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Refiners Warn Marketers of Imminent End of Ethanol Tax Break

Refiners are starting to warn marketers to prepare for the end of the 4.5 cts/gal ethanol tax credit, which is set to expire at month's end, absent last-minute action by Congress.

SAN RAMON, Calif. – Chevron notified its jobbers on Dec. 1 that they will no longer receive the credit as of January 1, 2012. Like most suppliers, the refiner sells E10 gasoline at almost all of its terminals and its invoices include a separate line item ethanol blend tax credit.

Other refiners are expected to send out similar notices to their marketers.

Chevron offered the credit under the federal Volumetric Ethanol Excise Tax Credit (VEETC), which is expected to expire Dec. 31. Unless the tax credit is renewed, “direct-served deliveries loaded at the terminal or marketer rack purchases...will no longer reflect this tax credit,” Chevron said.

The loss of the tax break is likely to be reflected in higher pump prices, given that most wholesalers have been passing much, if not all of the credit, through to their retailers.

“We’ll be sending our dealers a copy of the letter so that they know what’s happening,” said a large Chevron-branded jobber at press-time. “We pass the credit through, so the main effect will be an increase in gasoline prices to dealers and to the public.”

One small retailer competing against some large c-store chains says he worries that the larger companies can absorb part of the 4.5 cts/gal increase, and so will have a pricing edge on the street.

“In markets where we compete with the likes of Wawa, it will be difficult to pass through the 4.5 cents to the pump on January 1. I am sure they will use it as a marketing ploy and only pass some and maybe even none of the 4.5 cts increase but we can’t afford not to do so — that would represent almost 50% of our average margin,” the retailer said.

Congress voted to end the 30-year-old tax credit this summer as part of efforts to reduce the budget deficit, but that bill was never signed into law. The tax credit is due to expire on December 31, 2011, and there are no indications that Congress intends to extend the credit. The subsidy is estimated to cost nearly \$6 billion annually. The government began underwriting ethanol use in the form of a sweetener for gasoline marketers in the late 1970s in a bid to start weaning the U.S. off foreign oil.

“NACS has long supported extension of the tax credit as a means of reducing the cost of fuel to retailers and consumers,” said NACS Vice President of Government Relations John Eichberger. “However, given economic and political conditions, securing another extension was not possible. NACS will continue to work on policies that will make it easier for retailers to obtain fuel and offer it for resale at the most competitive price possible.”