HOUSE RESEARCH ORGANIZATION bill analysis | 5/7/2001 | HB 788 Swinford, et al. (CSHB 788 by Hardcastle)

SUBJECT: Creating an incentive program for ethanol and biodiesel production

COMMITTEE: Agriculture and Livestock — committee substitute recommended

VOTE: 6 ayes — Swinford, McReynolds, Christian, Hardcastle, Miller, Kolkhorst

0 nays

3 absent — Brown, Green, Hupp

WITNESSES: For — Susan Combs, Texas Department of Agriculture; James Conway, Griffin Industries; Jean Davis, Texas Farm Bureau; Sam McCahon, National Biodiesel Board; James Peeples, AAE Technologies and Griffin Industries; Russel Smith, Texas Renewable Energy Industries Association; Dee Vaughn, Corn Producers Association of Texas; Mike Vick, Rio Grande Spirits; Brian Walters, Dumas Economic Development Corp.

Against — Ross Wilson, Texas Cattle Feeders Association

On — Michael Honeycutt, Texas Natural Resource Conservation Commission

DIGEST: CSHB 788 would establish a fuel ethanol and biodiesel production account in the general revenue fund and require the Texas Department of Agriculture (TDA) to make grants to fuel ethanol and biodiesel producers from the account as an incentive to develop those industries. A producer would be entitled to receive from the account 20 cents per gallon of production for 10 years after production began from registered plant. TDA would have to adopt rules for distributing grant funds at least quarterly. A producer could not receive grants for more than 15 million gallons produced at any plant in each fiscal year.

Money in the fuel ethanol and biodiesel production account could be appropriated to TDA only for this grant program. The account would consist of money transferred at the direction of the Legislature. If TDA determined that the account was not sufficient to distribute the full amounts eligible to producers for a fiscal year, TDA would have to reduce proportionately the amount of each grant for each gallon as necessary to continue the incentive program during the remainder of the fiscal year.

To be eligible for grants, producers would have to register their plants with TDA. A producer could register more than one plant. The registration would have to show that the plant was capable of producing ethanol or biodiesel, that the producer had made a substantial investment of resources in Texas in connection with the plant, and that the plant constituted a permanent fixture. TDA would have to register each plant that met these qualifications.

Each producer would have to report monthly to TDA the preceding month's production, importation, and sale or blending of fuel ethanol or biodiesel in gallons, plus the total value of agricultural products consumed in each plant. A producer who failed to file a report would be ineligible to receive a grant for the period for which the report was not filed.

The bill would take effect September 1, 2001.

SUPPORTERS SAY:

CSHB 788 would create an incentive program for Texas agricultural producers to increase output of fuel ethanol and biodiesel as a replacement for methyl tertiary butyl ether (MTBE) as a gasoline additive. Several states, including California, have banned MTBE because it threatens water supplies and public health. Ethanol is a viable, nontoxic alternative to MTBE that could help preserve clean air and water. To promote ethanol use, several states, including Minnesota, have instituted producer incentive programs.

Spurring fuel ethanol and biodiesel production would give farmers more marketing options. Providing incentives for production would boost rural economic development, bring more jobs into rural areas, and provide an additional market for feed grain producers.

CSHB 788 would help reduce dependence on foreign oil. Because ethanol can be produced from corn and blended with gasoline, the low price of corn makes it a cheap substitute to foreign oil. Currently, Texans who would like to use fuel ethanol for transportation must go out of state to get it.

OPPONENTS SAY:

The state should not intervene in the free market by providing subsidies for fuel ethanol and biodiesel production. Increasing ethanol production would increase competition for feed grain, which, in turn, would inflate feed prices. A government subsidy for one group competing for feed grain would put another group at a disadvantage.

CSHB 788 would set up an expensive subsidy program. According to the bill's fiscal note, the program would cost the state $10 million in general revenue in fiscal 2003, and the cost would increase by $6 million each year thereafter. Also, because the marketing infrastructure for ethanol-gasoline blends is very limited, these products are not likely to reduce dependence on foreign oil to any significant degree.

NOTES: HB 788 as filed would have made a producer eligible for grants for no more than 30 million gallons of production at any one plant beginning in fiscal 2005. The committee substitute would make a producer eligible for no more than 15 million gallons per plant, but eligibility could begin in fiscal 2002. The substitute also added the provision that would require TDA to reduce grants if it determined that the fuel ethanol and biodiesel production account was not sufficient to distribute the full amount for which producers would be eligible in a fiscal year.

The House-passed version of SB 1 by Ellis, the fiscal 2002-03 general appropriations bill, includes a rider in the Art. 11 "wish list" for $10 million for the ethanol and biodiesel production program, contingent on enactment of HB 788.