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Advanced Biofuels USA Promulgates Policy on Federal Energy Subsidies

Response to Congressional Budget Office Report: Phase Out Biofuels Subsidies Only to the Extent that Oil/Gas Subsidies Are Also Phased Out

At the request of New Mexico Senator Jeff Bingaman (D), the Congressional Budget Office (CBO) recently produced a superficial and misleading report on US government financial subsidies for the development of a US biofuels industry. (["Using Biofuel Tax Credits to Achieve Energy and Environmental Policy Goals"](#) July 2010.

The release of this report has triggered a debate on the continuation of Federal biofuel subsidies. Unfortunately, because this report does not evaluate these subsidies in the context of overall US energy tax policy, those using it to push for the discontinuation of biofuel subsidies are overlooking Federal subsidies for oil and gas production and their effect on the US economy and energy policy.

Therefore, Advanced Biofuels USA would like to offer a solution to the issue of biofuel subsidies in the context of overall US energy taxation policy.

Market Dislocation Effects of Oil and Gas Production Subsidies

As reported by an Environmental Law Institute study in 2009, US Federal subsidies for **fossil fuels totaled approximately \$72 billion** from 2002-2008 while subsidies for renewable energy during the same time period were approximately \$29 billion. Yes, the **US government subsidized the very profitable, mature fossil fuel industry at a rate of 2.5 times that of the emerging biofuel industry.**

The effect on the US budget and American energy use of the current US tax policy on the large and mature oil and gas industry is highly negative. As stated by Calvin Johnson, a

professor of law at The University of Texas School of Law, testifying before Senator Bingaman's subcommittee on September 10, 2009,

*"With tax accounting so bad, even highly **profitable investments** in the oil and gas area **cannot provide a source of revenue for our Uncle Sam.***

*Oil and gas transactions commonly benefit from a negative tax or subsidy, that is, the **internal rate of return is higher for the investment after tax than before tax.**"*

So, while Federal tax subsidies for the oil and gas industry not only deprive the US treasury of money to balance the budget, more important, they also artificially increase the profitability of oil production. The result is current oil and gas tax policy removes any incentives for the industry to increase petroleum prices to those that a "free market" would demand. Resulting free market prices would drive down energy consumption and would encourage investment in lower priced renewable, sustainable solutions.

This testimony by Professor Johnson was delivered in support of a bill that would have reduced some oil and gas tax subsidies resulting in about \$3 billion/year of additional tax revenue.

It is important to realize that some of these targeted tax subsidies were originally passed to encourage the expansion of the US oil industry and were sold as being temporary. One of these provisions was the Oil Depletion Allowance. It allows oil producers to exclude 15% of total oil well annual revenue from taxes every year it is in operation. Guess when this subsidy was enacted? 1925.

That's right. **A provision to encourage a struggling industry has remained in effect for eighty-five years**; even while the industry has grown from a start-up to a mature, highly profitable entity.

As you might guess the Oil Depletion Allowance and seven other tax preferences were not eliminated in 2009. Why? We'll let the Ranking Member of the Committee, Senator Jim Bunning (R-Ky) explain.

"These new taxes will mean less domestic energy production, fewer American jobs and less revenue at a time when we desperately need all three.

It will also jeopardize our nation's energy security by discouraging new investment in domestic oil and natural gas production and refining capacity."

To interpret, a solid supporter of the Free-Market says the US **oil and gas industry would not stay in business if that industry had to** give up its multiple tax subsidies and **operate in the Free-Market.**

Position of Advanced Biofuels USA on Federal Energy Subsidies

Advanced Biofuels USA supports the concept of **a level playing field** for all energy production sources. This includes tax policy, incentives to start-up a beneficial industry, and the calculation of benefits and harms to the environment of the United States.

Therefore, Advanced Biofuels USA would support a **phase-out of existing biofuel tax credits** and subsidies provided:

1. The timing of their phase-out would be equivalent to the **phase-out of similar subsidies** currently provided **to the oil, gas, and electrical generating industries**.
2. During the phase-out period, sufficient **revenue** from an indexed (to 1993 level) Highway User Transportation Fuel Fee (gas tax) should be **used to build a transportation biofuel infrastructure**.
3. The government mandates a **five-year phase in** of all vehicles sold in the US having **Flex-Fuel** technology that provides E-85 mileage on the **EPA cycle within 10% of gasoline**. This technology is readily available and is based on eco-boost engines offered by Ford, GM, Ricardo and other suppliers.
4. The government removes Federal tax policies that artificially distort the price of energy so that an **Open-Market that includes environmental and national security costs sets the price of all energy forms**.

Advanced Biofuels USA is a 501(c)3 nonprofit organization. Its purpose is to promote public understanding, acceptance, and use of advanced biofuels; to promote research, development and improvement of production, marketing and delivery of advanced biofuels; and to improve advanced biofuels crops and products.

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