

IMPORTANCE OF THE VEETC TO THE U.S. ECONOMY AND THE ETHANOL INDUSTRY

By John M. Urbanchuk
Technical Director, ENTRIX

KEY FINDINGS FROM THE STUDY

Created by the American Jobs Creation Act of 2004, the Volumetric Ethanol Excise Tax Credit (VEETC) provides oil refiners, blenders and marketers of gasoline with a federal tax credit of 45 cents on each gallon of ethanol blended with gasoline. The VEETC provides marketers and blenders an important economic incentive to blend ethanol with their gasoline. As such, the VEETC has been a major factor behind the increase in ethanol production and use in recent years.

The tax credit is scheduled to expire December 31, 2010. To demonstrate the importance of extending the VEETC, the Renewable Fuels Association contracted with ENTRIX, and economic consulting firm, to conduct a detailed economic analysis of the impacts of failing to renew the tax credit in its current form. The ENTRIX analysis found that expiration of VEETC would have the following effects:

- **Loss of more than 112,000 jobs in all sectors of the economy.** At a time of high unemployment, failure to extend VEETC would deal a significant blow to the green jobs market. Jobs lost would include those directly involved in ethanol production, as well as all other jobs supported by the economic activity generated by the ethanol industry. Job losses would occur mostly in rural communities, many of which have been hit hardest by unemployment in recent years.
- **Reduction of domestic ethanol production by 38%.** Allowing VEETC to lapse would result in the loss of 4 billion gallons of U.S. ethanol production, the equivalent of shuttering two out of every five ethanol plants operating today.
- **Increased reliance on imported motor fuels.** While the federal Renewable Fuels Standard requires increasing *use* of ethanol, it does not require that the ethanol is produced in the United States. As such, removal of the VEETC would result in the replacement of lost domestic ethanol production with imported ethanol from nations like China and Brazil.
- **Decrease in corn prices of 8 percent.** Failure to extend VEETC would result in the deterioration of an important market for America's grain farmers. Reduced demand for corn resulting from VEETC expiration would lead to an 8 percent drop in farm prices, or about \$0.30/bushel at today's prices.
- **Loss of investment in and support for second-generation biofuels.** All ethanol, regardless of feedstock, is eligible for the VEETC. Thus, elimination of the tax credit would eradicate a key incentive for the continued development and deployment of cellulosic ethanol. Further, allowing the VEETC to expire would send a negative signal to investors regarding the nation's commitment to biofuels.
- **Elimination of \$2.7 billion in state/local tax revenues and \$2.4 billion in federal tax revenues.** Eliminating the VEETC would greatly reduce tax revenues at all levels of the U.S. economy.
- **Reduction of aggregate Gross Domestic Product (GDP) by \$16.9 billion (2009 dollars).** At a time when domestic GDP growth has significantly slowed, the loss of 4 billion gallons of production would result in further erosion of economic output from the U.S. manufacturing sector.
- **Reduction of household income by \$4.2 billion (2009 dollars).** The economic activity and jobs stemming from the ethanol industry result in higher levels of income for American households. Failure to extend VEETC would result in reduced household income.