RENEWABLE FUELS ASSOCIATION

## Questions & Answers About

# Ethanol, Energy Subsidies, and the Renewable Fuel Standard

### Is there a "corn ethanol subsidy"?

**No**, contrary to what is often reported on the campaign trail, there is no such thing as a "corn ethanol subsidy." The Volumetric Ethanol Excise Tax Credit (which was also known as the "blender's tax credit") expired five years ago in 2011. Further, it was gasoline blenders—*not ethanol producers*—who received the tax credit for each gallon of ethanol blended. The Small Ethanol Producer Tax Credit, which provided a modest tax incentive for ethanol produced by small facilities, also expired in 2011.

### But isn't the Renewable Fuel Standard (RFS) a "subsidy" for corn ethanol?

**No**, the RFS is not a tax subsidy or incentive, and the program has no impact on the federal budget or tax revenues. By requiring that oil companies blend certain amounts of renewable fuel with gasoline and diesel, the RFS is the only mechanism that guarantees consumer access to lower-carbon biofuels in a fuel market that is overwhelmingly and unfairly dominated by petroleum.

### Isn't the RFS really just a "corn ethanol mandate"?

**No**, it is a common misconception that the RFS specifically requires the use of corn ethanol. But in reality, there is no requirement to use corn ethanol to meet RFS obligations. Actually, the RFS *restricts* the amount of corn ethanol that may be used to satisfy RFS requirements. The cap on corn ethanol began in 2015, and the increased volumes of renewable fuels required through 2022 must all come from advanced biofuels. Oil companies may use biodiesel, renewable diesel, renewable gasoline, renewable naptha, biobutanol, renewable jet fuel, and even renewable electricity, biogas, and bio-derived heating oil to comply with the RFS. While a variety of renewable fuels are produced and used today, corn ethanol has been the highest-volume and lowest-cost fuel available to meet RFS obligations.

### Shouldn't the "free market" determine what fuels we use?

We sometimes hear candidates say the government shouldn't pick winners and losers and that the "free market" should dictate what fuels are sold. Unfortunately, there is no "free market" in the energy sector. Through restrictive franchise agreements, branding requirements, and fuel supply contracts, oil companies exert tremendous control over what fuels are offered to consumers. Further, existing fuel regulations and standards were developed decades ago when petroleum was the only motor fuel source; today, those regulations help insulate petroleum from competition from alternative fuels. Finally, the *oil industry receives billions in tax subsidies*, giving petroleum a leg up on other alternatives.

### But oil companies say they don't receive government subsidies. What's the truth?

While oil industry trade groups like to claim that fossil fuels aren't subsidized by the taxpayer, nothing could be further from the truth. Oil producers and refiners are the recipients of $4-6 billion in federal tax incentives and subsidies every year, and many of these favorable tax provisions *never expire*. Some of the subsidies available to oil producers have existed for more than a century, and the Joint Committee on Taxation recently estimated that elimination of certain "fossil fuel preferences" (i.e., subsidies) would save U.S. taxpayers at least $24.5 billion—or roughly $210 per U.S. household—between 2015 and 2020. A partial list of the oil industry's many subsidies is available here.

RENEWABLE FUELS ASSOCIATION

## Major Oil and Gas Tax Subsidy Provisions

| Oil and Gas Subsidy Provision | Expiration | Projected Cost to Taxpayer (2015-2020) Billion $ |
|---|---|---|
| Expensing of Exploration and Development Costs for Oil and Gas (Intangible Drilling Costs) | None | $9.44 |
| Percentage Depletion for Oil and Gas | None | $7.81 |
| Domestic Manufacturing Deduction for Oil and Gas | None | $5.11 |
| Amortization of Geological and Geophysical Costs for Oil and Gas Exploration | None | $0.82 |
| Amortization of Air Pollution Control Facilities | None | ? |
| Exceptions for Publicly Traded Partnerships w/Qualified Income from Energy-Related Activities | None | $1.16 |
| Deduction for Tertiary Injectants | None | $0.04 |
| Enhanced Oil Recovery Credit | None | ? |
| Marginal Well Credit | None | ? |
| Passive Loss Limitations for Working Interests in Oil and Gas Property | None | $0.10 |
| Foreign Tax Credit for Dual Capacity Taxpayers | None | ? |
| Reduced Tax for Diesel-Water Fuel Emulsion | None | ? |
| **TOTAL** | | **$24.48 — ???** |
| **ANNUAL AVERAGE** | | **$4.08 — ???** |

**Sources:** Congressional Research Service, U.S. Congress Joint Committee on Taxation, U.S. Department of Treasury

While the ethanol industry agreed to let ethanol tax incentives expire in 2011, oil producers continue to cling to subsidies that have existed for more than a century.

### Ethanol industry lets go of tax credit in 2011

*"With growing concerns about gridlock in Washington and greed on Wall Street, Americans are wondering whether anyone with a stake in public policies is willing to sacrifice their short-term advantage for a greater good. Well, someone just did. Without any opposition from the biofuels sector, the tax credit for ethanol blenders expired on January 1."*

—Bob Dinneen, President and CEO, Renewable Fuels Association (Jan. 2012)

### Meanwhile, oil industry clings to century-old subsidies

*"We must maintain tax provisions critical to independent oil and gas producers, including Intangible Drillings Costs (IDCs) and Percentage Depletion. …IDCs have been available since 1913… [and] Percentage Depletion has been available to independent producers since 1954…The tax provisions that let us keep our own money to reinvest in drilling are crucial to keep this energy revival going."*

—Harold Hamm, Chairman and CEO, Continental Resources (June 2012)