



Let the VEETC Expire: Save Billions in Tax Dollars Better Spent on Non-Polluting Energy Technologies

The Volumetric Ethanol Excise Tax Credit (VEETC) is little more than a government kickback for big oil to buy and blend corn ethanol that they are already *required* to purchase under the Renewable Fuel Standard. Over the last five years, we've paid oil companies more than \$20 billion to obey this law. And now Congress is considering a five-year VEETC extension—costing U.S. taxpayers another \$31 billion. Instead of massive giveaways to big oil companies and old corn ethanol plants, Congress should support emerging and more competitive energy technologies in non-polluting wind, solar, geothermal and advanced biofuels that create many more times the green jobs we need and far less pollution. NRDC urges Congress to stop giving billions to two mature, mainstream, and polluting industries: big oil and old corn ethanol. Congress should allow the VEETC to expire at the end of the year.

Billions are wasted supporting a mature, mainstream, and polluting corn ethanol industry.

Multiple federal policies encourage the production and consumption of ethanol as an alternative to gasoline. The Renewable Fuel Standard (RFS), established in 2005 and expanded in 2007, requires that increasing quantities of biofuels, including ethanol, be blended into U.S. transportation fuels every year. Although the RFS imposes greenhouse gas emission standards, they mostly cover emerging advanced biofuels and exempt the vast majority of conventional corn ethanol. Ironically, we have no tariff on importing oil but impose a \$0.54 per gallon tax on imported ethanol to protect domestic producers against foreign competition.

The government also provides oil companies a \$0.45 tax credit (the VEETC) for every gallon of ethanol blended with gasoline, regardless of environmental performance. The tax credit almost exclusively supports ethanol from corn, which, when all direct and indirect costs are added, creates more global warming pollution than the oil it is supposed to replace! On top of that, it increases water pollution, erodes our soils, and raises the price of corn fed to our livestock and sold in our stores. The cost of this redundancy is egregious: nearly \$5.4 billion in 2010 alone and over \$31 billion if the VEETC is extended for five years.

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Corn ethanol subsidies stifle the development of cleaner energy technologies.

In 2007, oil companies collected 75 percent of all federal tax credits available for renewables in exchange for blending corn ethanol, a mature technology that has been commercially viable for decades. That is *four times* the tax credits available to companies trying to expand all other forms of renewable energy, including solar, wind, and geothermal.¹ And by indiscriminately subsidizing the best and worst gallons of ethanol, the VEETC comes at the expense of developing new and cleaner biofuels, such as those made from dedicated “energy crops” like willow and switchgrass.

Policy Research Institute (FAPRI) estimates the VEETC would drive 1.4 billion gallons of domestic ethanol production over RFS-mandated levels in 2011, requiring only about 630 workers⁴. Using a modest job multiplier to account for indirect job creation, this additional ethanol demand will only generate 1,890-2,520 jobs. At a cost of \$5.5 billion, this translates into \$2.1-\$2.9 million per year to create and maintain each job—an unacceptable price tag.

The corn ethanol industry will continue to grow without government subsidies.

The corn ethanol industry argues that its margins are thin and the VEETC is critical to its survival, but in every year since the RFS was enacted, both demand and supply of domestic corn ethanol has exceeded mandated levels. So oil companies have been able to set both demand and price levels for ethanol, keeping prices low and pocketing most of the tax credit.

Independent analysis suggests the corn ethanol industry will continue to grow without the VEETC, just at a slightly slower rate. But corn ethanol producers have built out their capacity to supply the additional gallons of ethanol oil companies purchase beyond RFS mandates as a result of the tax credit. The ethanol industry is now dependent on subsidies to maintain its profits and wants taxpayers to continue footing the bill. FAPRI forecasts that if the VEETC is extended through 2015, oil companies will consume just 10 percent more corn ethanol than the 69 billion gallons already required by law.⁵ At a price tag of more than \$31 billion, this will cost taxpayers approximately \$4.47 on average per extra gallon above the RFS mandate.

Table 1: Domestic Ethanol Production & VEETC Expenditures

Year	Domestic Ethanol Production (BGY)	RFS Mandate (BGY)	Domestic Production Over RFS Mandate (BGY)	VEETC Expenditures on Domestic Production (Billion USD)	Cost per Extra Gallon of Domestic Ethanol Over RFS
2006	4.9	4.0	0.9	\$2.50	\$2.78
2007	6.5	4.7	1.75	\$3.29	\$1.88
2008	9.0	5.4	3.6	\$4.59	\$1.28
2009	10.7	10.5	0.2	\$4.82	\$24.08
2011-2015 Extension	75.9	69.0	6.9	31.05	\$4.47

Corn ethanol industry jobs come at unacceptably high costs.

Though the ethanol industry focuses most of its defense of the VEETC on jobs, any jobs created as a result of the subsidy are *8 to 16 times more costly than what is typical in the U.S. economy*². In 2009, U.S. ethanol plants directly employed approximately 5,566 workers³. In that year alone, taxpayers spent \$4.82 billion in VEETC subsidies. If we assume the VEETC was responsible for every single job in the industry, this translates into more than \$865,000 per direct job. If extended, the University of Missouri Food and Agricultural

¹ EIA, U.S. Department of Energy. Federal Financial Interventions and Subsidies in Energy Markets 2007. SR/CNEAF/2008-01. April 2008.

² Multiple studies estimate the cost of job creation in the U.S. to be \$50,000-\$100,000 per direct job.

³ Based on industry claims that that a 100 million gallon/year plant requires 45 workers.

⁴ US Baseline Briefing Book; Projections for agricultural and biofuel markets; Food and Agricultural Policy Research Institute, University of Missouri, March, 2010; pg. 68.

⁵ Ibid.