts the market and effectively denies Americans the benefits of sugarcane ethanol. In a time of spiraling deficits, a diverse group of environmental, food and anti-tax organizations have singled out U.S. ethanol policy as a priority area for reform.

**Eliminating both the subsidy and tariff will require providers of different energy sources to compete in an open, competitive marketplace – resulting in better quality and more abundant choices for consumers, less global fuel price volatility, and increased savings at the pump.**