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BEFORE THE COMMITTEE ON WAYS AND MEANS
UNITED STATES HOUSE OF REPRESENTATIVES
HEARINGS ON ETHANOL TAX INCENTIVES AND ETBE

February 1, 1990

Mr. Chairman and Members of the Committee:

I would like to begin by thanking you on behalf of the Federal Highway Administration (FHWA) for scheduling this hearing to examine the tax incentives provided for ethanol and ETBE. As administrators of the Federal investment in the Nation's highway system we fully support the goal of improving the quality of the air we breath, and we applaud the national effort to bring about a transition to less-polluting motor fuels. Coupled with this support, however, is the potential impact on the highway infrastructure associated with using highway tax exemptions to promote the consumption of those fuels.

As you know, taxes on motor fuels are the backbone of the Federal highway tax structure, accounting for about 85 percent of the total Highway Trust Fund tax receipts. The Highway Trust Fund system of finance has long received support from highway users because it is deemed to be a fair and equitable way to pay the bill for meeting the Nation's most critical highway and bridge infrastructure needs.

When some highway users are exempt from bearing a fair share of the highway tax burden, the very basis of support for the Federal highway tax structure is undermined. Highway tax exemptions may promote the use of gasohol, but they also reduce the flow of revenue into the Highway Trust Fund, draining revenues away from the highway program.

The revenue losses associated with the tax exemption provided for gasohol, a 10-percent ethanol, 90 percent gasoline mixture, are significant. From Fiscal Year 1981 through Fiscal Year 1988, the gasohol exemption drained \$2.3 billion away from the Highway Trust Fund. In 1988, the revenue loss totalled approximately \$480 million. Although the gasohol tax exemption is scheduled to end in 1993, some have advocated extending that exemption to the year 2000. Using the Treasury Department's projection of revenue losses that would be attributable to extension of the gasohol exemption, assuming the section 40 tax credit is not allowed for ethanol used to produce ETBE, the cumulative amount of Highway Trust Fund revenues lost to highway users from 1981 through 2000 would total nearly \$8 billion, a staggering loss of highway revenue at a time when the nation is faced with the need to make the highway investments required to support economic activity in the 21st Century.

Because the gasohol exemption has such a significant effect on Highway Trust Fund revenues, we are concerned about the extent to which certain proposals for amending the Clean Air Act, such as section 218 of S.1630, will result in increased consumption of gasohol. In particular, proposals for mandated and optional use of oxygenated fuels could result in additional revenue losses from the gasohol exemption of as much as \$1 billion or more annually. Such losses could threaten the ability of the Federal Government to finance essential transportation infrastructure investments.

Clearly, the issue of whether to extend the current tax exemption for gasohol beyond September 30, 1993, is a difficult one with many complex and competing policy issues involving many agencies in addition to FHWA. The Administration is still in the process of developing its position on the gasohol exemption and other alcohol fuel tax incentives.

One of the clearest messages we've heard in the many transportation forums that have been held around the country in the past year is that an effective transportation system is critical to the continued economic health of the Nation. Across all transportation markets and all parts of the country, the most frequent comment heard was that the Nation needs to preserve the existing transportation infrastructure and provide adequate

capacity to meet transportation needs. This is the challenge facing transportation. The challenge facing all of us is to find a way to meet our air quality goals without endangering the financial support needed for the Nation's highway programs.

Let me conclude by once again thanking the members of the committee for scheduling these hearings on this most important topic. I would be happy to answer any questions the members may have.
