Floor Statement of U.S. Senator Chuck Grassley
regarding the Coburn amendment to eliminate the ethanol tax incentive
Thursday, June 16, 2011

Mr. President,

I'd like to speak in opposition to the amendments that we'll be voting on at 2 o'clock today. The first, an amendment by Senator's Feinstein and Coburn would repeal the incentive for domestically-produced ethanol. The second, offered by Senator McCain, would prohibit the U.S. Department of Agriculture from using funds for the installation of blender pumps. These amendments won't lower the price of gasoline at the pump. These amendments won't lessen our dependence on foreign oil. They won't create a single job. They'll do exactly the opposite.

Most importantly, these amendments also won't save the taxpayer any money, because they stand little chance of being enacted. Even if the amendments were to pass today they won't get out of this chamber. This bill is not likely to be taken up by the House. If a revenue amendment is attached to this bill, it will be blue-slipped by the House. The Constitution requires that revenue measures originate in the House. So, this bill, with these amendments, is dead on arrival. It's also dead on arrival at the White House. They indicated in a statement that President Obama opposes repealing the incentives and is open to new approaches that meets today's challenges and saves taxpayers money. The votes at 2 o'clock today are a fruitless exercise. This is political theater. We've already had this vote, and it was defeated 40 to 59.

Oil is hovering near $100 a barrel and unemployment is at 9.1 percent. Why is the Senate taking a full week and voting twice on the same amendment that will increase prices at the pump, increase dependence on foreign oil, and lead to job losses? We should be having this debate in the context of a comprehensive energy plan. This debate should include a review of the subsidies for all energy production. We shouldn't be singling out ethanol. Nearly every type of energy gets some market distorting subsidy from the federal government. An honest energy debate should include ethanol, oil, natural gas, nuclear, hydropower, wind, solar, and biomass. When the oil and gas subsidies were targeted last month, the president of the National Petrochemical and Refiners Association stated: "Targeting a specific industry or even a segment of that industry is what we would consider punitive and unfair tax policy, and it is not going to get us increased energy security, increased employment and certainly not going to lower the price of gasoline." The same is true for the vote we're scheduled to have today.

In December 2010, Congress enacted a one-year extension of the Volumetric Ethanol Excise Tax Credit, or VEETC, also known as the blenders' credit. This one-year extension has allowed Congress and the domestic biofuels industry to determine the best path forward for federal support for biofuels. As a result of these discussions, Senator Conrad and I introduced bipartisan legislation on May 4 that is a serious, responsible first step to reducing and redirecting federal tax incentives for ethanol. Our bill will reduce and phase out VEETC over a period of a few years. It also would extend, through 2016, the alternative fuel refueling property credit; the cellulosic producers' tax credit; and the special depreciation allowance for cellulosic biofuel plant property. Earlier this week, I joined Senator Thune and Senator Klobuchar in introducing another bipartisan bill to immediately reduce and reform the ethanol tax incentive. It includes many of the same features as the bill I introduced last month, but it enacts the reforms this year. Senator Thune's approach also leads to significant deficit reduction. The legislation we've introduced is a responsible approach that will reduce the existing blenders' credit and put those valuable resources into investing in alternative fuel infrastructure, including alternative fuel pumps. It would also make significant investments in advanced and cellulosic ethanol. It's a forward looking bill that deserves widespread support. The Thune-Klobuchar bill would responsibly and predictably reduce the existing tax incentive, and help get alternative fuel infrastructure in place so consumers can decide which fuel they'd prefer. We shouldn't pull the rug out from under this industry that has made these enormous investments. We need to provide a transition.

I know that when American consumers have the choice, they will choose domestically produced, clean, affordable renewable fuel. They'll choose fuel from America's farmers and ranchers, rather than oil sheiks and foreign dictators. Both of the ethanol reform bills I mentioned are supported by the ethanol advocacy groups. In an almost unprecedented move, the ethanol industry is advocating for a reduction in their federal incentives. No other energy industry has come to the table to reduce their subsidies. No other energy lobby has come to me with a plan to reduce their federal support. The best way to get deficit reduction that gets to the President's desk is a responsible transition, like the one offered by Senator Thune. Otherwise, this exercise today is a waste of time. This vote will simply put many members of this body on the record in support of a $2.4 billion tax increase. I would encourage those who want to reduce the incentive and save taxpayer money to work with Senator Thune and Senator Klobuchar, and the rest of us on a responsible transition that has a chance of being enacted. I therefore urge my colleagues to oppose these two amendments and to consider this fact check on statements that the sponsor of the amendment has made on the Senate floor:

Senator Coburn's statement:

"We can save $3 billion if we eliminate the VEETC blending subsidy."

In fact:

There are a lot of numbers thrown around about how much this incentive costs and how much Senator Coburn's amendment would save. I have a letter from the Joint Committee on Taxation with a score of Senator Coburn's amendment. The fact is, the amendment, if enacted on July 1, 2011, would increase revenue to the federal treasury by $2.4 billion. Not $3 billion as the author has stated. Again, the Coburn amendment, if enacted on July 1, would save $2.4 billion. That's from the Joint Committee on Taxation.

Senator Coburn's statement:

"All the blenders of gasoline in the United States – all of them – have called and written and said: We do not want the $3 billion for the rest of the year."

In fact:

I have a letter from the Society of Independent Gasoline Marketers of America or SIGMA, to the Senate Majority and Minority Leaders, opposing efforts to prematurely or abruptly eliminate the blender's credit. That letter states, "As the leading marketers of ethanol-blended fuel at the retail level, SIGMA's members and customers are the beneficiaries of VEETC. Simply put, SIGMA opposes recent moves to prematurely or abruptly end the subsidies without any consideration for future fuel and fuel-delivery costs. To end this incentive immediately would no doubt result in an immediate spike in consumers' fuel costs."

I would also like to point out another fact to the Senator from Oklahoma about the National Petrochemical and Refiners Association, which sent him the letter calling for a targeted tax hike on ethanol production. This organization, which is lobbying for the repeal of the ethanol incentive, also led the charge against raising taxes on the oil and gas industry just last month. The president of the National Petrochemical and Refiners Association stated: “Targeting a specific industry or even a segment of that industry is what we would consider punitive and unfair tax policy, and it is not going to get us increased energy security, increased employment and certainly not going to lower the price of gasoline.” He could have just as well been referring to the targeted tax increase on ethanol use.

Senator Coburn’s statement:

“According to the U.S. Department of Agriculture, 40 percent of last year’s corn crop was utilized, converted to ethanol.”

In fact:

One bushel of corn produces nearly 3 gallons of ethanol and 18 pounds of high value animal feed. In 2010, 4.65 billion bushels of corn were used to produce 13 billion gallons of ethanol. But, ethanol production uses only the starch from the corn kernel. More than one-third, or 1.4 billion bushels of dried distiller’s grain was available as a high-value livestock feed. On a net basis, ethanol production used only 23 percent of the U.S. corn crop, far less than the 40 percent that Senator Coburn claims. According to USDA, feed use consumed 37 percent of the U.S. corn supply, much more than the 23 percent consumed by ethanol production.

Senator Coburn’s statement:

“The American people ought to take into consideration when they go buy a gallon of fuel today – you already have $1.72 worth of subsidy in there. It does not have anything to do with oil and gas drilling.”

In fact:

I believe Senator Coburn is referring to a report from the Congressional Budget Office. For the record, that report relied on the questionable assumption that only a tiny fraction of ethanol consumption is attributable to the ethanol tax credit. Regardless, I’m glad he raised this point about subsidies and oil and gas drilling. Our colleagues may be interested to learn of the hidden cost of our dependence on foreign oil. A peer-reviewed paper published in Environment Magazine in July 2010 concluded that "...$27 to $138 billion dollars is spent annually by the U.S. military for protection of Middle Eastern maritime oil transit routes and oil infrastructure, with an average of $84 billion dollars per year." Milton Copulos, an advisor to President Ronald Reagan, a veteran of the Heritage Foundation, and head of the National Defense Council Foundation testified before Congress in 2006 on the “hidden costs” of imported oil. Mr. Copulos stated that by calculating oil supply disruptions and military expenditures, the hidden costs of the U.S. dependence on petroleum would total up to $825 billion per year. This military expenditure is equivalent to adding $8.35 to the price of a gallon of gasoline refined from Persian Gulf oil. There is no hidden U.S. military cost attributable to homegrown ethanol.

Senator Coburn’s statement regarding oil and gas subsidies:

“There is a big difference between a subsidy that is a tax credit and allowing someone to advance depreciation because they are going to write it off anyhow. The net effect to the Federal Government’s revenue, if you take all of those away, is still zero.”

In fact:

A September 2000, report by the Government Accountability Office concluded that the federal government has granted tax incentives, direct subsidies and other support to the petroleum industry. They describe tax incentives as federal tax provisions that grant special tax relief designed to encourage certain kinds of behavior by taxpayers or to aid taxpayers in special circumstances. According to the Government Accountability Office, the tax break allowing for the expensing of intangible drilling costs began in 1916. The percentage depletion allowance was enacted in 1926. The GAO estimated that these two tax incentives led to a revenue loss of as much as $144 billion from 1968 until 2000. That's a far cry from the zero revenue affect that Senator Coburn claims. These are GAO's words and figures. They refer to them as tax incentives that resulted in the loss of more than $100 billion dollars to the federal treasury over that 32 year period. I've heard Senator Coburn on the floor on many occasions talking about the dire fiscal situation our country is in. Yet, on this issue, it sounds like he's arguing about semantics. One is a "subsidy" yet the other is a "legitimate business expense." I'm not sure that this argument over terminology will give our children and grandchildren much comfort when they're picking up the trillion dollar tab over the next couple decades.

Senator Coburn's statement:

"Corn prices are at $7.65 a bushel. They are 2½ times what they were 3½ years ago." Ethanol "has been, this last year, the significant driver."

In fact:

Grain used for ethanol accounts for approximately 3 percent of the world's course grain. And, because of increased corn production, the amount of grain available for non-ethanol use is growing. In 2000, there was 2.4 billion metric tons of grain available for uses other than ethanol. Even with the growth in the ethanol industry, last year there was 2.6 billion metric tons of grain available for uses other than ethanol. It's also important to review the cost of corn in retail food prices. At $7.40 a bushel, the corn cost in a gallon of milk is about 46 cents. The cost of corn in a pound of chicken is 34 cents. One pound of beef takes 92 cents worth of corn. One pound of pork requires 39 cents.