A new Agricultural Policy Brief entitled “Could a Variable Ethanol Blenders’ Tax Credit Work?” is available on the farmdoc website at:

http://farmdoc.illinois.edu/policy/apbr/apbr_10_01/apbr_10_01.html

The U.S. biofuels industry is the recipient of a number of economic incentives from the federal and various state governments. For the ethanol industry, the Volumetric Ethanol Excise Tax Credit (VEETC) is the major federal tax incentive that supports the use of ethanol. Known more popularly as the “ethanol blenders’ credit,” this incentive has been widely debated in recent months for several reasons. First, the blenders’ credit is scheduled to expire at the end of 2010. Second, pressure to reduce the fiscal deficit of the federal government has focused attention on many tax incentive programs, including the blenders’ credit. Third, recent economic analysis has questioned the need for a blenders’ credit in the presence of biofuels mandates.

The purpose of this policy brief is to analyze how a variable ethanol blenders’ credit might work in comparison to the current fixed per gallon credit. We first review some specifics regarding the current fixed credit policy and then discuss basic issues pertaining to a variable credit policy. We follow this with a comparison of the historical performance of two variable blending policies and the present policy.

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