2016 IRFA Federal Candidate Survey Background

Note: IRFA staff can provide more details on any issue and would be happy to answer any questions – just call Monte Shaw at 515-252-6249.

Question 1: Do you support maintaining the federal Renewable Fuel Standard (RFS) with no legislative changes?

Background: With the support of 36 governors, Congress and then President George W. Bush passed and signed into law the renewable fuel standard (RFS) in 2005, and expanded it in 2007. The goal of the law was to reduced petroleum imports, enhance consumer fueling choices at the pump, boost the rural economy, and reduce the environmental impacts of petroleum-based fuels. In all respects the RFS is well on its way to achieving those goals.

In short, the RFS is a policy designed to help fuels like ethanol and biodiesel overcome petroleum's continuing Century of Subsidies and federal petroleum mandate (not to mention a fuel distribution monopoly) to leverage greater competition in the marketplace. The goal of the RFS is to ensure consumers can choose the fuel of their choice and not be simply dictated to by Big Oil.

When anti-renewable fuels groups call it a mandate or say the government should not pick "winners and losers," they conveniently forget to mention that federal energy policy is overwhelmingly tilted in favor of petroleum. Ethanol is cheaper, cleaner, and higher-octane than petroleum-based gasoline. Renewable fuels would love to compete on a level playing field, but a level playing field hasn't existed since the Century of Subsidies for petroleum began in 1913.

IRFA Position: YES

Question 2: Do you support ending the Federal Petroleum Mandate?

Background: The Federal Petroleum Mandate, which is the biggest impediment to consumer fuel choice in the U.S., requires that the vast majority of fuel consumers buy be petroleum-based.

Most people are unaware that for nearly 40 years, Federal law has <u>required</u> that any fuel you put into your vehicle must first be approved by the EPA. [42 USC § 7545(a), (b) & (f)] As you might expect, petroleum-based gasoline was grandfathered into this system. <u>Today, if you use an unapproved fuel in your car or truck, you are subject to a $25,000 per day fine.</u> [42 USC § 7545(d)(1) and 42 USC § 7524(a)]

Currently, the EPA-approved fuels are E0, E10 and E15 (flexible fuel vehicles are exempt from this federal restriction). From a petroleum perspective that means the approved fuels range from 100% petroleum down to 85% petroleum. American motorists, therefore, are under an 85% Federal Petroleum Mandate.

Federal law requiring that virtually every gallon of fuel sold to passenger vehicles in the U.S. contain a minimum of 85% petroleum is not a free market. It is Big Oil's best kept secret: the Federal Petroleum Mandate.

Consumers should be allowed to take personal responsibility for their fueling choices and not be restricted from choosing petroleum alternatives by federal law.

IRFA Position: YES

Question 3: Do you support reforming and extending the biodiesel tax incentive?

Background: By making biodiesel more cost-competitive with petroleum diesel, the $1-per-gallon tax credit creates jobs, strengthens U.S. energy security, reduces harmful and costly emissions, diversifies the fuels market, and ultimately lowers costs to the consumer. There is a clear correlation between the tax incentive and increased biodiesel production, which has grown from about 100 million gallons in 2005, when the tax incentive was first implemented, to nearly 1.3 billion gallons in 2015.

However, the tax incentive has expired four times in its short history, creating significant disruptions in the industry. Additionally, the annual threat of losing the tax incentive has stunted growth, limiting biodiesel producers' access to capital and investment, and restricting their ability to expand. With less than a decade of commercial-scale production, biodiesel remains a young and maturing industry that needs stable tax policy to continue meaningful growth and momentum toward the industry goal of constituting 10 percent of the on-road U.S. diesel market by 2022.

The incentive also must be reformed from a blender's credit to a production credit to protect U.S. taxpayers. Other countries, like Argentina, are heavily incentivizing the export of their biodiesel to the U.S. – where any biodiesel blended here receives the blender's credit. Reforming the credit will ensure that only U.S. produced biodiesel is eligible.

The benefits of doing so are clear:

- Biodiesel is diversifying our fuel supplies so that we are not at the mercy of global oil markets that are heavily influenced by unstable regions of the world and global events beyond our control.
- Biodiesel is made from an increasingly diverse mix of resources such as recycled cooking oil, agricultural oils and animal fats. The EPA has

recognized its environmental benefits by classifying it as an Advanced Biofuel.

- Biodiesel production in Iowa supports over 3,000 jobs and adds nearly $200 million to Iowa household income.

IRFA Position: YES

Question 4: Do you oppose Congressional efforts to prevent USDA from incentivizing blender pump installations?

The USDA used to utilize the Energy Title Rural Energy for America Program (REAP) to provide grants for the installation of blender pumps at fuel stations around the country. During the last Farm Bill, an all-out onslaught by Big Oil resulted in legislation that prohibits REAP funds from going to blender pumps.

The USDA responded by creating a new initiative, the Biofuels Infrastructure Partnership (BIP), which offered $100 million in cost-share, competitive grants this year. Not surprisingly, Big Oil is already attempting to shut down this USDA program as it threatens their near monopoly on fuel choice in America.

Allowing consumers the chance to choose higher blends is more important than ever. Big Oil continues to use its petroleum distribution monopoly to thwart retailers and consumers who wish to offer/buy higher ethanol blends. Blender pumps put the power back in the hands of consumers.

IRFA Position: YES

Question 5: Do you support EPA and/or Congressional action to establish volatility regulations which ensure a uniform base gasoline is suitable for blending both E10 and E15 year-round?

By abusing a quirk in the federal fuel regulations, Big Oil leverages its fuel distribution monopoly to prevent free market competition and thwart the will of those retailers and consumers who want to use E15.

Federal regulations dictate that conventional fuels during the summer (June 1 through September 15) adhere to a 9 psi limit on the Reid vapor pressure (RVP) scale (a measure of volatility of the fuel). The fuel volatility cap helps to reduce evaporative emissions.

When ethanol accounts for a minority of a fuel blend, the blended product will have a higher vapor pressure than the gasoline blendstock alone. However, in recognition of ethanol's ability to reduce tailpipe emissions, the EPA long ago granted E10 a 1 psi waiver from the 9 psi RVP summer limit. Therefore, E10 blends can have an RVP of up to 10 psi.

Even though the positive emissions impact of E15 is even greater than E10, the EPA has not granted E15 a similar one pound waiver. As a result, refiners can send a traditional 9 psi gasoline to Iowa in the summer for blending to E10 (it

meet the 10 psi cap for E10). But blending 15% ethanol with that gasoline would result in a blend over the 9 psi cap for fuels other than E10.

During the winter fuel season (Sept. 16 through May 30) there is no RVP cap for conventional fuels. Therefore, the same 9 psi fuel can be used to blend both E10 and E15. So without another resolution, E15 sales will be very limited or non-existent from June 1 until September 16.

Congress or the EPA could equalize the summertime RVP limits for E10 and E15 by granting the same the one pound waiver to E15 that E10 receives. Also, to improve performance and emissions, automakers have petitioned the EPA to cap the volatility of the base gasoline blendstock, thereby keeping both E10 and E15 under the current 9 pound limit (regardless of waiver). IRFA supports either alternative. If the same gasoline blendstock could be used for both E10 and E15 year round, Big Oil could not use the regulatory quirk to limit consumer fuel choices.

IRFA Position: YES

Question 6: Do you support extending the cellulosic tax credit?

We are in the 103rd year of continuous, permanent tax subsidies for petroleum. Fighting to enter this space is a new fuel alternative called cellulosic ethanol, made not from corn starch, but rather corn fiber, corn stover, or other crop residues and dedicated energy crops. Iowa is home to three cellulosic ethanol plants and is poised to be a national leader. As an industry just recently commercialized, cellulosic ethanol faces a steep climb against the well-entrenched and highly subsidized petroleum. Although pioneered in the U.S. and with some of America's first plants right here in Iowa, we are seeing future development being directed to South America, Africa and China because of the unfair playing field in the U.S. Extending the cellulosic tax credit will create more certainty for private investors and banks to invest in this promising technology.

IRFA Position: YES

Question 7: Do you support a thorough review of the petroleum industry's Century of Subsidies to determine if they should be continued?

Big Oil has routinely attacked targeted, limited tax credits for alternatives to petroleum fuels, saying the government should not "pick winners and losers." But the facts are different. While the ethanol industry allowed the corn ethanol blenders tax credit to expire at the end of 2011, today the oil industry enjoys billions in permanent tax subsidies UNIQUE to the petroleum industry.

The oldest of these oil-only subsidies dates back to 1913 – meaning petroleum has received a Century of Subsidies. Just a partial list of the billions of dollars of subsidies available only to the oil industry includes:

- Percentage depletion allowance

- Marginal oil well incentives
- Enhanced oil recovery credits
- Expensing of Intangible Drilling Costs
- Deduction for tertiary injectants
- Exception from passive loss limitations for oil and gas
- Geological and geophysical expenditures

These Big Oil tax subsidies are current and cost the taxpayers billions each year.

Western Capital Energy Development notes: "The immediate deduction of the intangible drilling costs is very significant, and by taking this up front deduction, the risk capital is effectively subsidized by the government by reducing the participant's federal, and possibly state income tax." (emphasis added)

Investopedia.com adds: "No other investment category in America can compete with the smorgasbord of tax breaks that are available to the oil and gas industry."

Buried deep on its website the **American Petroleum Institute's** even brags: "Taxpayers have had the option to expense [intangible drilling costs] since the inception of the Tax Code."

IRFA does not urge that every Big Oil subsidy should be eliminated or even to say that each and every one is bad policy. But given a Century of Subsidies for the petroleum industry, any discussion of a free market, or a level energy playing field, or consumer fuel choice, or costly taxpayer subsidies—should keep petroleum subsidies in mind.

After 100 years of subsidies, it is fair to ask: When will Big Oil be able to stand on its own two feet without a taxpayer crutch?

IRFA Position: YES

Question 8: Do you support continued funding for the Foreign Ag Service Market Access Program (MAP) that funds international market development of agricultural products including ethanol and DDGs?

For decades the USDA has worked to help promote exports of U.S. agricultural products. As current low blend (like E10) domestic markets became saturated, USDA began to partner with the US Grains Council and others to promote ethanol as a lower-cost, cleaner-burning alternative to MTBE and other petroleum octane sources around the world. Not surprisingly, Big Oil has targeted to cut off any assistance for ethanol and DDGs exports. Continuing these efforts will help other countries begin to break oil dependency, while at the same time boosting the U.S. economy and creating American jobs.

IRFA Position: YES