STATEMENT OF GROWTH ENERGY TO THE WAYS & MEANS COMMITTEE CONCERNING ENERGY TAX INCENTIVES DRIVING THE GREEN JOBS ECONOMY APRIL 14, 2010

Growth Energy applauds the committee for conducting a hearing surrounding energy tax incentives. As a coalition of ethanol supporters, we have fully endorsed H.R. 4940, the Renewable Fuels Reinvestment Act (RFRA) of 2010 recently introduced by Ways and Means Committee member Rep. Earl Pomeroy. The RFRA provides multi-year extensions of the Volumetic Ethanol Excise Tax Credit (VEETC), the Cellulosic Biofuel Producers Tax Credit, the Small Ethanol Producers Tax Credit and the Tariff on Imported Ethanol. We strongly encourage the committee to include this legislation in any energy tax incentive package formulated and advanced in the 111th Congress.

Growth Energy's membership roster includes 55 ethanol plants across fourteen states; 35 affiliated companies as associate members located throughout 16 different states and more than 17,000 individual members across the nation. These members recognize America needs a new ethanol approach. Through smart policy reform and a proactive grassroots campaign, Growth Energy promotes reducing greenhouse gas emissions, expanding the use of ethanol in gasoline, decreasing our dependence on foreign oil, and creating American jobs at home.

Investing in ethanol offers tremendous benefits to help grow the U.S. economy and those of developing nations, reduce dependence on foreign oil and green our environment. The investments made in ethanol today will help bring about a new, more affordable, cleaner and more secure energy future for the nation.

<u>Economic Benefits</u>

Clean, affordable domestically-produced ethanol enhances America's economic prosperity and competitiveness through job growth, lessened dependence on foreign oil and increased GDP and tax revenues. In 2008 alone, the ethanol industry created and supported more than 400,000 new jobs across the country that cannot be exported or outsourced. In addition, ethanol production contributed $53.3 billion to the nation's GDP and generated $8.4 billion in federal tax revenues, resulting in a surplus of $3.4 billion for the Federal Treasury. Ethanol production also plays a critical role in revitalizing America's rural areas — some of the hardest hit by the economic downturn — creating high-paying jobs and stimulating economic growth.

Beyond its contribution today, the ethanol industry has only just begun to realize its full potential to grow the U.S. economy. Increasing ethanol production to meet the Renewable Fuel Standard (RFS) target of 36 billion gallons of renewable fuels by 2022 will provide the following economic impacts:

- The $631 billion of expenditures to build and produce 35 billion gallons of ethanol will add nearly $1,230 billion (2000$) to real GDP by 2022;

- Real household income will increase an average of $24.6 billion (2000$) per year between 2009 and 2022;
- As many as 1.18 million jobs will be supported in all sectors of the economy by the expanding ethanol industry; and
- Federal tax revenue will increase $222.6 billion (2000$) between 2009 and 2022 while State and local tax revenues will increase $167.2 billion (2000$). Ethanol will account for nearly 30 percent of motor fuel use by 2022.

Further, America's increasing dependence on imported oil leaves the economy vulnerable to supply disruptions and price volatility. Energy price spikes have a devastating effect on consumers and the economy as a whole. In addition, the cost of importing oil results in hundreds of billions of American dollars being sent overseas rather than invested at home. Ethanol will displace the equivalent of 10.97 billion barrels of crude between 2009 and 2022 with an aggregate value of $1.441 billion.

Today's ethanol offers a sustainable solution to powering our country while addressing the serious challenge of global climate change. If the full potential of ethanol is to be realized, it is important to continue vital federal support in the form of extending the VEETC and ethanol tariff, extending incentives for cellulosic producers and small ethanol producers as well as any other incentives that might help attain this goal.

Volumentric Ethanol Excise Tax Credit

The VEETC, commonly referred to as the "blenders credit", is a tax credit of $0.45 per gallon on each gallon of ethanol blended into gasoline for sale or consumption which is set to expire December 31, 2010. The tax credit was established in the American Jobs Creation Act of 2004 as a $0.51 per gallon payment to gasoline refiners for blending ethanol into the gasoline supply, creating an economic incentive to expand the use of ethanol, similar to the federal production tax credit for investors in wind. It replaced the 1978 exemption ethanol received from the fuel-excise tax; the 2008 Farm Bill reduced the incentive to $0.45 per gallon.

The blender's credit is needed to ensure market access for ethanol and spur the continued investment necessary to develop and deploy next generation biofuels. Ethanol competes with a heavily subsidized product in oil and depends on that competitor to get ethanol to the consumer. A recent study by the U.S. General Accounting Office found that, since 1968 the oil industry has received approximately $150 billion in tax incentives. By comparison, the ethanol industry has received $11.2 billion, despite the fact that ethanol is an emerging technology

Based on current fuel consumption in the United States, eliminating VEETC would result in an immediate tax increase on consumers at the pump equal to $5.4 billion per year. (12 billion gallons of ethanol in 2010 x $0 .45 per gallon equals $5,400,000,000.) CFO systems has estimated the net economic benefit of the ethanol tax credit to be $19.65 billion because of the increase in federal, state, and local revenue and the reduction in farm program payments (www.cfosystemsllc.com).

Government investment in ethanol results in significant contributions to the U.S. economy including federal and state tax revenue, increased GDP and reduced farm program and unemployment payments which more than offset initial government investment. In 2009, ethanol production generated $8.4 billion in federal tax revenues, resulting in a surplus of $3.4 billion for the Federal Treasury. An Iowa State research team investigated farm subsidies, farm income, and ethanol mandates, incentives and tariffs. The researchers concluded that ethanol policies saved the U.S. government $2.65 billion in 2007 because farmer support payments, that would have been due under other legislation, would have been higher than the ethanol supports received by farmers.

Ethanol Tariff

To prevent American tax dollars from subsidizing foreign-produced ethanol, Congress established a $0.54 per gallon secondary duty on imported ethanol in the Energy Security Act of 1980. Because all ethanol, regardless of its country of origin, receives the benefit of the blenders credit, the secondary duty was created to offset the value of this tax credit taken by the petroleum industry when ethanol is blended with gasoline. The tariff is set to expire on December 31, 2010 unless extended by Congress. The tariff does not prevent or prohibit foreign ethanol from entering our domestic market, however it is specifically designed to offset financial incentives intended for domestic producers that would otherwise pass freely to an imported foreign product. Trading our nation's dependence on foreign oil for dependence on foreign ethanol does nothing to increase America's energy production or independence.

In addition to offsetting financial incentives, the tariff is a revenue raiser for the federal government. If cut or reduced, American consumers would end up paying higher taxes or see cuts in federal programs to account for the lost revenue. This would be in addition to foreign ethanol producers receiving a tax break courtesy of our taxpayers.

Those who suggest allowing more imported foreign ethanol would help increase America's energy independence are incorrect. Foreign ethanol will not displace a single drop of Middle Eastern oil. Current federal policy limits the amount of ethanol in the marketplace to roughly 10 percent and current U.S. production exceeds market availability. Therefore, rather than displacing foreign oil, removing the tariff will simply displace domestic ethanol and cause economic turmoil throughout the United States.

According to research by the Community Policy Analysis Center at the University of Missouri, allowing the ethanol import tariff to expire would reduce overall total employment of about 160,000 full and part-time jobs. Year-to-year job losses go from 39,506 in the first year after the tariff lapses, to 115, 624 in the second year, and 161,384 in the third year. Job losses would continue year-after-year and most of these jobs are never regained according to the study. The decline in economic activity following the lapse of the tariff was calculated at $9.2 billion the first year, $26.4 billion the second year, and $36.7 billion the third year. The decline remains in the double digits during the 10-year projection, hitting $21.2 billion in 2021.

The attached chart details the state-by-state job loss projections according to the study. The six states that would see the largest declines in economic activity due to removal of the tariff are (in order): Iowa, Illinois, Nebraska, Minnesota, Indiana and South Dakota. Manufacturing, already

a hard-hit sector of the economy, would see the largest decline, followed by the service industry, financial services and wholesale trade sectors.

A separate study conducted by IHS Global Insight predicted that without the tariff, Brazilian ethanol imports would climb to as high as 2 billion gallons a year- but displace *domestic* ethanol and virtually no oil. Global Insight also predicted a 24-month plunge in corn prices due to the decrease in domestic ethanol production. As our nation climbs out of the greatest economic recession in a generation, it is incumbent for policy makers to provide long-term market stabilizers and create jobs, not the opposite.

Foreign ethanol is not produced under the same labor standards, environmental standards or health and safety standards as U.S. ethanol producers. American ethanol producers should not be forced to compete against ethanol producers in countries, who do not meet these same high standards. For the sake of America's economy, jobs, national security and our environment, a long term extension of VEETC and the ethanol tariff is critical.

Cellulosic Biofuel Producer Tax Credit

Next generation biofuels, such as cellulosic ethanol, are liquid transportation fuels made from a wide variety of feedstocks including switchgrass, corn stover, citrus pulp, wood chips and even municipal waste. The geographic diversity of these feedstocks will enable cellulosic biofuels production throughout the U.S. While the commercialization of next generation biofuels offers tremendous promise in the near term, grain-based ethanol production is a vital foundation upon which scientists and producers have begun to build. As science moves from making ethanol from corn to producing it from corn cobs and other plant materials, ethanol will continue to be a sustainable and effective energy solution for the world.

Today, significant progress has been made in achieving wide-scale commercialization of cellulosic ethanol. Multiple pilot plants are in operation around the country with commercial-scale projects under construction.

Further, intensive research and development is rapidly advancing the state of cellulosic ethanol technology. A key challenge to commercialization that remains is the complex and costly conversion process necessary to convert cellulosic feedstocks to fuel. Further, cellulosic biorefineries are expected to be far more capital-intensive than grain-based plants. As with all emerging technologies, costs will come down as technology is scaled and efficiencies are improved over time. According to the latest estimates, cellulosic ethanol is expected to be cost-competitive with gasoline by late 2011.

According to DOE, cellulosic ethanol has the potential to reduce greenhouse gas emissions by more than 86 percent relative to gasoline. In addition, dedicated energy crops used in the production of advanced biofuels can be grown on marginal land not suited for traditional crops. The U.S. Departments of Energy and Agriculture's Billion Ton Study found that 1.3 billion tons of U.S. biomass feedstock are potentially available for the production of biofuels — more than enough biomass to meet the new renewable fuel standard mandated by the Energy Independence and Security Act of 2007. Further, a recent report by Sandia National Laboratory and General

Motors found that biofuels could replace nearly a third of current U.S. gasoline use by the year 2030.

Today, ethanol producers are investing heavily in next generation biorefineries. The federal government, in partnership with leading companies and academic institutions, has invested significantly in the research, development and deployment of next generation biofuels technologies. As with other alternative energy technologies, continued government investment is essential to commercializing cost-competitive advanced biofuels. Ultimately, the success of today's ethanol industry is essential to spurring continued investment and ensuring a cleaner, more secure, affordable energy future. The $1.01 per gallon cellulosic biofuel producer tax credit is available for qualified fuels produced in the United States between January 1, 2009 and December 31, 2012. H.R. 4940 extends eligibility through 2015 which provides a longer-term signal from the federal government to private investors that cellulosic production is a key factor to expanding biofuels production. The Biotechnology Industry Association study, U.S. Economic Impact of Advanced Biofuels Production, found that the advanced biofuels industry could create 29,000 direct new jobs and $5.5 billion in economic growth over the next three years, with the potential for job creation to reach 807,000 and economic growth to reach $148.7 billion by 2022.

Mr. Chairman, Growth Energy appreciates the opportunity to relay the importance of the ethanol industry to not only those in farm country, but to the nation's economy, our national security interests and to future generations. Again, we strongly support for the provisions included Mr. Pomeroy's legislation and encourage this committee to incorporate his language in any legislation the committee moves forward. We look forward to working with you and the committee on these and other issues important to the ethanol industry.