

Originally Processed With FOIA(s):
2025-0627-S

FOIA Number:
2025-0627-S

FOIA MARKER

**This is not a textual record. This is used as an
administrative marker by the George Bush Presidential
Library Staff.**

Record Group/Collection: George H.W. Bush Presidential Records
Collection/Office of Origin: Chief of Staff, White House Office of
Series: Zoellick, Robert, Files
Subseries: Chronological Files

OA/ID Number: 94018
Folder ID Number: 94018-002c

Folder Title:
Ethanol [3]

Stack:	Row:	Section:	Shelf:	Position:
G	15	26	3	

THOMAS W. EWING
15TH DISTRICT, ILLINOIS

Congress of the United States
House of Representatives
Washington, DC 20515-1315

WASHINGTON OFFICE
1632 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-1315
(202) 225-2371

DISTRICT OFFICES
SUITE 200
70 MEADOWVIEW CENTER
KANKAKEE, IL 60901-2047
(815) 837-0875

SUITE 101
2401 E WASHINGTON STREET
BLOOMINGTON, IL 61704-4409
(309) 662-9371

Fax Number: (202) 225-8071

Date: 9/23/92

Please deliver this document, which is _____ pages in

length, to The Hon. Robert Zoellick

at (fax number) _____.

If there is any problem with this transmission, please

contact Thomas Ewing in the office of

Congressman Thomas W. Ewing at (202) 225-2371.

Comments: _____

THOMAS W. EWING
15TH DISTRICT, ILLINOIS

COMMITTEES:
AGRICULTURE

SUBCOMMITTEE ON
DEPARTMENT OPERATIONS, RESEARCH,
AND FOREIGN AGRICULTURE

PUBLIC WORKS AND TRANSPORTATION

SUBCOMMITTEES:

AVIATION

WATER RESOURCES

PUBLIC BUILDINGS AND GROUNDS

Congress of the United States
House of Representatives
Washington, DC 20515-1315

September 23, 1992

WASHINGTON OFFICE:

1632 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-1315
(202) 225-2371

DISTRICT OFFICES:

70 MEADOWVIEW CENTER, SUITE 200
KANKAKEE, IL 60901-2047
(815) 937-0875

2401 E. WASHINGTON STREET, SUITE 101
BLOOMINGTON, IL 61704-4409
(309) 662-9371

210 WEST WATER STREET
PONTIAC, IL 61764
(815) 844-7660

The Honorable Robert B. Zoellick
Deputy Chief of Staff
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

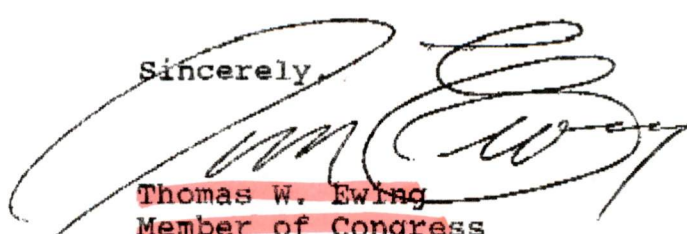
Dear Bob:

It was good to visit with you last week about the **ethanol** issue. I am enclosing the polling material I mentioned to you. I strongly believe action on this matter by the President is absolutely necessary.

The President might be able to gain the political initiative on the ethanol issue by merely announcing a **temporary** application of the volatility waiver. People I've talked to in the ethanol industry seem to feel that advances in science will eliminate much of the volatility problem in a few years (through application of EPA's "complex model", use of different blends and ethanol derivatives such as ETBE, etc.), but they must be in the reformulated fuels program in the beginning to get to that point. A decision this year is obviously important politically, but is also important because rapid expansion in methanol plant construction may soon crowd out any economically feasible ethanol plant construction.

Please feel free to give me a call if you'd care to discuss this further.

Sincerely,


Thomas W. Ewing
Member of Congress

TWE:kcn

MCKEON ASSOCIATES

IF THE ELECTION FOR PRESIDENT OF THE U.S. WERE HELD
TODAY, FOR WHOM WOULD YOU VOTE

TOTAL 15TH CONGRESSIONAL DISTRICT

	ELECT FOR —PRESIDENT—				ELECT FOR U.S. —CONGRESSMAN—			SEX	PARTY —AFFILIATION—				AGE			INCOME					
	DEMOCRAT				REPUBLICAN				INDEPENDENT				61 AND OVER			LESS THAN \$10K					
	TOTAL	DEMOCRAT	DEMOCRAT	DEMOCRAT	REPUBLICAN	REPUBLICAN	REPUBLICAN		INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT	INDEPENDENT
	100%	100%	100%	100%	100%	100%	100%		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
TOTAL	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
REPUBLICAN GEORGE BUSH	36.3	100.0			55.3	18.8	23.7	35.0	37.4	1.0	30.1	76.3	38.2	37.1	36.0	33.6	12.8	34.8	42.7	38.7	50.0
DEMOCRAT BILL CLINTON	44.3		100.0		31.4	76.4	46.1	46.3	42.6	91.3	38.9	11.5	37.1	42.7	43.4	51.6	74.5	44.9	40.0	43.8	43.5
DON'T KNOW	19.4			100.0	13.3	4.8	30.2	18.6	20.0	7.7	31.0	12.1	24.7	20.2	20.6	14.8	12.8	20.3	17.4	17.5	6.5

MCKEON & ASSOCIATES

IF THE ELECTION FOR U.S. CONGRESSMAN IN THE 15TH
CONGRESSIONAL DISTRICT WERE HELD TODAY, FOR WHOM WOULD YOU VOTE

TOTAL 15TH CONGRESSIONAL DISTRICT

	ELECT FOR --PRESIDENT--						ELECT FOR U.S. --CONGRESSMAN--			SEX	PARTY --AFFILIATION--			AGE			INCOME					
	DEM			REP			DEM				FE- DEM	PEN- DEM	BLI- REP	18- 30	31- 45	46- 60	61 AND OVER	LESS THAN \$10K	\$10- \$25K	\$26- \$40K	\$41- \$80K	OVER \$80K
	GEORGE	CLINTON	DONT	E- WING	MAT- TUS	DONT	TON	DEM	REP													
	BUSH	TON	KNOW			KNOW																
TOTAL	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X
REPUBLICAN TOM EWING	43.2	65.2	30.5	30.3	100.0			49.1	38.1	27.1	33.9	71.1	40.0	42.4	44.6	44.6	50.4	43.2	42.0	52.0	50.0	
DEMOCRAT CHARLES MATTUS	15.4	7.9	26.6	3.9		100.0		12.6	17.7	36.4	11.1	4.0	14.0	18.5	11.3	15.4	12.0	13.1	21.0	9.8	22.2	
DON'T KNOW	41.4	26.9	43.0	65.8			100.0	38.3	44.2	36.5	55.0	24.9	46.1	39.2	44.1	39.9	37.6	43.6	37.0	38.2	27.8	

MCKEON ASSOCIATES

WOULD YOU BE MORE LIKELY OR LESS LIKELY TO VOTE
FOR A CANDIDATE FOR CONGRESS WHO SPONSORED LEGISLATION
WHICH WOULD EXTEND THE USE OF ETHANOL

TOTAL 15TH CONGRESSIONAL DISTRICT

	ELECT FOR --PRESIDENT--			ELECT FOR U.S. --CONGRESSMAN--			SEX	PARTY --AFFILIATION--			AGE			INCOME							
	DEM		REP	DEM		REP		IND	PEN	BLI-	18-	31-	46-	61	LESS	AND	THAN	\$10-	\$26-	\$41-	OVER
	REPU BILL GEO. CLIN BUSH	TON	KNOW	E- WING	MAT- TUS	KNOW															
TOTAL.....	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X	100X
MORE LIKELY	79.7	78.2	82.0	77.3	84.0	82.0	74.9	85.0	74.9	83.3	77.7	78.9	68.2	77.1	80.8	87.7	81.2	84.0	79.8	76.0	78.7
LESS LIKELY	4.2	2.8	5.1	3.6	2.8	6.9	4.2	3.9	4.5	4.9	5.7	1.6	5.9	2.8	7.0	1.9	12.8	4.4	3.8	2.6	
DOESN'T MATTER	15.1	19.0	11.7	16.6	12.1	11.2	20.3	10.6	19.3	10.8	15.5	18.7	24.0	19.4	10.1	10.4	6.0	10.7	14.5	21.4	21.3
DON'T KNOW	1.0		1.1	2.4	1.1		.6	.6	1.3	1.0	1.1	.8	7.9	.7	2.1		.8	2.0			

912024562883 P.01

Sunday

Chicago Sun-Times

\$1.25

Chicago/Suburbs
\$1.50 Elsewhere

TO

WARMER Pages 2, 75

AUGUST 30, 1992

3★ Final ★

Ethanol Fuels Campaign

By Basil Talbott

Washington Bureau / Chicago Sun-Times

WASHINGTON—Clean air for Chicago has been pitted against lucrative Downstate cornfields in a White House tug-of-war that GOP leaders say will help decide whether President Bush wins Illinois in the fall.

Key to Bush's Chances Lies Downstate

Bush has been put on the spot over whether to grant a regulatory break for an alternative fuel that environmental groups say could make smog worse in several big cities.

More than half the nation's ethanol, an alcohol product mixed into gasoline, is made by Downstate companies largely from Illinois corn.

Angry farmers could cost Bush the state

(in a close election—especially considering the heavy Cook County Democratic vote expected to be generated by Senate candidate Carol Moseley Braun, top Republicans said.

Farmers are shipping bags of corn to Cabinet members as a protest move. And Turn to page 12

AUG-31-1992 08:44 FROM

Post-It™ brand fax transmittal memo 7671 # of pages > 4

To Bob Zoellick	From H. Buffett
Co.	Co. ADM
Dept.	Phone #
Fax # 202-456-2883	Fax #

P.02
912024562883
TO
FROM
08:45
AUG-31-1992

Ethanol

Continued from Page 1

corn growers set upon Bush a week ago at the State Fair in Springfield, pleading their livelihood was at stake.

Their ire was aimed at William Reilly, chief of the U.S. Environmental Protection Agency, who opposes the break sought by the ethanol industry—a waiver of a pending EPA rule that would restrict its use in gas during summer in cities where ozone is a hazard.

"Adding ethanol would contribute to ozone in Chicago" unless the gasoline formula is altered or ethanol is first changed into an ether—both considered expensive, explained an EPA official.

The ethanol industry means \$1.5 billion to the Illinois economy, said Dennis Vercler of the Illinois Farm Bureau. About 17 percent of Illinois corn goes into ethanol, and the waiver would give \$15,000 more to the average corn farmer, he said.

"The farmers are absolutely critical to our coalition in Illinois" and granting the waiver "would lock them up," said Andrew Foster, executive director of the Illinois Republican Party.

Four years ago, Bush nearly broke even in Chicago and the collar counties but won Downstate by 93,000 votes. Illinois has about 85,000 farmers.

In light of Braun's strength in Cook County, "We will have to increase the collar county and Downstate vote," said Gene Reineke, executive director of Bush's Illinois campaign. "I'm crossing my fingers for the waiver. It will help every Republican."

Braun endorsed the ethanol break Friday, while her GOP opponent, Rich Williamson, voiced strong support earlier.

Democratic presidential nominee Bill Clinton hasn't taken a stand, an aide said. Bush, in a letter to the National Corn Growers Association Friday, said it was "extremely helpful for me to be brought up to speed" on the issue by Illinois farm



SUN-TIMES/Jim Frost

The first corn-based gas was known as gasohol, 10 percent ethyl alcohol and 90 percent unleaded gas. Now more than half the nation's ethanol, an alcohol product mixed into gasoline, is made by Downstate companies largely from Illinois corn.

leaders and promised "to bring it to closure as soon as possible."

Agriculture Secretary Edward Madigan, a former Illinois congressman, pressed Bush to approve the break on a plane ride back from the State Fair. If environmental groups were the only force opposing the break, Bush's decision would be easier.

But there is a strong counterforce with clout. Environmentalists have a rare ally in Big Oil, which has flooded the White House with letters lobbying Bush not to do eth-

anol any more favors.

Ethanol already has a federal tax break of 54 cents a gallon and a state break of about 2 cents.

Mobil Corp. President Allen E. Murray wrote Bush Aug. 21 that modifying vapor pressure standards—an element of the waiver—and other steps to help ethanol "create an unlevel playing field in favor of one product and therefore are at odds with the free-market philosophy."

Similar protests came from the heads of

Phillips Petroleum, Citgo Petroleum and Amoco. William D. Ford, president of Amoco, objected that a proposal to force oil companies to alter their gas to neutralize the ozone effect of ethanol would "penalize customers in northern cities like our home base of Chicago."

Illinois farmers also have a big-money ally, Archer-Midland-Daniels Co., the Decatur-based agricultural giant that makes more than half of all ethanol. AMD, its political committees, and members of the family of its chairman, Dwayne Andreas, contributed \$500,000 to a GOP fund-raiser hosted by Bush earlier this year.

The Chicago Lung Association and the Sierra Club oppose the ethanol waiver, while Mayor Daley's administration has been mum. Henry Henderson, the city environmental commissioner, said, "The benefits to the economy make it an attractive move, and studies we have looked at are inconclusive."

Supporters of ethanol argue it has unquestionably reduced a pollutant, carbon monoxide, in many cities. Environmentalists agree, but say it poses a problem during summer in cities with ozone smog.

"The weight of scientific evidence indicates that ethanol does make ozone problems worse," maintained Ron Burke of the Chicago Lung Association. Ozone smog irritates respiratory problems, especially in people with emphysema, asthma and chronic bronchitis.

Ethanol in gasoline makes the gas evaporate faster, adding more hydrocarbons to the air, which increases ozone smog, Burke said.

"It's not fair to ask the city of Chicago to provide a public health subsidy to farmers in Downstate Illinois," Burke said. Tests of ethanol's effect on ozone are inconclusive, Burke said, but "we should err on the side of caution."

Martin Andreas, senior vice president of AMD, argued that ethanol has only a small part of the fuel market and that "EPA has never produced a test to show that ethanol increases ozone."

12 CHICAGO SUN-TIMES, SUNDAY, AUGUST 30, 1992

CAMPAIGN '92

Illinois Likely to Be Pivotal

By Jerome R. Watson
and Basil Talbott

Washington Bureau/Chicago Sun-Times

WASHINGTON—As Illinois goes, so the nation is likely to go in the Nov. 3 election between President Bush and Arkansas Gov. Bill Clinton.

As a bellwether state, Illinois has gone for the winner in all but three elections since homestate boy Abraham Lincoln won in 1860.

In 1992, both parties have pegged Illinois, with its 22 electoral votes, as one of the states expected to determine the outcome.

Alarming for Bush is the fact that he barely won Illinois against Michael Dukakis in 1988, and he enters this year's contest in a weaker position against a candidate who seems stronger and more wily than Dukakis.

If Illinois helps push Clinton to victory, it may contribute to a historic shift in politics, according to Stephen Wayne, a scholar of presidential elections at Georgetown University.

Wayne said a Clinton win based on a good showing in the Rust Belt, spurred perhaps by wins in traditionally Republican California and Texas, would put an end to Republican claims in recent decades to a "lock" on the Electoral College.

KEY VOTERS

Key demographic components of the past three Republican victories are threatening to break away from President Bush. Analysts say the following groups likely will be a hard sell unless Bush specifies how he will reinvigorate the economy. Yet to Bush's advantage, the key demographic groups—roughly half the voters—are not sold on Clinton's economic plans.

Key groups for Bush and Clinton:

■ **Voters over 60.** Bush squeezed out a 51 percent to 48 percent victory over Michael Dukakis among older Americans in 1988, according to ABC exit polls. But GOP pollster Ed Goess warns that this group, with its high turnout, could turn heavily against Bush this year. The older Americans particularly worry about health care costs and melting retirement assets.

■ **Young women who work outside the home.** Bush suffered an over all 7 percent gender gap among women in 1988, but still got more women's votes than Michael Dukakis. This year, pollsters from both parties say the GOP's "family values" message hurt Bush among young working women. Democratic pollster Celinda Lake said they found it too conservative and anti-choice.

Lake said Clinton strategists believe they can

win even if they attract only 45 percent of male voters, because they expect 53 percent of the voters to be women.

■ **Young, mostly blue-collar men.** Lake said Democratic polls show Clinton more popular among "younger, blue-collar guys than any ticket we've had in a long time." She said the group, especially concentrated in the industrial Midwest, is angry with Bush about the economy.

■ **Westerners.** Bush does not have Reagan's sagebrush persona in the Mountain West and Plains, an area he needs to carry heavily to win. Westerners "identified with the gunslinger-cowboy image as opposed to the establishment Republican image," Goess said. "It has little to do with issues, and a lot to do with . . . [Bush's] image over all as opposed to Ronald Reagan's."

Source: Gannett News Service

"The significance of this election is that the Republican base has shrunk," Wayne said. "For once, the Democrats don't start with two strikes against them. The Republicans can't count on winning the South, putting the Midwest in a box, and saying 'We've got it.'"

No way, said Bush strategist Charles Black.

He claimed Bush will get his share of electoral votes in the Rust Belt—namely, Illinois, Michigan, Ohio and Pennsylvania—win Florida, Texas and the rest of the South except Arkansas and maybe Tennessee, and march

through the Mountain and Central Plains states.

In Illinois, Democrats think they have a plus in the Senate candidacy of Carol Moseley Braun.

The hope is that Braun's feminist appeal in the "Year of the Woman" and her support among

blacks—boosting turnout in African-American communities—will combine with a generally sour voter mood to blow Bush out of office.

Gene Reineke, who runs Bush's Illinois campaign, conceded Braun might boost the predominantly Democratic Chicago vote, forcing the GOP to squeeze more votes out of the heavily Republican collar counties and Downstate.

Lowell Jenkins, Reineke's counterpart in the Clinton campaign, contended that Clinton's coat-tails would help Braun Downstate while Braun's strength among blacks and suburban women would boost Clinton in the metro area.

Illinois Democratic Chairman Gary LaPaille said GOP nominee Rich Williamson hasn't cut much into Braun's substantial lead. And he estimated that Bush trails Clinton by about 10 points.

Reineke said, "Based on ABC-TV polls, Clinton's lead in Illinois has gone from 18 points three weeks ago to 14 just before the Republican convention and then to 10 points Monday."

Reineke and LaPaille agreed the presidential election in Illinois will be close.

And hard to call—partly because Ross Perot will be on the ballot even though the Texas billionaire quit the race in June.

Decatur, Illinois • Sunday, August 30, 1992

President may overrule EPA on ethanol, congressman says

■ Rep. Ewing says Bush could make announcement during Midwest swing.

By DAVE MOORE

H&R Staff Writer
and The Associated Press

There hasn't been an official announcement.

But U.S. Rep. Tom Ewing, R-Pontiac, says he's received indications from the Oval Office that George Bush might overrule the U.S. EPA's ban of ethanol in the Clean Air Act.

"We've had some rumblings to that effect," Ewing said Saturday night. "I can't tell you that I heard the president say he would."

Corn growers are trying to persuade federal regulators to allow the use of corn-based, ethanol-blended fuel in meeting new clean-air requirements.

The U.S. Environmental Protection Agency, in writing the Clean Air Act regulations, prohibited the use of 10 percent ethanol. Corn growers said that could lower the price of corn by at least 26 cents per bushel.

"My office has been working with the Oval Office for months," Ewing said. Ewing sits on the house agriculture committee.

"If the president doesn't think that the regulations that are being proposed are fair or proper, he has the



Rep. Ewing

On ag committee

right to override" the U.S. Environmental Protection Agency, Ewing said.

Ewing said he also has heard that Bush plans to make a swing through the Midwest in the next couple of weeks to announce his decision.

President Bush has appointed a team to advise him on what role ethanol fuels should play in the Clean Air Act.

Tim Trotter, president of the National Corn Growers Association, said he hopes corn growers can have some input into the team's analysis.

"The announcement is a step in the right direction, but it is not an end-all," Trotter said Friday during the association's board meeting. "We want the issue resolved within days. It has gone on far too long."

Bush talked with corn growers about ethanol when he visited the Illinois State Fair in Springfield last week. On Thursday, Bush told KMOX radio in St. Louis he would form a team to advise him on ethanol.

Illinois is the nation's leading producer of the corn-based fuel.

SCS DOLE
KANSAS

United States Senate

OFFICE OF THE REPUBLICAN LEADER

WASHINGTON, DC 20510-7020
M E M O R A N D U M

August 25, 1992

TO: SECRETARY MADIGAN
FROM: JIM WHITTINGHILL
SUBJECT: ETHANOL

The "problem" ethanol is experiencing with the Clean Air Act Amendments of 1990 (CAA) began with EPA's interpretation of a section of Title II (Mobile Sources <of air pollutants>) which addresses "Reformulated Gasoline" (RFG). Beginning in 1995, RFG is mandatory in all severe non-attainment (does not meet federal standards for ozone <smog>) areas and may be required in other areas which "opt-in" to this program for cleaner air. This will represent at least 50% of the total U.S. gasoline market and will undoubtedly grow as gasoline retailers promote the cleanest burning fuels even where not required.

The author of the language in the law is Senator Durenberger (staff member -- Jimmie Powell) who maintains EPA has improperly interpreted the Act. However, granting ethanol this simple "fix" (explained later) creates problems for other industries and is not the best political solution.

VOLATILITY

Some twelve years ago, EPA found blending ethanol with gasoline reduced emissions of pollutants. However, ethanol also increases the "volatility" (evaporative point -- a source of air pollutants) of gasoline. (Volatility is measured in "Reid Vapor Pressure" <RVP> pounds per square inch, and a maximum RVP for gasoline is established by EPA <long standing authority>.) EPA believed at the time the benefits of adding ethanol outweighed the increase in volatility and administratively granted ethanol a "one pound volatility waiver" -- the source of the problem in RFG. The CAA ethanol problem is that EPA will not extend the one pound waiver to RFG.

EPA reiterated its position repeatedly and as recently as the February 3, 1992 (post CAA) Federal Register when it reopened New Jersey's plan on meeting CAA standards which included a prohibition of the one pound waiver. EPA stated "EPA continued the 1.0 psi exemption in the final rule for Phase II of its gasoline volatility regulations. This decision was based on the conclusion that the 1.0 psi exemption should not adversely affect air quality overall and because of the potential economic harm to the ethanol industry that eliminating the exemption would create."

- 3 -

Second, when promulgating the proposed rule for RFG (the exact section of law causing problems ethanol), it found that reducing olefins (ethylene and propylene which occur naturally in crude oil) in gasoline reduced the emissions of NOx (nitrous oxides), another pollutant the CAA tries to reduce. However, it also found reducing olefins also increased VOCs. Therefore, the proposed rule says reducing NOx is sufficiently important that the increases in VOCs from reductions in olefins will not be counted with respect to Further Reasonable Progress.

ACTIONS BY EPA

From the outset, the actions of EPA can best be described as evasive. Its officials continually contend ethanol blends are "dirtier" than regular gasoline. However, after repeated requests, not one document has been produced to back the claim. This is probably due to the repeated past statements by EPA that ethanol is environmentally beneficial (the one pound waiver exists only because of this finding by EPA).

EPA's General Counsel contends the one pound waiver for ethanol in RFG does not exist in the CAA (contrary to the statements of its author), yet refuses to put his interpretation in writing.

After USDA funded a study which sought to give a scientific solution to the theory that ethanol was sufficiently clean burning that it didn't need a one pound waiver, EPA has yet to undertake a meeting with the USDA funded scientist (Dr. Mike Graboski) after repeated requests from Senator Dole to do so.

What EPA has done is to come up with a series of cures which are worse than the disease. First, it backed the so-called "Governors Ethanol Coalition" plan -- the Clinton plan -- which is a domestic content requirement strongly opposed by the President and Senator Dole when it first surfaced in a somewhat different design as the Jeffords Amendment to the Energy Bill.

Second, it floated a plan which would require refiners to offer two grades of gasoline, one for blending with ethanol's competitor (methanol in the form of MTBE which does not increase volatility) and one for blending with ethanol. This is the proposal discussed and dropped in Houston. It is opposed by Senator Dole, oil, ethanol and the corn growers.

Third, EPA sought an agreement between oil refiners and ethanol producers whereby the oil industry would voluntarily make available sub-RVP gasoline in an amount necessary to blend 1.5 billion gallons of ethanol annually (current production plus most of the announced plant expansions and new starts).

- 4 -

Finally, EPA came up with a plan whereby ethanol supporters in Congress would amend the Tax Code to grant ethanol blended with ethers to make ETBE (as with MTBE it does not increase volatility) the same tax advantages which apply to straight ethanol. This approach is supported by Boyden Gray. It is opposed by Senator Dole for two reasons: First, if we are going to change law, we'll just change the CAA; Second, ETBE will never be economically competitive with MTBE, despite EPA's insistence that all reports indicate methanol prices will increase (as you guessed, these reports were never furnished).

I belabor these points to give a flavor of what can be expected from EPA. If EPA were directed to sit down and find a scientific solution to this problem which would hold other industries harmless, a solution would be found. Since no one has insisted this be done with someone looking over their shoulder at all times to make sure it was being done, EPA has never addressed the real issue.

EPA'S METHANOL BIAS

It has been a long held belief that EPA favors methanol over ethanol. Methanol is derived from natural gas. Most will come from overseas, since oil companies have huge overseas gas reserves with absolutely no market. When produced "associated" with crude oil, overseas natural gas is flared (burned at the well head). When discovered as a pure gas field, the wells are capped. If that gas had any value as it will with methanol, it would be produced. The point here is that America is overly dependent on foreign sources of energy. A methanol mandate will only exacerbate that problem. Remember, two-thirds of our foreign trade deficit is due to oil alone.

This bias was finally identified when EPA made available the only document since the beginning of this controversy. In a memorandum from Charles Gray (Director of the EPA Laboratory in Ann Arbor, Michigan) to Richard Wilson (top career employee in the Office of Air and Radiation at EPA Headquarters) disputing the contentions raised in the USDA study by Dr. Graboski, the bias appears in two points. First, Gray argues that if ethanol achieved the CAA required 15% reduction in VOCs, MTBE would probably achieve a 17 - 19% reduction. Therefore, Gray argues EPA would administratively change the 15% reduction in the law to 17 - 19%. The only possible reason would be to prevent ethanol from being used.

Second, in another point raised by Dr. Graboski, Gray argues EPA lacks sufficient data to concur. What Gray fails to point out is that he has used his discretion as Director of EPA's lab to fund what we believe is about a 90% methanol / 10% ethanol research program. They lack sufficient data on ethanol because they refuse to fund it. That argument cannot be accepted.

- 5 -

NEW ITEMS

A few new things have been recently called to my attention. Probably a month ago, EPA seemed to agree with a Department of Energy "partial" solution to use theories of atmospheric science, rather than raw emissions data, to establish procedures for improving air quality. Basically, EPA wants to use what is called the "Simple Model" (raw emissions) for 1995 and 1996, then switch to the Complex Model (attempt to find out what happens to the raw emissions) thereafter.

The Complex Model will help ethanol (if EPA has any interest in helping ethanol). However, for two reasons, using it beginning in 1997 is unacceptable. First, EPA published the proposed regulations on CAA only after agreeing to include language admitting the proposed regulations caused a problem for ethanol and promising to search for a solution. EPA also promised Senator Dole to find that solution prior to issuing the final rules.

Second, it creates a result that we would never be able to explain to a rational individual: In that ethanol currently gets the one pound waiver, ethanol can be used in 1993 and 1994. The CAA begins to apply in 1995 and EPA's regulations currently prohibit ethanol in RFG, so ethanol is prohibited in 1995 and 1996. EPA may actually use the complex model to once again allow ethanol when the complex model becomes effective in 1997. Therefore, you can use ethanol in 1993 and 1994. You cannot use ethanol in 1995 and 1996, but you can begin using it again in 1997. The ethanol hasn't changed, the base gasoline (in effect) has not changed, air quality is protected at all times, so explain why we cannot use ethanol in those two years.

There is an indication the President has some concern that domestic natural gas producers are opposed to allowing ethanol into RFG. I have not heard this previously, and would be surprised if the concern is genuine given natural gas's role in CAA. Again, beginning in 1995, centrally fueled fleets (buses, telephone, electric, cable, etc. company vehicles, postal service, UPS, etc.) must use ultra clean fuels. Compressed natural gas (CNG) will compete in that arena with M85. There is even a provision in the Senate-passed Energy Bill to give fueling stations a tax credit for the installation of CNG facilities. Currently, natural gas plays virtually no role in the transportation sector (1/3 of total U.S. energy usage); with CAA, that role will be significant. It is not reasonable to assume domestic natural gas will have a large percentage in the methanol market since, for starters, it is going to be difficult to build the methanol plants in the U.S. under CAA.

- 6 -

Finally, another new item has come to my attention. As discussed earlier, EPA has granted a "new way of thinking" to M85 and olefins, but not ethanol. In effect, these are new ways of counting VOCs, or mathematical solutions. With respect to ethanol, EPA says "new science" prevents them from undertaking the same new thinking. The new science is actually a new methanol bias at EPA -- they changed the statutory requirement on what is considered "base gasoline," i.e. the fuel from which you judge changes in VOCs, toxic substances and other pollutants. The law says to use 1990 gasoline, EPA is now using 1990 gasoline with 11% MTBE (gasoline with 2% oxygen content derived from the MTBE). This is certainly not with keeping an open mind with respect to ethanol. As a matter of fact, EPA did a similar thing with respect to toxic emissions -- it found out what MTBE could achieve and set the standard at that exact number -- not a CAA requirement, but in keeping with its methanol bias.

CHICAGO SUN-TIMES AUGUST 26, 1992

The ticklish politics of ethanol

More than the heat and humidity made Gov. Jim Edgar uncomfortable Sunday at the Illinois State Fair.

Preparing for President Bush's campaign stop, Edgar, an unabashed cheerleader for ethanol, wondered what Bush would tell farmers about the future for the corn-derived alternative fuel.

Would he side with corn growers and promote expanded markets for ethanol? Or would he accede to those concerned about air quality and uphold proposed restrictions on its use in some major cities?

Bush met privately with farm leaders, but he said nothing publicly about ethanol. His silence bespoke volumes about the delicate politics of clean air and special interests in this election year.

In Illinois, corn farmers sell about 17 percent of their crop at premium prices to ethanol producers such as Decatur-based Archer-Daniels-Midland. The producers, in turn, get a federal tax subsidy to make ethanol-blended fuels competitive at the pump.

But science has turned what would seem like an easy political home run into a potential foul ball. Burning ethanol-blended gasoline reduces emissions of carbon monoxide, but it also creates more harmful ozone and smog than pure gasoline, especially on warmer days.

That's why William Reilly, Environmental Protection Agency administrator, favors a proposed rule that would restrict the use of ethanol during the summer in

nine major cities, including Chicago. The limitation would begin in 1995.

Although they took part in negotiations on the rule last year, the ethanol proponents say they misunderstood. Now facing slower growth in ethanol sales, they want the rule changed, contending new evidence will show ethanol-blended fuels can be used in the largest cities year-round without damaging air quality.

Corn growers have been promising such data for some time without delivering. In the meantime, the White House is said to be looking for a political compromise. One possibility might be to push an ethanol derivative that meets the clean air standards and likely can be processed in oil-company refineries.

Such a step would please farmers because it would boost ethanol use. Some oil companies would be happy to run the product through their refineries, although ethanol producers, undoubtedly, would object.

Lost in this high-wire balancing act, unfortunately, is good public policy. Everyone should be looking for the most efficient, least expensive way to reduce pollution.

Bush has reason to worry about political support from Illinois farmers. But in seeking a compromise that won't alienate too many voters, he shouldn't turn his back on good science and clean air in the cities. For now, unfortunately, that means restricting ethanol's use.

Post-It™ brand fax transmittal memo 7671		# of pages > 24
To	Ed Madigan	
From	Marty A.	
Co.	Co.	
Dept.	Phone #	
Fax #	202-720-2160	

FARM BUREAU NEWS

Vol. 74 No. 33

AMERICAN FARM BUREAU FEDERATION

August 24, 1992

FB asks for quick action on ethanol

The American Farm Bureau Federation has again urged the Bush administration to take immediate action to include ethanol in the Environmental Protection Agency's reformulated gasoline program.

"Farmers and ranchers expect the administration to recognize ethanol's ability to reduce air pollution, strengthen the agricultural economy and decrease U.S. dependence on foreign oil," said AFBF President Dean Kleckner in a telegram sent last week to the administration. Options being considered to replace ethanol in the reformulated gas program should be rejected because they will impede the growth of demand for ethanol."

There was speculation late last week that an announcement on ethanol by the administration was imminent. News reports said President Bush would announce a package of ethanol tax incentives and research programs during a campaign stop at the Illinois State Fair. EPA officials, however, said a final deci-

sion on the reformulated gasoline program is not expected until later this year. Further clouding the issue was a statement by EPA Administrator William Reilly to reporters during the Republican convention in Houston that the Bush administration is committed to expanding use of ethanol, "but we don't need to relax the Clean Air Act to do that."

Farm Bureau and other agricultural groups have strongly supported giving ethanol a more prominent role in the reformulated gasoline program. The program is aimed at encouraging the use of cleaner burning fuels and is to begin in 1995 in at least nine major U.S. cities with the worst ozone problems.

Drivers in those cities would be required to use reformulated gasoline, which contains a minimum of 2 percent oxygen.

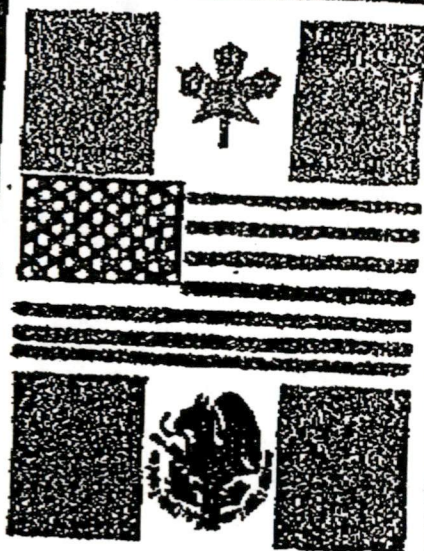
Kleckner pointed out that it was Congress' intent, when it passed the Clean Air Act in 1990, to promote the use of ethanol.

Under its guidelines for the reformulated gasoline program, however, the EPA

severely limited the use of ethanol in reformulated gasoline and failed to properly credit ethanol for all of its environmental benefits. Agricultural groups and legislators have been pressing EPA to change those guidelines and include ethanol when it writes the rule to implement the program.

The EPA's rule-making process included a public comment period, which ended Aug. 14. The agency received "several hundred" letters, EPA spokesman Mike Scott estimated. He said that is a high amount compared to what is received during most comment periods, indicating a great interest in the issue. The letters had not yet been counted so it was not known how many were pro-ethanol.

The next step is for EPA officials to review and evaluate the comments, prepare a recommendation and send it to Office of Management and Budget to be published as a final regulation. That is a process that will likely take several months, Scott said.



How will NAFTA affect agriculture? See inside pages for a summary of its impact on major commodities.

Bush avoids issue of ethanol in Illinois

An Iowa Democrat says the president's speech is 'a snub to corn producers.'

By DAVID YEPSEN

REGISTER STAFF WRITER

President George Bush campaigned for rural votes at the Illinois State Fair on Sunday, but had nothing to say about the politically sensitive issue of ethanol.

Democratic leaders blasted the Republican president for not discussing the product, the expanded use of which has been halted by environmental officials in Bush's administration.

The Environmental Protection Agency is considering rules that will halt expanded use of ethanol as a way to fight pollution in the nation's cities.

U.S. Sen. Bob Dole, a Republican from Kansas, had warned Bush not to go to Illinois unless he was prepared to reverse the EPA's position, which is vexing GOP politicians in

the Midwest. Bush ignored the advice from Dole and stuck to general farm themes instead.

"We've got our priorities and one of them affects every single Illinois farmer: We must open markets abroad," Bush said.

Free Trade

He noted his efforts to get a General Agreement on Tariffs and Trade and the proposed North American Free Trade Agreement with Canada and Mexico he negotiated.

"We will get a GATT agreement. We've gotten a NAFTA agreement, and we cannot go for protectionism," Bush said.

"One third of the corn and soybeans grown in Illinois head for markets outside the United States, and if we can get that playing field level, if we get access to foreign markets, it means a bonanza for the farmers of this country. They can outproduce anybody, out-hustle them, outwork them."

"Open trade, free trade, without

BUSH Please turn to Page 3A

ethanol in Illinois speech

BUSH

Continued from Page 1A

apology is what I believe in and the case I'm taking to the American people," Bush said.

John Roehrick, chairman of the Iowa Democratic Party, called the speech "a snub to corn producers."

The ethanol issue that Bush did not discuss is politically sensitive because rural state officials see it as a key economic development issue. Not only would farmers sell more corn, but jobs would be created in the region to manufacture the product.

Credibility on Line

Bush's credibility is on the line as well. During the 1988 campaign, Bush campaigned in farm country and promised to support the expanded development of the product as a way to cut urban pollution.

Recently, however, the EPA, which is part of the Bush administration, has blocked expanded use of the product, saying such an expansion could harm the ozone layer, which protects the Earth from the sun. Also, petroleum interests have opposed expanded use of the product and instead favor one made from petroleum as the additive to use to cut air pollution.

The issue has become politically important in corn-producing regions that also are toss-up states in the presidential race, including downstate Illinois, Ohio, Missouri, Iowa and central Pennsylvania.

"The farm ground is the battleground," Dole said last week in Houston.

Republican politicians from farm states told administration officials at the GOP convention last week in Houston that failure to act on the matter is giving Democrats an issue that could enable them to win over farmers and rural voters and tip some key states away from Bush.

GOP strategists believe the Democrats handed them an opening by not

saying much about agriculture in their national platform. The lack of movement on the ethanol issue is taking away that advantage.

In a letter to the administration Friday, Iowa Gov. Terry Branstad said the EPA's position has idled plans to expand ethanol production by 90 million gallons in Iowa. "This impact is significant considering that ethanol production already affects over 12,000 jobs, represents commodity production of \$2.5 billion and accounts for \$940 million in increased economic activity in Iowa," Branstad wrote. Expanded development of ethanol "would lead to new production plants in Iowa, jobs and increased corn demand."

"The longer that the market is delayed for the development of this additional capacity, ethanol will become increasingly competitively disadvantaged," Branstad wrote.

Roehrick said Sunday the president's lack of discussion of the ethanol matter in the Illinois speech shows "clearly, the man does not think that is an important issue in this part of the country."

Playing Politics?

Roehrick said Bush also may be playing politics with the issue, waiting until later in the campaign to announce expanded use. "It will be a last minute gasp for their campaign," Roehrick said.

Roehrick noted how the Bush administration delayed expansion of pork sales to developing eastern European markets until Democratic presidential candidate Bill Clinton started campaigning in the Midwest.

"This will be the same thing," Roehrick said. "We'll see something in the 11th hour of the campaign."

According to The Associated Press, the EPA's position has had a chilling effect on the ethanol industry. Archer Daniels Midland Co. of Decatur, which controls about 70 percent of the U.S. ethanol market, scrapped plans in March to expand its annual ethanol capacity by about 150 million gallons.

Des Moines Register 8/24/92

Madigan says Bush wrote memo urging action on ethanol in fuel plan

Washington--Aug 26--KRF--President George Bush has written a memo directing officials to deal with the role of corn ethanol in a clean-air program, USDA Secretary Edward Madigan said today.

Madigan said Bush remains a strong supporter of ethanol, despite farmer fears that an administration proposal could mean the loss of a large potential market, Madigan said.

Madigan said he and Bush talked at length about the issue on a plane trip back to Washington Sunday from the Illinois State Fair in Springfield. Bush then wrote a memo directing "somebody in the White House" to deal with the issue, Madigan said.

Corn farmers had hoped Bush would use his speech in Springfield to announce steps giving ethanol a greater role in a new reformulated gasoline program. The program begins in 1995 in nine major US cities.

Bush failed to mention ethanol.

Bush "read every piece of paper" he received from Illinois farmers on the issue, then wrote his memo, Madigan said.

"Somebody in the White House now has this (memo) and has been instructed to deal with it," Madigan said. "I think anything else said to me or any other administration official would be premature at this time."

Madigan said he had "no doubt" Bush was supportive of ethanol.

Corn growers have estimated US demand for ethanol, which is made from corn, could grow to 2.5 billion gallons per year by 2005, from about 1 billion now, if it is given a greater role in the program.

An Environmental Protection Agency proposal could keep ethanol out of reformulated fuel entirely and cause current use to drop, growers say. End



American Biofuels Association

1120 Connecticut Avenue, N.W. • Suite 400

Washington, D.C. 20036

Tel: (202) 466-8213 • Fax (202) 833-1808

28 August 1992

Memorandum:

For: C.Boyden Gray, Counsel to the President
Robert Zoellick, Assistant to the President and Deputy Chief of Staff
Bob Grady, Deputy Assistant to the President
Bill Rosenberg, EPA Assistant Administrator for Air and Radiation
Mark Dungan, Executive Assistant to the Secretary of Agriculture
Dick Wilson, Director of the Office of Mobile Sources, EPA
Charles Gray, EPA Director for Regulatory Programs and Technology,
Office of Mobile Sources

From: Bill Holmberg 

Re: Fuel Ethanol and the President of the United States

Last Sunday afternoon (August 23), the President met with Illinois and national farm leaders to discuss fuel ethanol. Those present are listed at the end of this memo.

Four points were emphasized at the meeting:

1. Ethanol is a high quality fuel of great benefit to the nation and the environment.
2. EPA has long defended fuel ethanol's one pound volatility waiver and the Congress reaffirmed the waiver in Section 211(h) of the Clean Air Act.
3. EPA's criteria for measuring ethanol's contribution to volatility is believed by some critics of the process to be flawed (Attachment A).
4. Based on the above, petitioners who met with the President (listed at the end of this memo) believe that EPA is unfairly and illegally locking fuel ethanol out of the reformulated gasoline (RFG) market starting in the summer of 1995. They petitioned the President for a one pound "wavier" from the requirements of the "Simple Model" to certify RFG for legal sale.

I would like to raise the probability that these fine Americans, dedicated to the nation, the vitality of rural America, and the advancement of fuel ethanol were not properly informed on several basic facts. Those facts are:

- o EPA has repeatedly defended the use of 10% ethanol blends in gasoline (E10) based on data showing that E10 did not increase ozone formation over the base gasoline. However, the issue for RFG certification is not an increase, but a required decrease in ozone forming compounds by 15% compared to 1990 base gasoline. In addition, the summertime Rvp of the base gasoline when EPA started defending E10 was about 10 to 11.5 psi. It is well demonstrated that the higher the Rvp of the base gasoline, the lower the Rvp boost of E10. With the 1995 Rvp of RFG limited to 7.2 psi for southern states and 8.1 psi for northern states, as agreed to by both the Renewable Fuels Association (RFA) and the National Corn Growers Association (NCGA), the evaporative emissions caused by E10 will be proportionally higher than they were when EPA defended E10.
- o The gasoline called for in the Clean Air Act Amendments of 1990, as a base from which to measure the 15% VOC reduction, is industry average gasoline sold in 1990 with a Rvp of 8.7 psi. Ethanol supporters and others are being told the following:

"EPA has stated, however, that it is legally prohibited from adopting this approach [grant the requested "waiver"]. This is patently untrue. First, the 15% reduction in ozone forming VOC's required by Section 211(k) does not displace or supersede the volatility tolerance provide for ethanol blends in Section 211(h). Rather, Section 211(k) commands a 15% reduction in ozone forming VOC emissions, calculated from a baseline which is to be established using the 211(h) one-psi tolerance for ethanol blends. Section 211(k) cannot be used to frustrate ethanol use, in direct contradiction of clearly expressed Congressional intent." (Source: RFA memo to its membership).
- o Two points from this quote: 1) the underlined portion of the quote from the RFA memo could be read as a quote from the CAA -- it is not -- the "baseline" gasoline is average 1990 gasoline; and, 2) the average summertime Rvp in 1990, as indicated above, was 8.7 psi (E10 had about 1% of the market which could have raised the average to 8.71 psi), not, according to EPA, 8.7 psi plus the 1 psi waiver for ethanol, or 9.7 psi, as suggested by the above quote.

- o This disagreement highlights one of the swing issues: was it the intent of Congress to fix the Rvp of the 1990 baseline gasoline for E10 at 9.7 psi? RFA claims that it was, and several key senators agree. EPA disagrees, making the point that the 15% mass VOC reduction is the controlling requirement. EPA agrees that the waiver is available if the VOC reduction can be met. EPA accepts the argument that it was the intent of Congress to increase the market for ethanol as part of the requirements of the CAA.
- o Because of the complexities involved in developing the "Complex Model" in time to certify 1995 RFG, the "Reg Neg" participants (including RFA and NCGA) agreed to an interim "Simple Model" calling for a reduction in Rvp to 8.1 psi and 7.2 psi and a minimum of 2.0 wt. percent oxygen in RFG. It was well understood that for E10 to meet RFG requirements, it would have to achieve a 15% VOC reduction.
- o Under the "Reg Neg" agreement establishing a "Simple Model," there were only two criteria: 2.0 wt% oxygen and the 8.1/7.2 psi Rvp limits mentioned above. There was no discussion of waiving these limits for E10 in terms of the "Simple Model."
- o The "legality" of the one psi waiver for E10 is overshadowed by the impact of that waiver on ozone formation. RFA and NCGA have presented evidence showing that E10, with the waiver, will meet the 15% "ozone-forming" VOC reduction requirement of the CAA. They believe the "mass" reduction requirement in the CAA is an accounting problem that can be accommodated. EPA disagrees on both accounts. The bottom line issue is the science -- whether E10 with the volatility waiver, can meet the requirements of the CAA to reduce ozone forming VOCs by 15%?
- o EPA has suggested that the National Academy of Sciences become a neutral scientific arbitrator and make the final determination. RFA believes such action will take too long and holds to the position that the "waiver" must be granted as soon as possible in order to give needed assurance to the ethanol industry to proceed with planned expansions and to expand the market for ethanol after 1995.
- o The "waiver," if granted, will likely lead to extensive litigation brought by the environmental community and others. This would further frustrate potential entrants into the production side of the industry and would add caution in the investment community. It would also prompt action by those who claim the industry is seeking a "subsidy to pollute."

These complexities overshadow the real issues before the President and supporters of fuel ethanol:

- o It is well understood that a one psi boost in Rvp will increase evaporative emissions by more than 30%. More than 60% of a vehicle's total emission are "evaps." E10's one psi boost, therefore, translates into at least a 15% increase in "evaps" over the base gasoline. The ethanol industry must now accelerate the move to lower-Rvp options to meet the needs of ozone nonattainment areas.
- o There are scientifically-sound explanations to moderate part or all of that increase in "evaps" (e.g., reduced ozone-forming VOCs because of lower CO emissions and lower-weight/reactivity emissions, etc). EPA is prepared to fully consider those scientifically-sound explanations in the development of the "Complex Model."
- o In addition, there are ways of requiring oil companies to provide an acceptable blendstock for ethanol to ameliorate the Rvp boost, and potential ways to trade VOC or Rvp credits to the advantage of E10. The Administration is prepared to work for these goals.
- o The Administration is also prepared to support a transition to ethanol's derivative ethers, ethyl tertiary butyl ether (ETBE) and tertiary amyl ethyl ether (TAEE), blends of ethanol and these ethers and to E85/E95 to capture and offer to the public the full potential of ethanol's contribution to cleaner-burning and lower-Rvp fuels.
- o This "package" of programs and benefits was presented to the leadership of the ethanol industry. It was not accepted, apparently based on the belief that it was inadequate to ensure an open market for E10 in ozone nonattainment areas starting in 1995. There is also concern that EPA has shown favoritism to methanol-based fuels that has given MTBE and M85/95 major advantages in the marketplace.

The President was briefed to some degree of the above points. He listened attentively and sincerely to the petitioners, expressing concern that the problem had not been resolved.

The fact that it has not been resolved to date attests to its complexity. Enlightened and cooperative resolution is needed. Such resolution requires deep understanding of the issues and should not be a task thrust upon the President of the United States.

A workable solution has been forged by elements of the government and those seeking the common good of the nation, the environment and the ethanol industry. That solution is outlined in Attachment B.

In addition, an option recently put forward by the Governor's Ethanol Coalition, a bipartisan group of 18 governors, warrants careful consideration. This proposal calls for a portion of the oxygen required under the CAA for the oxygenated fuels and reformulated gasoline programs be produced from domestic feedstocks. This proposal would not compromise emission reduction requirements of the CAA. (Clayton Yeutter was concerned about the initiative's potential to violate trade agreements. His concerns can be addressed by eliminating the reference to domestic feedstocks.) This option deserves your serious consideration since it promotes ethanol and (and other renewable fuels offering similar benefits) while improving air quality.

These complex issues should be resolved by professionals in government, industry and related fields. The decision should not be overpowered by self interest, and it should not be left to the President who stands to lose either way if he is forced to make a political decision. The nation deserves better.

In attendance at the meeting:

President George Bush
First Lady Barbara Bush
U.S. Secretary of Agriculture Ed Madigan
Illinois Governor Jim Edgar
Illinois Secretary of Agriculture Becky Doyle
Steve Wentworth, Board Member, National Corn Growers Association
Scott Durbin, President of the Illinois Corn Growers Association
John White, President of the Illinois Farm Bureau
John Little, President of the Illinois Farmers Union
Lloyd Reeser, President of the Illinois American Agriculture Movement
Bob Weiss, President of the California Farm Bureau

Dear Mr. President:

We, the undersigned, are dedicated to the advancement of the fuel ethanol for environmental, energy and economic security, job creation as well as agriculture and basic industry stimulation benefits.

There is no question about the clean burning characteristics of 10% ethanol blends (E10). The problem is that the evaporative emissions caused by E10's vapor pressure are higher than for a base gasoline.

The Renewable Fuels Association (RFA) and the National Corn Growers Association (NCGA) are convinced that E10 still meets the 15% VOC reduction requirements of the Clean Air Act (CAA) for reformulated gasoline (RFG) with a one psi waiver. On the other hand, U.S. Environmental Protection Agency (EPA) scientists maintain that E10 will meet the 15% VOC reduction requirement, but only without the one psi waiver. A comprehensive peer review of all available science will resolve the differences in due course.

In the meantime, your Administration proposed an initiative designed to offset obstacles to marketing E10 in RFG and accelerate the transition to ethanol's derivative ethers and higher blends of ethanol up to E95 that lessen vapor pressure of automotive fuels.

The Administration's offer was not accepted by RFA and NCGA because they remain convinced that science already upholds their claim. EPA Administrator William Reilly went further to recommend that the matter be resolved independently by the National Academy of Sciences. That was also rejected.

Hence the impasse.

Mr. President, we support your commitment to the advancement of the ethanol industry. However, the nation must ensure the economic health of the current ethanol industry while providing needed assurances to those exploring investments in the industry. While granting the waiver would appear to meet these needs, in all likelihood, the refiners and environmental groups would challenge this move in court, thus complicating the process of scientific review and stirring public resentment against fuel ethanol. Since the RFG regulations do not take effect until 1995, it is difficult to see how the fuel ethanol industry would benefit from such actions.

Consequently, we seek your leadership in both areas -- advancing ethanol's contribution to reduced vapor pressure fuels and ensuring E10 an appropriate share of the RFG market. The initiative offered by your Administration, if fully implemented, will do both.

We therefore ask that you order the immediate implementation of your initiative.

AMI Release
Page 2-2-2

In a statement released today, Raymond A. Lewis, President of the American Methanol Institute, said: "The Administration obviously recognizes that granting special subsidies, tax incentives, and environmental waivers to ethanol would not save energy or promote a cleaner environment. What it would do is undermine and unfairly penalize the unsubsidized natural gas/methanol-based markets that together have committed over \$5 billion to produce competitive clean fuels domestically to meet the requirements of the Clean Air Act."

Stating that the federal government already pays more than half a billion dollars per year to support the ethanol industry, Lewis called on the Administration to continue a "fuel neutral" policy that would allow all alternative fuels (including methanol, which is made in the United States from American natural gas, and has never received government subsidies) to compete on a level playing field.

Lewis added: "The ethanol industry received Senate approval of a generous additional tax break in June worth \$162 million, and already they are coming back for more. Why should the federal government keep heaping favors on any one product, especially one that is not economically sustainable, when it is clearly in the best economic interest of the country to promote competitiveness and diversity in energy development? President Bush took the fiscally and competitively responsible position by saying, in effect, 'enough is enough.'"

AMI is supported in its position by the oil and natural gas industries, and by major environmental groups who cite ethanol's failure to meet emissions standards under the new Clean Air Act.



NEWS RELEASE

Jo Buckenheimer

Phone (202) 467-5050

Fax (202) 331-9055

FOR IMMEDIATE RELEASE:

August 27, 1992

METHANOL INDUSTRY SAYS BUSH SHOWS POLITICAL COURAGE ON FUEL ISSUE

Washington, D.C. -- The natural gas-based methanol industry commended the Bush administration today for "putting clean air and the American taxpayers" above the interests of the billion dollar ethanol lobby by deciding not to support a new package of special preferences for the ethanol industry.

President Bush had been pressured by the already heavily subsidized ethanol companies to make the announcement on Sunday, August 23, during a campaign appearance at the State Fair in Illinois, a state in which corn-growers are heavily represented.

Ethanol, produced chiefly from corn, has received federal government subsidies for over a decade. The industry is now requesting even larger subsidies as well as a special environmental waiver for the fuel, worth millions of dollars, which would undercut the nation's new Clean Air Act standards.

more-more-more

FOR MORE INFORMATION CONTACT:

American Methanol Institute 815 Connecticut Avenue N.W. Suite 800 Washington, D.C. 20006



NEWS RELEASE

Jo Buckenheimer

Phone (202) 467-5050

Fax (202) 331-9055

FOR IMMEDIATE RELEASE:

August 27, 1992

METHANOL INDUSTRY SAYS BUSH SHOWS POLITICAL COURAGE ON FUEL ISSUE

Washington, D.C. -- The natural gas-based methanol industry commended the Bush administration today for "putting clean air and the American taxpayers" above the interests of the billion dollar ethanol lobby by deciding not to support a new package of special preferences for the ethanol industry.

President Bush had been pressured by the already heavily subsidized ethanol companies to make the announcement on Sunday, August 23, during a campaign appearance at the State Fair in Illinois, a state in which corn-growers are heavily represented.

Ethanol, produced chiefly from corn, has received federal government subsidies for over a decade. The industry is now requesting even larger subsidies as well as a special environmental waiver for the fuel, worth millions of dollars, which would undercut the nation's new Clean Air Act standards.

more-more-more

FOR MORE INFORMATION CONTACT:

American Methanol Institute 815 Connecticut Avenue N.W. Suite 800 Washington, D.C. 20006

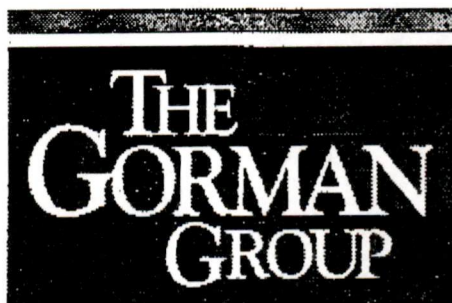
AMI Release
Page 2-2-2

In a statement released today, Raymond A. Lewis, President of the American Methanol Institute, said: "The Administration obviously recognizes that granting special subsidies, tax incentives, and environmental waivers to ethanol would not save energy or promote a cleaner environment. What it would do is undermine and unfairly penalize the unsubsidized natural gas/methanol-based markets that together have committed over \$5 billion to produce competitive clean fuels domestically to meet the requirements of the Clean Air Act."

Stating that the federal government already pays more than half a billion dollars per year to support the ethanol industry, Lewis called on the Administration to continue a "fuel neutral" policy that would allow all alternative fuels (including methanol, which is made in the United States from American natural gas, and has never received government subsidies) to compete on a level playing field.

Lewis added: "The ethanol industry received Senate approval of a generous additional tax break in June worth \$162 million, and already they are coming back for more. Why should the federal government keep heaping favors on any one product, especially one that is not economically sustainable, when it is clearly in the best economic interest of the country to promote competitiveness and diversity in energy development? President Bush took the fiscally and competitively responsible position by saying, in effect, 'enough is enough.'"

AMI is supported in its position by the oil and natural gas industries, and by major environmental groups who cite ethanol's failure to meet emissions standards under the new Clean Air Act.



A COMMUNICATIONS COMPANY

FAX TRANSMISSION

DATE: August 28, 1992

TO: Mr. Bob Zoellick

3 PAGES TOTAL

If there is a problem with this transmission, please call
202-939-4165 or fax 202-939-4133.

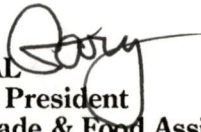
2015 MASSACHUSETTS AVENUE, NORTHWEST • WASHINGTON, D.C. 20036
PHONE: (202) 939-4165 FAX: (202) 939-4133

ADVERTISING • MEDIA RELATIONS • EVENTS • PUBLIC POLICY

THE WHITE HOUSE
WASHINGTON

Date: 8/24/92

TO: BOB ZOELLICK

FROM: GARY R. BLUMENTHAL 
Special Assistant to the President
for Agricultural Trade & Food Assistance
Room 231, OEOB, x6630

Per our conversation, attached is the latest version of the draft ethanol fact sheet. I look forward to discussing this quagmire with you!

DRAFT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

August xx, 1992

**Promotion of Ethanol to Help Achieve the
Environmental Goals of the Clean Air Act**

FACT SHEET

The President today announced several new steps designed to eliminate unnecessary regulatory barriers and encourage expansion of market opportunities for ethanol. Although the federal government has historically provided strong support to this environmentally beneficial fuel made from renewable farm products, President Bush has been a particularly active leader in opening up markets for ethanol. In fact, it was because of President Bush's leadership on clean fuels that the 1990 amendments to the Clean Air Act require the use of oxygenates such as ethanol in both the reformulated and oxygenated fuels programs. The President also proposed to substantially increase the use of alternative fuels in the transportation sector as part of his National Energy Strategy.

The steps announced today represent a critical milestone in the Administration's implementation of these important Clean Air Act and energy security programs.

Between 1985 and 1991, ethanol consumption in the U.S. remained roughly stable at about 750 to 800 million gallons per year. Due in large part to the steps announced today, however, U.S. ethanol consumption is conservatively expected to increase by 75 percent by the year 1997. In fact, some industry analysts have projected that ethanol consumption could reach 2 billion gallons annually by the year 2000.

	1991	1992 <u>projected</u>	1997
Total Gallons (in billions)	0.8	0.9	1.4
Increase Over 1991	---	+12%	+75%

I. RULEMAKING DECISIONS TO ASSIST ETHANOL

A. REFORMULATED GASOLINE:

1. **Expedite the development and the optional use of the unrestricted complex model by 1995.** EPA will issue a proposed reformulated gasoline (RFG) rule by November 1992 to provide refiners with the option of using the complex model in meeting the requirements of the Clean Air Act. The final rule will be published in March 1993. The complex model will provide gasoline marketers with a full range of options for meeting the pollution reduction requirements of the Act.

2. **Recognizing the benefits from ethanol use.** In the development of the RFG complex model, EPA will [take into account/recognize] all of the positive benefits of ethanol. For example, EPA will [take into account/recognize] the reductions in CO tailpipe emissions that occur with the use of ethanol. The model will be developed through a public process, including workshops and rigorous technical peer review. Through this process, [and consistent with the treatment of ethanol under Section 211(h),] the benefits of ethanol will be fully credited to the maximum extent scientifically justifiable and legally allowable under the provisions of the Clean Air Act.

3. **Establishing toxics and NOx neutrality.** The final rule will contain toxics and NOx standards that are oxygenate neutral. With respect to NOx, this step is warranted because recent data indicate that all oxygenates, such as MTBE and ethanol, have a comparable effect on NOx emissions. Moreover, because the proposed rule would have established performance standards based on the use of MTBE, it would have disadvantaged other oxygenates such as ethanol. Therefore, EPA will ensure toxics and NOx neutrality for all RFG complex model provisions.

4. **Strengthening the scientific basis for ethanol's environmental benefits.** The Administration will pursue a two-track course for resolving the critical technical issues raised during the public comment process with regard to EPA's analysis of the effects of ethanol on Reid Vapor Pressure (RVP) and ozone levels:

- The Administration will expedite its analysis of these comments and resolve all technical issues by the time the complex model is proposed for public comment.

- The Administration will simultaneously ask the National Academy of Sciences (NAS) to review the environmental benefits of ethanol. This review will provide an independent analysis of the technical issues involved with recognizing the benefits of ethanol relative to ozone formation. The Administration will ask for an expeditious review in order to consider any findings before promulgating the final rule in March 1993.

5. Administration support for pro-rating the excise tax for ethanol. The Administration strongly supports current Senate legislation that would prorate the existing excise tax for ethanol blends of 10 percent to blends of 7.7 and 5.7 percent. The lower percentage ethanol blends correspond to the oxygenate levels required under the Clean Air Act and provide gasoline distributors wishing to use ethanol with additional blending options.

6. Establishing a trading program for Volatile Organic Compounds (VOCs). In order to allow greater flexibility in meeting the performance standards under the Clean Air Act for reformulated gasoline, and provide incentives for gasoline marketers to furnish low RVP gasoline blend stock, EPA will establish a trading program for emission reduction credits. The trading program will include VOC trading among mobile and stationary sources and will provide for trading within each affected geographic area.

B. OXYGENATE PROGRAM FOR CO AREAS

1. Releasing of the oxy-fuel regulations. EPA will immediately issue guidelines for establishing the oxygenate program in CO nonattainment areas. By issuing these rules, the agency will help ensure that cities will be ready to begin the program by this Fall.

2. Providing for participation by 39 cities. After intensive review of the air quality data, EPA has determined that the wintertime oxygenate program will apply to 39 cities. This will greatly boost demand for ethanol beginning this Fall.

3. Restricting State Waivers from the 2.7 percent oxygenate standard. Because of concerns over potential increases in NO_x emissions from the use of oxygenates, several states are examining the option of establishing caps on the amount of oxygenate that can be blended into gasoline. Because ethanol has higher levels of oxygenate compared to MTBE and other oxygenates, such caps will discourage blenders from using ethanol. EPA will reject

petitions to establish oxygenate caps unless the state can show that there will be an adverse environmental effect.

EPA has also clarified its view that any increase in NO_x emissions caused by oxygenates will be offset many times over by the overall decrease in motor vehicle NO_x emissions as a result of increasingly stringent NO_x tailpipe standards.

4. Restricting Unsubstantiated Waiver Requests. On April 8, 1992, EPA issued guidelines establishing specific requirements that must be met by anyone wishing to petition EPA to delay the start of the wintertime oxygenated fuels program beyond November 1, 1992. These guidelines are desired to ensure that EPA will not receive unsubstantiated petitions to delay the start of the program, thereby assuring new markets for ethanol by November 1992.

II. OTHER NEW INITIATIVES

1. Non-Taxable (ETBE) Blender Tax Credit. The President announced today that he will seek legislation making the benefits of the blender tax credit non-taxable for ETBE and other ethers derived from ethanol. ETBE currently receives treatment equivalent to ethanol in the form of a tax credit. Ethanol in an ether form provides additional emission reductions that enable it to meet the summertime reformulated gasoline requirements. The affect of this action will be to increase the market value of ethanol enabling ETBE to better compete with other oxygenates.

2. Presidential Biofuels Initiative. The President has launched a biofuels research and development initiative to expand the use of ethanol and other biofuels. For FY 1993, he has proposed nearly a doubling of the research budget for ethanol-related research to \$40 million. Today the President directed the Secretaries of Energy and Agriculture and the Administrator of EPA to report back in 60 days with a strategy better focusing the initiative on reducing the cost of the fuels and developing engine technology to optimize the technical and environmental characteristics of biofuels.

III. LIST OF CURRENT ETHANOL-RELATED POLICIES

A. TAX POLICY BENEFITS

- The Energy Tax Act of 1978 provided a tax credit for investment in capital equipment used to produce alternative energy sources. The credit totaled 10 to 15 percent of equipment costs. Although this tax credit expired in 1987, it helped to create much of the capital used for today's ethanol industry.
- Under current law, the excise tax for gasoline is reduced by 5.4 cents per gallon for fuels containing 10 percent ethanol. This is equivalent to a benefit of 54 cents per gallon or \$22 per barrel of ethanol.
- Under current law, there is a 54 cents per gallon income tax credit for 190 proof alcohol and a 40 cents per gallon income tax credit for 150 proof alcohol used or sold as a fuel. There is an additional ten cents per gallon income tax credit that is available to small ethanol producers. These tax credits are also available to ETBE and are comparable in size to the excise tax exemption. Refiners or blenders can take advantage of either the credit or the exemption, but not both.
- The Federal government has also imposed a tariff on alcohol imported for fuel use. This duty is part of the Harmonized Tariff Schedules and serves to ensure that the excise tax exemption is accorded to domestically produced ethanol. The tariff has been increased to be commensurate with the additional domestic tax benefits.
- With the Administration's support, the ethanol excise tax exemption and the blenders income tax credit were extended through the year 2000.

B. PRIOR POLICY ACTIONS

- In the early 1980s, the Federal government provided approximately \$432.4 million in loans to finance ethanol plant construction.
- The 1980 Consolidated Farm and Rural Development Act authorized the Farmers Home Administration to guarantee loans for alcohol production facilities under the Business and Industry Loan Program. \$250 million was appropriated.

- In January 1981, the government issued an Executive Order requiring Federal agencies that own or lease motor vehicles to use gasoline if it is available at reasonable prices and in reasonable quantities.
- Auto manufacturers can receive a 1.2 mile per gallon CAFE credit for producing vehicles that can run on alternative fuels. This Administration supported legislation to remove the 1.2 cap on the amount of CAFE credits a manufacturer can earn.
- Under the Clean Air Act, centrally-fueled fleets of 10 or more vehicles operating the most polluted urban areas will be required to start using clean-fuel vehicles beginning in 1998. By 2000, 70 percent of new vehicles added to fleets in these areas must be clean-fuel.
- As part of the fleet program under the Clean Air Act, EPA has proposed that inherently low emitting vehicles, such as those using neat ethanol, be exempt from highway use restrictions, like HOV lanes. This will establish a strong incentive for fleet operators to use neat-fueled cars and trucks.
- The Administration proposed in its National Energy Strategy and now supports legislation to expand the clean fuel fleet program to other cities.
- In July, EPA proposed regulations on enhanced vehicle inspection program based on newly developed technology. This program will help all fuels meet the requirements of the Reformulated Gasoline Program.

IV. CURRENT RESEARCH AND DEVELOPMENT EFFORTS

- The Department of Energy spent over \$20 million in fiscal year 1992 on ethanol-related research.
- The Department of Energy requested \$30 million for ethanol research for fiscal year 1993, a 63 percent increase over 1992 levels.
- INSERT

x out ---The Department of Agriculture and the Department of Energy signed a Memorandum of Understanding in 1991 to cooperate in the development of energy crops and alternative fuel technology.

The Department of Energy has a Cooperative Research and Development Agreement with the New Energy Company of South Bend, Indiana, to boost ethanol output from corn fiber.

- The Departments of Energy and Agriculture along with the Environmental Protection Agency are coordinating research programs to develop the most environmentally beneficial and economical ethanol fuels. For example, EPA is conducting two research programs:
 - to study the effects of fuel composition and co-solvents on lowering the volatility increase that occurs with 10 percent ethanol blends.
 - to test exhaust emissions from a sample of cars using ethanol blended at greater than 10 percent volume.
- On April 17, 1991, President Bush signed an Executive Order to buy 5,000 more alternative fuel vehicles (AFVs) in fiscal year 1993, increasing to 7,500 in subsequent years. By 1998, 50 percent of all new Federal vehicles will either be fuel flexible, or dedicated AFVs. This will encourage greater production and will lead to lower per-unit costs of alternative fuel vehicles.

Bob,

Here are some
additional ethanol
materials.

Wendy K. Ruth

THE WHITE HOUSE
WASHINGTON

Date: 8/25/92

TO: PHIL BRADY

FROM: GARY R. BLUMENTHAL *Gary*
Special Assistant to the President
for Agricultural Trade & Food Assistance
Room 231, OEOB, x6630

Attached is a memo from Clayton Yeutter to Jim Baker on the ethanol issue, and a draft of the latest fact sheet. The key component of the fact sheet proposal is an ETBE tax credit. However, that proposal is unacceptable (at this time) to the industry, and Admiral Watkins is not fond of it.

Today, I am working a science based option for breaking the roadblock that would in essence commit the industry and EPA to a type of "binding arbitration" before the National Academy of Sciences on airshed models developed for the nine nonattainment cities.

This issue needs further work at this time.

THE WHITE HOUSE

WASHINGTON

August 24, 1992

MEMORANDUM TO: JAMES BAKER
CHIEF OF STAFF

FROM: CLAYTON YEUTTER

SUBJECT: Ethanol

Jim, one issue that we're not going to wrap up before my departure is ethanol. It is incredibly complicated, with difficult political and economic trade-offs, and we're likely to get sued no matter what is done. Nevertheless, the President clearly wants to do something for the ethanol people (primarily corn growers), so you'll need to respond to that.

I've been chairing the high level interagency deliberations on this, with Gary Blumenthal chairing the working groups. Gary and Boyden Gray know the issue as well as anyone in government.

We've spent hours on the matter, but it has been impossible to generate an interagency consensus. We did provide the President with an options paper in Houston, so that he could make an announcement on this at the Illinois State Fair if he wished.

The essence of this battle is over ethanol's role in reformulated gasoline blends to be used in "non-attainment" areas during the summer months. Ethanol is expected to be widely used throughout the country the rest of the year, but ethanol proponents are worried that if they lose out on the summertime market, they may eventually lose out in the rest of the market too.

What they want is what they call a "one pound waiver," which really is a misnomer. This requires a determination by EPA that ethanol meets the requirements of the Clean Air Act for summertime usage, a determination that EPA scientists are unwilling to support. The agricultural folks, on the other hand, argue that the EPA scientists are biased, and that there is sufficient evidence to support the determination. Bob Dole has threatened to do it legislatively, but he concedes he probably doesn't have the votes.

Bill Reilly has indicated a willingness to have the National Academy of Sciences sort out the scientific evidence, but the ethanol folks see that as an Administration stall. If, however, they could be persuaded that this would be done on a tight timetable, say by January, they might feel differently. In my view, Jim, this deserves additional consideration for if handled skillfully, it just might get the issue off the political radar

screen until after the election. It won't score points with the corn growers though unless it is accompanied by a strong commitment by the President and Reilly that they'll immediately follow through on the NAS findings. (And it may not score points even then.) Otherwise, no one will begin to construct the needed ethanol plants and ethanol will lose this market by default to methanol and MTBE.

A second option is to provide an additional tax break for ETBE, the ether derivative of ethanol, to make it competitive with MTBE. That is projected to cost \$356 million over the next five years, all of it in the out years. OMB should be able to provide the offsets for that if you decide to use it. This would require legislation, but Dole might be able to add it either to the energy bill or the energy appropriations bill. It will not, however, be without controversy because it will generate competition for MTBE. That will stir up some of the petroleum industry, and particularly the natural gas people. You know them well, of course.

Nor will it make the ethanol folks completely happy, even though this would be a good move for them. ETBE will meet all the requirements of the Clean Air Act, so the "one pound waiver" issue should just disappear. But a lot of the corn growers still see ETBE as something far in the future, whereas ethanol is already in use. And the one pound waiver has become such an emotional symbol that a lot of minds are closed to other options, no matter how attractive or useful they may be.

Most corn farmers believe that this problem can be solved by a phone call from the President to Bill Reilly directing Reilly to grant the "waiver." As you can see, the issue is not that simple. If Reilly remains unconvinced on the scientific case, the only realistic alternatives are the ones discussed above--taking another look at the science at NAS, giving an additional tax break to ETBE, or a combination of the two.

Incidentally, projections by the oil companies are that ethanol will do pretty well over the next few years even if none of the above is accomplished. One of the major firms showed us their data, which projects ethanol sales to about 1.5 billion gallons annually by 1995, and close to 2 billion a couple of years later. That compares with a little less than a billion now. Unfortunately, perceptions are more important than reality, and the corn growers just don't see any of this happening without the one pound waiver.

This is an oversimplified summary, Jim, so let me know if I can help any further.

DRAFT

DRAFT

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

August xx, 1992

Promotion of Ethanol to Help Achieve the
Environmental Goals of the Clean Air Act

FACT SHEET

The President today announced several new steps designed to eliminate unnecessary regulatory barriers and encourage expansion of market opportunities for ethanol. Although the federal government has historically provided strong support to this environmentally beneficial fuel made from renewable farm products, President Bush has been a particularly active leader in opening up markets for ethanol. In fact, it was because of President Bush's leadership on clean fuels that the 1990 amendments to the Clean Air Act require the use of oxygenates such as ethanol in both the reformulated and oxygenated fuels programs. The President also proposed to substantially increase the use of alternative fuels in the transportation sector as part of his National Energy Strategy.

The steps announced today represent a critical milestone in the Administration's implementation of these important Clean Air Act and energy security programs.

Between 1985 and 1991, ethanol consumption in the U.S. remained roughly stable at about 750 to 800 million gallons per year. Due in large part to the steps announced today, however, U.S. ethanol consumption is conservatively expected to increase by 75 percent by the year 1997. In fact, some industry analysts have projected that ethanol consumption could reach 2 billion gallons annually by the year 2000.

	1991	1992 projected	1997
Total Gallons (in billions)	0.8	0.9	1.4
Increase Over 1991	---	+12%	+75%

DRAFT

DRAFT

-2-

I. RULEMAKING DECISIONS TO ASSIST ETHANOL

A. REFORMULATED GASOLINE:

1. Expedite the development and the optional use of the unrestricted complex model by 1995. EPA will issue a proposed reformulated gasoline (RFG) rule by November 1992 to provide refiners with the option of using the complex model in meeting the requirements of the Clean Air Act. The final rule will be published in March 1993. The complex model will provide gasoline marketers with a full range of options for meeting the pollution reduction requirements of the Act.

2. Recognizing the benefits from ethanol use. In the development of the RFG complex model, EPA will [take into account/recognize] all of the positive benefits of ethanol. For example, EPA will [take into account/recognize] the reductions in CO tailpipe emissions that occur with the use of ethanol. The model will be developed through a public process, including workshops and rigorous technical peer review. Through this process, [and consistent with the treatment of ethanol under Section 211(h),] the benefits of ethanol will be fully credited to the maximum extent scientifically justifiable and legally allowable under the provisions of the Clean Air Act.

3. Establishing toxics and NOx neutrality. The final rule will contain toxics and NOx standards that are oxygenate neutral. With respect to NOx, this step is warranted because recent data indicate that all oxygenates, such as MTBE and ethanol, have a comparable effect on NOx emissions. Moreover, because the proposed rule would have established performance standards based on the use of MTBE, it would have disadvantaged other oxygenates such as ethanol. Therefore, EPA will ensure toxics and NOx neutrality for all RFG complex model provisions.

4. Strengthening the scientific basis for ethanol's environmental benefits. The Administration will pursue a two-track course for resolving the critical technical issues raised during the public comment process with regard to EPA's analysis of the effects of ethanol on Reid Vapor Pressure (RVP) and ozone levels:

- The Administration will expedite its analysis of these comments and resolve all technical issues by the time the complex model is proposed for public comment.

DRAFT

DRAFT

-3-

• The Administration will simultaneously ask the National Academy of Sciences (NAS) to review the environmental benefits of ethanol. This review will provide an independent analysis of the technical issues involved with recognizing the benefits of ethanol relative to ozone formation. The Administration will ask for an expeditious review in order to consider any findings before promulgating the final rule in March 1993.

5. **Administration support for pro-rating the excise tax for ethanol.** The Administration strongly supports current Senate legislation that would prorate the existing excise tax for ethanol blends of 10 percent to blends of 7.7 and 5.7 percent. The lower percentage ethanol blends correspond to the oxygenate levels required under the Clean Air Act and provide gasoline distributors wishing to use ethanol with additional blending options.

6. **Establishing a trading program for Volatile Organic Compounds (VOCs).** In order to allow greater flexibility in meeting the performance standards under the Clean Air Act for reformulated gasoline, and provide incentives for gasoline marketers to furnish low RVP gasoline blend stock, EPA will establish a trading program for emission reduction credits. The trading program will include VOC trading among mobile and stationary sources and will provide for trading within each affected geographic area.

B. OXYGENATE PROGRAM FOR CO AREAS

1. **Releasing of the oxy-fuel regulations.** EPA will immediately issue guidelines for establishing the oxygenate program in CO nonattainment areas. By issuing these rules, the agency will help ensure that cities will be ready to begin the program by this Fall.

2. **Providing for participation by 39 cities.** After intensive review of the air quality data, EPA has determined that the wintertime oxygenate program will apply to 39 cities. This will greatly boost demand for ethanol beginning this Fall.

3. **Restricting State Waivers from the 2.7 percent oxygenate standard.** Because of concerns over potential increases in NO_x emissions from the use of oxygenates, several states are examining the option of establishing caps on the amount of oxygenate that can be blended into gasoline. Because ethanol has higher levels of oxygenate compared to MTBE and other oxygenates, such caps will discourage blenders from using ethanol. EPA will reject

DRAFT

DRAFT

-4-

petitions to establish oxygenate caps unless the state can show that there will be an adverse environmental effect.

EPA has also clarified its view that any increase in NOx emissions caused by oxygenates will be offset many times over by the overall decrease in motor vehicle NOx emissions as a result of increasingly stringent NOx tailpipe standards.

4. Restricting Unsubstantiated Waiver Requests. On April 8, 1992, EPA issued guidelines establishing specific requirements that must be met by anyone wishing to petition EPA to delay the start of the wintertime oxygenated fuels program beyond November 1, 1992. These guidelines are desired to ensure that EPA will not receive unsubstantiated petitions to delay the start of the program, thereby assuring new markets for ethanol by November 1992.

II. OTHER NEW INITIATIVES

1. Non-Taxable (ETBE) Blender Tax Credit. The President announced today that he will seek legislation making the benefits of the blender tax credit non-taxable for ETBE and other ethers derived from ethanol. ETBE currently receives treatment equivalent to ethanol in the form of a tax credit. Ethanol in an ether form provides additional emission reductions that enable it to meet the summertime reformulated gasoline requirements. The affect of this action will be to increase the market value of ethanol enabling ETBE to better compete with other oxygenates.

2. Presidential Biofuels Initiative. The President has launched a biofuels research and development initiative to expand the use of ethanol and other biofuels. For FY 1993, he has proposed nearly a doubling of the research budget for ethanol-related research to \$40 million. Today the President directed the Secretaries of Energy and Agriculture and the Administrator of EPA to report back in 60 days with a strategy better focusing the initiative on reducing the cost of the fuels and developing engine technology to optimize the technical and environmental characteristics of biofuels.

DRAFT

DRAFT

III. LIST OF CURRENT ETHANOL-RELATED POLICIES

A. TAX POLICY BENEFITS

- The Energy Tax Act of 1978 provided a tax credit for investment in capital equipment used to produce alternative energy sources. The credit totaled 10 to 15 percent of equipment costs. Although this tax credit expired in 1987, it helped to create much of the capital used for today's ethanol industry.
- Under current law, the excise tax for gasoline is reduced by 5.4 cents per gallon for fuels containing 10 percent ethanol. This is equivalent to a benefit of 54 cents per gallon or \$22 per barrel of ethanol.
- Under current law, there is a 54 cents per gallon income tax credit for 190 proof alcohol and a 40 cents per gallon income tax credit for 150 proof alcohol used or sold as a fuel. There is an additional ten cents per gallon income tax credit that is available to small ethanol producers. These tax credits are also available to ETBE and are comparable in size to the excise tax exemption. Refiners or blenders can take advantage of either the credit or the exemption, but not both.
- The Federal government has also imposed a tariff on alcohol imported for fuel use. This duty is part of the Harmonized Tariff Schedules and serves to ensure that the excise tax exemption is accorded to domestically produced ethanol. The tariff has been increased to be commensurate with the additional domestic tax benefits.
- With the Administration's support, the ethanol excise tax exemption and the blenders income tax credit were extended through the year 2000.

B. PRIOR POLICY ACTIONS

- In the early 1980s, the Federal government provided approximately \$432.4 million in loans to finance ethanol plant construction.
- The 1980 Consolidated Farm and Rural Development Act authorized the Farmers Home Administration to guarantee loans for alcohol production facilities under the Business and Industry Loan Program. \$250 million was appropriated.

DRAFT

DRAFT

-6-

- In January 1981, the government issued an Executive Order requiring Federal agencies that own or lease motor vehicles to use gasohol if it is available at reasonable prices and in reasonable quantities.
- Auto manufacturers can receive a 1.2 mile per gallon CAFE credit for producing vehicles that can run on alternative fuels. This Administration supported legislation to remove the 1.2 cap on the amount of CAFE credits a manufacturer can earn.
- Under the Clean Air Act, centrally-fueled fleets of 10 or more vehicles operating the most polluted urban areas will be required to start using clean-fuel vehicles beginning in 1998. By 2000, 70 percent of new vehicles added to fleets in these areas must be clean-fuel.
- As part of the fleet program under the Clean Air Act, EPA has proposed that inherently low emitting vehicles, such as those using neat ethanol, be exempt from highway use restrictions, like HOV lanes. This will establish a strong incentive for fleet operators to use neat-fueled cars and trucks.
- The Administration proposed in its National Energy Strategy and now supports legislation to expand the clean fuel fleet program to other cities.
- In July, EPA proposed regulations on enhanced vehicle inspection program based on newly developed technology. This program will help all fuels meet the requirements of the Reformulated Gasoline Program.

DRAFT

DRAFT

-7-

IV. CURRENT RESEARCH AND DEVELOPMENT EFFORTS

- The Department of Energy spent over \$20 million in fiscal year 1992 on ethanol-related research.
- The Department of Energy requested \$30 million for ethanol research for fiscal year 1993, a 63 percent increase over 1992 levels.
- INSERT

x out ---The Department of Agriculture and the Department of Energy signed a Memorandum of Understanding in 1991 to cooperate in the development of energy crops and alternative fuel technology.

The Department of Energy has a Cooperative Research and Development Agreement with the New Energy Company of South Bend, Indiana, to boost ethanol output from corn fiber.

- The Departments of Energy and Agriculture along with the Environmental Protection Agency are coordinating research programs to develop the most environmentally beneficial and economical ethanol fuels. For example, EPA is conducting two research programs:
 - to study the effects of fuel composition and co-solvents on lowering the volatility increase that occurs with 10 percent ethanol blends.
 - to test exhaust emissions from a sample of cars using ethanol blended at greater than 10 percent volume.
- On April 17, 1991, President Bush signed an Executive Order to buy 5,000 more alternative fuel vehicles (AFVs) in fiscal year 1993, increasing to 7,500 in subsequent years. By 1998, 50 percent of all new Federal vehicles will either be fuel flexible, or dedicated AFVs. This will encourage greater production and will lead to lower per-unit costs of alternative fuel vehicles.

DRAFT.

THE WHITE HOUSE
WASHINGTON

August 21, 1992

MEMORANDUM FOR THE PRESIDENT

FROM: EDE HOLIDAY

SUBJECT: Correspondence from Secretary Watkins and
Administrator Reilly

Attached is a memorandum from Secretary Watkins and Administrator Reilly expressing their concern about an ethanol options paper that was discussed yesterday. Attached to the memorandum is their proposed language for your speech in Springfield on Sunday.

Sam Skinner and Clayton Yeutter are familiar with the contents of the memorandum and the attachment.

Attachments

Phil,
This was sent
to the President.



The Secretary of Energy

Washington, DC 20585

August 21, 1992

Memorandum For The President

Subject: Ethanol Use In Reformulated Gasoline

We have received the ethanol option paper that was forwarded to the Chief of Staff, along with proposed remarks before the Illinois State Fair. We strongly disagree with the defensive and negative tone of the remarks and with the accuracy of the option paper.

The Administration has an excellent record of support for the ethanol industry. The Clean Air Act Amendments and the National Energy Strategy will spur ethanol consumption to twice current levels by the year 2000.

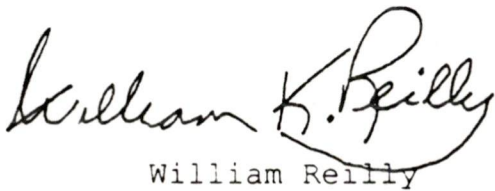
This dramatic market expansion is due almost entirely to your leadership in proposing the use of oxygenates to meet clean air objectives. You are also the first President in this century to establish a National policy of alternative fuel use in transportation.

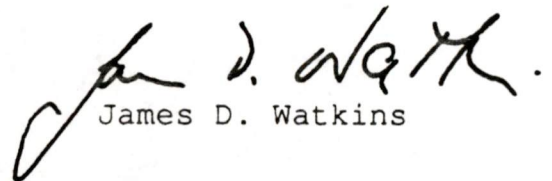
The issue raised by the ethanol industry relates specifically to the use of ethanol in reformulated gasoline during summer months in ozone non-attainment areas. Current scientific evidence, challenged by the ethanol industry, indicates that ethanol blends contribute to ozone formation, unless other changes are made to gasoline reformulation. Thus, under proposed EPA rules, ethanol might be used during summer months only in low-volatility gasoline or as an ether.

Option #1 in the option paper, which we oppose, calls for modification of air pollution models to increase the use of ethanol for ozone control, without scientific evidence to support such a change. Such a course of action would serve to discredit three years of sound scientific work, raise strong opposition in Congress and in the environmental community, alienate refiners and natural gas producers, and possibly derail State compliance plans. It will almost certainly be overturned in court.

We support a modified version of Option #2 that seeks the view of the National Academy of Science and increases ETBE tax credits. We would, in addition, expand the option to direct the Secretary of Energy and the Administrator of EPA to monitor demand for ethanol and, if its use does not substantially increase, seek administrative and legislative remedies.

Attached, we are enclosing a suggested redraft of your remarks for the Illinois State Fair event which stakes-out your claims to leadership on this issue confidently, positively, and accurately. During your administration, ethanol production has risen from approximately 800 million gallons to 1 billion gallons annually. We and the oil industry expect it to grow further to at least 1.5 billion per year in about 3 years. Informed corn growers have every reason to be grateful to you and we should not be shy about telling them so.


William Reilly


James D. Watkins

REMARKS AT ILLINOIS STATE FAIR
REVISED 8/21

I know a lot of you want to increase market opportunities for ethanol, a clean, renewable energy source made from corn grown right here in Illinois and elsewhere in the Midwest. So do I. So today I am announcing a number of steps that, along with initiatives I have already taken, should double the demand for ethanol in this country over the next eight years. But before I describe these new steps, let me tell you about the things I have already done over the past four years to promote ethanol.

First, it was my Administration's idea to require the addition of ethanol and other additives to gasoline to improve air quality. I led the charge on the Clean Air law in 1990 that dramatically expands ethanol use. Beginning in just over 2 months, almost 40 cities around the country will have cleaner air from the addition of ethanol and other compounds that reduce harmful levels of carbon monoxide. This is a vast new potential market for agriculturally-derived fuels.

These compounds will be added to fully 30% of all gasoline used in the country. Ethanol production has already risen over the past few months in anticipation of this program and I am committed to continuing this growth.

Another new clean fuels program that I enacted as part of the Clean Air Act requires oil companies to reformulate gasoline beginning in 1995 in our largest cities with severe smog problems. It is this program which created a scientific controversy about ethanol's role in reducing smog levels.

So, to resolve this controversy, I am asking the National Academy of Sciences to review the scientific issues surrounding the debate and report on their findings as quickly as possible. Upon review of the NAS report, EPA will take its conclusions into account in the final reformulated gasoline program.

Also, on my return to Washington I will propose to Congress legislation to enhance the after tax value of the blender tax credit for ETBE and other ethers made from ethanol. Giving this economic boost to ethanol used in ETBE should over time totally eliminate any environmental question mark. As a result, refiners and distributors will have much more flexibility in using these corn-based products, and that should expand the market by as much as half a billion gallons during this decade.

Next, I am asking the Secretary of Energy and Administrator of EPA to monitor the demand for ethanol products in the clean fuels programs. I will commit to seeking legislative remedies if its use does not substantially increase as we project.

Let me also add that my Administration is the first to propose a National commitment to introduce alternative fuels, like ethanol, in our transportation sector. I've been pressing Congress for a year and a half to give me an energy bill to expand my alternative fuels program.

These four steps, along with several other actions we will announce today, and dozens of actions we have taken over the past few years, should more than double the demand for ethanol by the year 2000--from about 800 million gallons annually last year to more than two billion gallons at the turn of the century.

I am personally committed to reaching that goal, and I will do everything within my power as President to achieve it.

Document Originally
Attached to
Following Page

L.-

Pls return in a file marked ethanol

Pls put in my priority box

THE WHITE HOUSE

WASHINGTON

August 24, 1992

Clayton Yeutter 456-2216

With Hands: M m

UNCLER: Wed 4pm

MEMORANDUM TO: BOB ZOELICK
DEPUTY CHIEF OF STAFF

FROM: CLAYTON YEUTTER

SUBJECT: Ethanol

Bob, one issue that we're not going to wrap up before my departure is ethanol. It is incredibly complicated, with difficult political and economic trade-offs, and we're likely to get sued no matter what is done. Nevertheless, the President clearly wants to do something for the ethanol people (primarily corn growers), so you'll need to respond to that.

I've been chairing the high level interagency deliberations on this, with Gary Blumenthal chairing the working groups. Gary and Boyden Gray know the issue as well as anyone in government.

We've spent hours on the matter, but it has been impossible to generate an interagency consensus. We did provide the President with an options paper in Houston, so that he could make an announcement on this at the Illinois State Fair if he wished.

The essence of this battle is over ethanol's role in reformulated gasoline blends to be used in "non-attainment" areas during the summer months. Ethanol is expected to be widely used throughout the country the rest of the year, but ethanol proponents are worried that if they lose out on the summertime market, they may eventually lose out in the rest of the market too.

What they want is what they call a "one pound waiver," which really is a misnomer. This requires a determination by EPA that ethanol meets the requirements of the Clean Air Act for summertime usage, a determination that EPA scientists are unwilling to support. The agricultural folks, on the other hand, argue that the EPA scientists are biased, and that there is sufficient evidence to support the determination. Bob Dole has threatened to do it legislatively, but he concedes he probably doesn't have the votes.

Bill Reilly has indicated a willingness to have the National Academy of Sciences sort out the scientific evidence, but the ethanol folks see that as an Administration stall. If, however, they could be persuaded that this would be done on a tight timetable, say by January, they might feel differently. In my view, Bob, this deserves additional consideration for if handled skillfully, it just might get the issue off the political radar

screen until after the election. It won't score points with the corn growers though unless it is accompanied by a strong commitment by the President and Reilly that they'll immediately follow through on the NAS findings. (And it may not score points even then.) Otherwise, no one will begin to construct the needed ethanol plants and ethanol will lose this market by default to methanol and MTBE.

A second option is to provide an additional tax break for ETBE, the ether derivative of ethanol, to make it competitive with MTBE. That is projected to cost \$356 million over the next five years, all of it in the out years. OMB should be able to provide the offsets for that if you decide to use it. This would require legislation, but Dole might be able to add it either to the energy bill or the energy appropriations bill. It will not, however, be without controversy because it will generate competition for MTBE. That will stir up some of the petroleum industry, and particularly the natural gas people. You know them well, of course.

Nor will it make the ethanol folks completely happy, even though this would be a good move for them. ETBE will meet all the requirements of the Clean Air Act, so the "one pound waiver" issue should just disappear. But a lot of the corn growers still see ETBE as something far in the future, whereas ethanol is already in use. And the one pound waiver has become such an emotional symbol that a lot of minds are closed to other options, no matter how attractive or useful they may be.

Most corn farmers believe that this problem can be solved by a phone call from the President to Bill Reilly directing Reilly to grant the "waiver." As you can see, the issue is not that simple. If Reilly remains unconvinced on the scientific case, the only realistic alternatives are the ones discussed above--taking another look at the science at NAS, giving an additional tax break to ETBE, or a combination of the two.

Incidentally, projections by the oil companies are that ethanol will do pretty well over the next few years even if none of the above is accomplished. One of the major firms showed us their data, which projects ethanol sales to about 1.5 billion gallons annually by 1995, and close to 2 billion a couple of years later. That compares with a little less than a billion now. Unfortunately, perceptions are more important than reality, and the corn growers just don't see any of this happening without the one pound waiver.

This is an oversimplified summary, Bob, so let me know if I can help any further.

PENNZOIL PRODUCTS COMPANY

PENNZOIL PLACE • P.O. BOX 2967 • HOUSTON, TEXAS 77252-2967 • (713) 546-6665

W. M. ROBB
Executive Vice President
Manufacturing

August 21, 1992

C. Boyden Gray
Counsel to the President
The White House
Washington, DC 20500

Dear Mr. Gray:

In the ongoing debate about the reformulated gasoline (RFG) program under the Clean Air Act (CAA) Amendments of 1990, I am concerned over reports that the ethanol industry continues to pressure the Environmental Protection Agency (EPA), Congress and the Administration to include new provisions in the RFG program. These proposed provisions would result in a competitive advantage for ethanol and unnecessary increased costs for Pennzoil Products Company's refining division. Pennzoil urges the Administration to adhere to the negotiated regulation, to which Pennzoil was a party.

Pennzoil particularly is concerned, at a time when we are facing tremendously increased regulatory compliance costs, that inappropriate and discriminatory political accommodations for the ethanol industry may force us to spend millions of dollars in connection with Pennzoil's production of RFG. If the Administration forces EPA to require refiners to provide 7.2 RVP gasoline as a blendstock for ethanol, then we would be faced with increased tankage and line costs of at least \$2 million at each of our three refineries to produce RFG -- over and beyond the base cost of producing RFG.

This type of extreme capital expenditure is unproductive and will not assist the Administration in achieving its Clean Air Act goals. Furthermore, such an accommodation for the ethanol industry will only serve to undermine the dialogue and cooperative benefits achieved between industry and the government as a result of the reg-neg process. It also would conflict with the Administration's advocacy of free markets unfettered by government-induced distortions and confirm public criticism of "special interest" treatment.

:82192

C. Boyden Gray
August 21, 1992
Page 2.

Similarly, any proposal that would preclude or inhibit the states from implementing a cap on oxygenates would severely undermine the states' ability to effectively implement ozone nitrogen oxides, or particulate control programs. This situation would be counterproductive and contrary to the CAA. It would force the states to mandate further controls on stationary sources, such as refineries. Pennzoil believes that the Administration's proposal for ethanol tax incentives is as far as the Administration should go on behalf of the ethanol industry.

I urge you to counsel the President that the Administration's only legal choice is to honor the negotiated regulation that we all expended so much time and effort to develop. Furthermore, the President should announce that position quickly so that EPA can forge ahead with the final RFG rule in order for the nation's energy industry to be able to comply in a timely and cost-effective fashion.

I would be happy to discuss this issue with you or provide to you additional information. In the meantime, I look forward to hearing of a resolution to this issue which is consistent with the negotiated regulation.

Sincerely,



William M. Robb

cc: James Baker, III
Chief of Staff
The White House
Washington, DC 20500

Richard Darman
Director
Office of Management and Budget
252 OEOB
Washington, DC 20503

David McIntosh
Council on Competitiveness
286 OEOB
Washington, DC 20503

 PENNZOIL PRODUCTS COMPANY

C. Boyden Gray
August 21, 1992
Page 3.

William Reilly
Administrator
Environmental Protection Agency
401 M St. S.W.
Washington, DC 20460

Linda Stuntz
Deputy Secretary
Department of Energy
7B-252 Forrestal Bldg.
Washington, DC 20585

Robert Zoellick
Deputy Chief of Staff
The White House
Washington, DC 20500

Mobil Corporation

3225 GALLOWES ROAD
FAIRFAX, VIRGINIA 22037-0001
(703) 846-4228

ANTHONY R. CORSO
GENERAL MANAGER
CORPORATE GOVERNMENT RELATIONS

August 21, 1992

The Honorable Robert P. Zoellick
Office of the Chief of Staff
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Mr. Zoellick,

I thought you might be interested in seeing the letter Mobil's
Chairman, Allen Murray, sent to President Bush.

Sincerely,

A handwritten signature in blue ink, appearing to read "Tony Corso".

Anthony R. Corso

ARC:clm
892.10

Mobil Corporation

3225 GALLOWES ROAD
FAIRFAX, VIRGINIA 22037-0001

ALLEN E. MURRAY
CHAIRMAN OF THE BOARD
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

August 21, 1992

The Honorable George H. W. Bush
The White House
Washington, D.C. 20500

Dear Mr. President:

I am writing to express my concern about proposals under consideration by the Administration to mandate or provide market preferences for the use of ethanol fuels or fuel additives in reformulated gasoline.

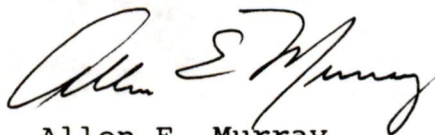
It is my understanding that there is a proposal to modify gasoline vapor pressure standards to permit the use of ethanol in reformulated gasoline or to "penalize" reformulated gasoline that does not use ethanol through the imposition of more stringent standards.

Such proposals create an unlevel playing field in favor of one product and therefore are at odds with the free market philosophy. These proposals appear to violate both the 1990 Clean Air Act Amendments and the regulatory agreement negotiated by all interested parties.

In attempting to meet the complex and costly requirements of the 1990 Clean Air Act Amendments for reformulated gasoline and oxygenated fuels, refiners will use ethanol -- and other fuel additives -- to the extent that these fuels are both economical and useful in meeting clean air goals. In fact, ethanol use in fuels has grown significantly in recent years, and additional growth is projected as oxygenate demands increase over the next few years.

On behalf of Mobil, its employees and shareholders, I urge you to reject these proposals.

Sincerely yours,



Allen E. Murray

Ethanol

8/21/92

DRAFT STATEMENT FOR BILL REILLY

President Bush today received a full briefing on the role of ethanol in the nation's fuel supply, and on the potential for expanding that role as the Clean Air Act is implemented over the next several years.

The President was made aware of differing scientific views that relate to whether traditional ethanol blends can meet Clean Air Act requirements for summertime usage.

President Bush reaffirmed his longstanding desire that ethanol have a fair shake in the marketplace, and he requested that I seek an objective, independent evaluation of these scientific views. Specifically, he asked that I turn to the National Academy of Sciences for such an evaluation, and that I solicit a response before year end. The President does not want me to delay critical decisions under the Clean Air Act, and I am sensitive to the importance of making such decisions in a timely manner if the objectives of that legislation are to be achieved. But President Bush does want me to make sure that we base those decisions on the best science available, and on an objective evaluation of the relevant scientific evidence.

President Bush emphasized to me the importance of using renewable resources to meet a substantial segment of our energy

needs here in the United States, and he further emphasized the need for a quick response from EPA so that necessary capital investments can be made soon.

I encourage the agricultural industry and all other interested parties to submit scientific information and analyses to the National Academy of Sciences at the earliest possible date.

list of People

2008
622
411
Don 3210
San Vaz

August 20, 1992

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: CLAYTON YEUTTER
C. BOYDEN GRAY

SUBJECT: Ethanol/Reformulated Gas Options

Background: The Clean Air Act requires EPA to certify "reformulated gasoline" to be used in the nine worst ozone non-attainment areas (as well as areas that "opt-in") beginning January 1, 1995. EPA conducted a regulatory negotiation ("reg-neg") and published a proposed rule setting forth standards and scientific assumptions (models) upon which EPA's certification decisions will be based. The ethanol industry has filed extensive comments arguing that the models EPA has proposed to use in certifying fuels ignore new scientific evidence of ethanol's environmental benefits and will not permit ethanol to be blended with refined feedstock gasoline without violating statutorily mandated reductions of volatile organic compounds ("VOC"). EPA has been asked by the ethanol industry to modify its models to insure that traditional ethanol blends will be certified as reformulated gasoline.

The public debate has characterized the relief sought as a "one-pound psi waiver" although the principle relief sought is actually to have EPA recognize the scientific arguments that ethanol blends do not increase ozone forming VOCs on a net basis. The scientific debate has centered on the role of carbon monoxide (CO) in causing ozone formation. All sides agree that ethanol blends significantly increase evaporative VOCs and significantly reduce CO. The ethanol industry argues that such CO reductions also reduce ozone enough to fully offset the evaporative VOC increase. EPA believes CO contributes to ozone formation but not at the level of significance advanced by ethanol proponents.

The "Background" section does not lay out for the President exactly what the stakes are in this issue. The question revolves around the depth of feeling and potential electoral consequences of the choice to be made, (Ethanol v. Oil v. EPA) Without a complete understanding of the political passions and the potential disruptions that could come from the Congressional allies of the contending forces in September, the President cannot make an informed decision. The President should also be made aware that several advisors believe that accepting a litigative risk that would not be resolved until next year is a wise course.

Option 1 EPA will modify its models to recognize the scientific arguments of the ethanol industry, thereby insuring that traditional ethanol blends will be certified as reformulated gasoline under the Clean Air Act.

Pro: - Will respond to the ethanol industry's request, and will be very popular among farmers in Illinois and throughout the Midwest.

- Will assure that ethanol will play a significant role in nine "non-attainment" cities where reformulated gasoline must be used.

- Will preserve ethanol's role in the gasoline marketplace during the summer, as well as during the rest of the year, and will do so throughout the nation.

Con: - Requires EPA to determine that traditional ethanol blends do not contribute to urban ozone formation. EPA does not believe such a determination would be scientifically supportable. If not supportable, this action would:

Increase VOC emissions in "non-attainment" areas where reformulated gasoline is required, thereby generating offset costs for other industries of at least \$375 million and perhaps as much as \$510 million.

How WILL GASOLINE SUPPLIES BE DISRUPTED?
How WILL REFORMULATED GASOLINE BE MADE MORE EXPENSIVE?

Disrupt gasoline supplies and make reformulated gasoline more costly to refiners and consumers.

SOME STATES MAY TRY TO EXCLUDE ETHANOL IN ANY CASE. THIS IS A CONCERN TO BE ADDRESSED LATER

Motivate some states to exclude ethanol from their emissions control programs, thereby negating some or all of the benefits of this option and converting ethanol's reputation as an environmental positive to that of an environmental polluter.

Be construed by some as a circumvention of the Clean Air Act's emissions control requirements, done solely to please the ethanol industry.

THIS WILL HARDLY REGISTER AS AN ISSUE WITH THE BROAD PUBLIC & THE ENVIRONMENTAL GROUPS ARE ALREADY AFTER OUR SCALPS ON A DOZEN SEXIER ISSUES

Result in strong opposition from environmental groups, and considerable opposition from some petroleum industry groups.

Would likely reopen the reg-neg and/or lead to litigation that would delay implementation of the reformulated gasoline program.

How DOES IT REOPEN REG-NEG?

THERE WILL BE LITIGATION FROM FARMERS AND THE ETHANOL INDUSTRY IF WE DO NOT FOLLOW THIS COURSE.

PRESIDENT MUST KNOW THAT OPTION 2
IS NOT A FAVORABLE RESOLUTION FOR THE MIDWEST.
(IT IS ONLY DAMAGE LIMITATION OF UNCERTAIN
EFFECTIVENESS)

Option 2 The President announces:

1. That he will immediately propose legislation to increase tax credits for ETBE because of its future market potential and its special environmental benefits;

2. That he has asked EPA Administrator Reilly to incorporate CO and other ethanol benefits into EPA models;

3. That he has also requested a neutral, objective scientific review of ethanol's environmental benefits from the National Academy of Sciences; and

4. That he has ordered EPA to incorporate the NAS findings into their reformulated gas models.

5. Several additional measures of lesser magnitude that in the aggregate will improve ethanol's position as an oxygenate fuel under the provisions of the Clean Air Act.

The President will also fully document actions that have already been taken during his Administration to enhance the role of ethanol as a fuel.

Pro: - tax relief for ETBE would encourage ethanol use in its most attractive form, both environmentally and from a refining standpoint (Amoco and ARCO are currently building ETBE plants). [SOMEDAY, IF THE LAW PASSES. WILL NOT APPEAR]
?? would not likely reopen the reg-neg. FARMERS

- will lead to expedited resolution of scientific issues, possibly in favor of ethanol industry's arguments.

Con: - WILL NOT may not be enough to satisfy ethanol industry. OR FARMERS

- ETBE tax relief would create a budget cost of \$356 million for FY'92 through FY'97 and requires equal revenue offset. However, OMB is opposed to this proposal.

The comments are mine -

The President needs to know it all
so that he knows what the politics of
this will be - ERM

August 20, 1992

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: CLAYTON YEUTTER
C. BOYDEN GRAY

SUBJECT: Ethanol/Reformulated Gas Options

Background: The Clean Air Act requires EPA to certify "reformulated gasoline" to be used in the nine worst ozone non-attainment areas (as well as areas that "opt-in") beginning January 1, 1995. EPA conducted a regulatory negotiation ("reg-neg") and published a proposed rule setting forth standards and scientific assumptions (models) upon which EPA's certification decisions will be based. The ethanol industry has filed extensive comments arguing that the models EPA has proposed to use in certifying fuels ignore new scientific evidence of ethanol's environmental benefits and will not permit ethanol to be blended with refined feedstock gasoline without violating statutorily mandated reductions of volatile organic compounds ("VOC"). EPA has been asked by the ethanol industry to modify its models to insure that traditional ethanol blends will be certified as reformulated gasoline.

The public debate has characterized the relief sought as a "one-pound psi waiver" although the principle relief sought is actually to have EPA recognize the scientific arguments that ethanol blends do not increase ozone forming VOCs on a net basis. The scientific debate has centered on the role of carbon monoxide (CO) in causing ozone formation. All sides agree that ethanol blends significantly increase evaporative VOCs and significantly reduce CO. The ethanol industry argues that such CO reductions also reduce ozone enough to fully offset the evaporative VOC increase. EPA believes CO contributes to ozone formation but not at the level of significance advanced by ethanol proponents.

SKS -
We put
this intro
paper and
speech ins
together to
Do we need
another n

Option 1 EPA will modify its models to recognize the scientific arguments of the ethanol industry, thereby insuring that traditional ethanol blends will be certified as reformulated gasoline under the Clean Air Act.

Pro: - Will respond to the ethanol industry's request, and will be very popular among farmers in Illinois and throughout the Midwest.

- Will assure that ethanol will play a significant role in nine "non-attainment" cities where reformulated gasoline must be used.

- Will preserve ethanol's role in the gasoline marketplace during the summer, as well as during the rest of the year, and will do so throughout the nation.

Con: - Requires EPA to determine that traditional ethanol blends do not contribute to urban ozone formation. EPA does not believe such a determination would be scientifically supportable. If not supportable, this action would:

- Increase VOC emissions in "non-attainment" areas where reformulated gasoline is required, thereby generating offset costs for other industries of at least \$375 million and perhaps as much as \$510 million.

- Disrupt gasoline supplies and make reformulated gasoline more costly to refiners and consumers.

- Motivate some states to exclude ethanol from their emissions control programs, thereby negating some or all of the benefits of this option and converting ethanol's reputation as an environmental positive to that of an environmental polluter.

- Be construed by some as a circumvention of the Clean Air Act's emissions control requirements, done solely to please the ethanol industry.

- Result in strong opposition from environmental groups, and considerable opposition from some petroleum industry groups.

- Would likely reopen the reg-neg and/or lead to litigation that would delay implementation of the reformulated gasoline program.

Option 2 The President announces:

1. That he will immediately propose legislation to increase tax credits for ETBE because of its future market potential and its special environmental benefits;

2. That he has asked EPA Administrator Reilly to incorporate CO and other ethanol benefits into EPA models;

3. That he has also requested a neutral, objective scientific review of ethanol's environmental benefits from the National Academy of Sciences; and

4. That he has ordered EPA to incorporate the NAS findings into their reformulated gas models.

5. Several additional measures of lesser magnitude that in the aggregate will improve ethanol's position as an oxygenate fuel under the provisions of the Clean Air Act.

The President will also fully document actions that have already been taken during his Administration to enhance the role of ethanol as a fuel.

Pro: - tax relief for ETBE would encourage ethanol use in its most attractive form, both environmentally and from a refining standpoint (Amoco and ARCO are currently building ETBE plants).

- would not likely reopen the reg-neg.

- will lead to expedited resolution of scientific issues, possibly in favor of ethanol industry's arguments.

Con: - may not be enough to satisfy ethanol industry.

- ETBE tax relief would create a budget cost of \$356 million for FY'92 through FY'97 and requires equal revenue offset. However, OMB is opposed to this proposal.

REMARKS AT ILLINOIS STATE FAIR

Want you to know that I
I know that a lot of you want to increase market opportunities for ethanol, a clean, renewable energy source made from corn grown right here in Illinois and elsewhere in the Midwest. So do I. So today I am announcing a number of steps that should double the demand for ethanol in this country over the next eight years. Let me describe those steps for you.

First, there are some bureaucrats back in Washington who think that ethanol should never be allowed at all in the reformulated gasoline program of the Clean Air Act. I will not tolerate that negative attitude. Therefore, in evaluating ethanol blends under the provisions of the Clean Air Act, I have ordered the Environmental Protection Agency to take into account all environmental benefits of ethanol, such as reduced tailpipe emissions of carbon monoxide.

I will not leave that determination to EPA scientists alone. To make sure that all benefits are included, I will tomorrow ask the National Academy of Sciences to make its own independent, objective evaluation of those benefits.

Second, on my return to Washington I will propose to Congress legislation to enhance to 54 cents the after tax value of the blender tax credit for ETBE, the ether form of ethanol. Giving ETBE the same economic incentive as ethanol should over time totally eliminate any environmental question mark. As a result, refiners and distributors will have much more flexibility in using these corn-based products, and that should expand the market by as much as half a billion gallons during this decade.

These two steps, along with several other actions we will announce today, and dozens of actions we have taken over the past few years, should more than double the demand for ethanol by the year 2000--from about 800 million gallons annually last year to more than two billion gallons at the turn of the century.

I am personally committed to reaching that goal, and I will do everything within my power as President to achieve it. If litigation or other unanticipated hurdles should hinder us in reaching that goal, I will seek whatever legislation may be needed to fix the problem.

These actions will not be popular with some bureaucrats, or with the environmental extremists, who often are more interested in creating problems than in solving them. Remember, these are the same folks I had to help persuade, starting nearly ten years ago, that you farmers were right about ethanol's value in reducing carbon monoxide by 25%. Since that time, ethanol's market has tripled, and I believe it could triple again by early next century with all the steps I've just outlined.

III. NEW POLICY INITIATIVES TO ADDRESS ETHANOL CONCERN

A. REFORMULATED GASOLINE:

1. **Non-Taxable (ETBE) Blender Tax Credit.** EPA believes that ethanol blended directly with gasoline will increase evaporative emissions. Ethanol, however, in an ether form (ETBE) does not increase emissions and can be used without penalty to meet the summertime reformulated gasoline requirements. ETBE currently receives an equivalent subsidy as ethanol in the form of a tax credit. An interagency technical group is now meeting to determine the budget impacts of making this tax credit non-taxable. This would increase the subsidy for ETBE from 54 cents per gallon to 68 to 82 cents per gallon. The Treasury Department estimates that this would result in a \$437 million aggregate loss between fiscal years 1992 to 1997.
2. **Expedite the development and the optional use of the unrestricted complex model by 1995.** EPA intends to issue a proposed rule by November 1992 to allow refiners the option of using the complex model in calculating their compliance with the emission reduction performance standards under the Clean Air Act. The complex model is a more sophisticated model which will allow refiners greater flexibility in offsetting emission increases caused by ethanol. EPA has agreed to issue a final rule on the complex model by March 1993. The agency will also delay final action on the simple model until March 1993. — 2.
3. **Establish toxic and NOx neutrality.** EPA's current proposed rule establishes a performance standard for toxics based on the use of MTBE, an alternate oxygenate. Because MTBE achieves slightly more reductions in toxics than ethanol, the current proposed rule would place ethanol at a disadvantage. EPA agreed to modify its proposed rule and the "reg neg" to assure that none of the oxygenates are disadvantaged in meeting the toxics standard. EPA also expects to be able to ensure NOx neutrality with respect to NOx emissions. This is because recent data indicate that all oxygenates, such as MTBE and ethanol, have a comparable effect on increasing NOx emissions.

4. **Scientific analysis of RVP and ozone formation.** Dr. Michael Graboski, Director of the Center for Fuels and High Altitude Engine Research at the Colorado School of Mines has raised several technical issues with regard to EPA's analysis of the effects of ethanol on ozone levels. EPA and USDA agreed to continue their analysis of Dr. Graboski's work and to seek final resolution of the technical issues when the complex model is proposed for public comment.

EPA also agreed to hold a meeting on the science next week with Dr. Graboski and Rich Rykowski from the mobile source office of EPA. This meeting was requested by Senator Dole's staff.

5. **Establish an RVP credit trading program.** In order to allow ethanol blenders greater flexibility in meeting the performance standards under the Clean Air Act for reformulated gasoline, EPA has agreed to establish a trading program for RVP (emission reduction) credits. The trading program would be restricted to certain geographic areas.
6. **Administration support for prorating the excise tax for ethanol.** The Administration supports current Senate legislation that would prorate the existing excise tax for ethanol blends of 10 percent to blends of 7.7 and 5.7 percent. (This would correspond to a 4.1 and 3 cents per gallon subsidy.) The lower ethanol blends correspond to the oxygenate levels required under the Clean Air Act.
7. **Summarize, and potentially refocus, current research activities on lowering the cost of producing ethanol.** Given the significant amount of ethanol-related research being done (see page 3), USDA suggests a new research initiative that would establish a target to help focus agency research efforts.

B. OXYGENATE PROGRAM FOR CO AREAS

1. **Immediate release of the oxy-fuel regulations.** EPA has agreed to issue its guidelines for establishing the oxygenate program in CO nonattainment areas by next week. By issuing these rules promptly, the agency will help ensure that cities will be ready to begin the program by next fall.

2. **Participation by all 39 cities.** After intensive review of the air quality data, EPA has decided that the wintertime oxygenate program will apply to all 39 cities, including Boston. This will ensure several new markets for ethanol in 1992.
3. **Restrict State Waivers from the 2.7 percent oxygenate standard.** Because of concerns over potential increases in NOx emissions from the use of oxygenates, several states are examining the option of establishing caps on the amount of oxygenate which can be blended into gasoline. Given that ethanol has higher levels of oxygenate compared to MTBE and other oxygenates, such caps will discourage blenders from using ethanol. EPA will reject petitions to establish oxygenate caps unless the state can show that there will be an adverse environmental effect.

EPA also clarified its view that any increase in NOx emissions caused by oxygenates will be offset many times over by the more stringent tailpipe standards required under the Clean Air Act.

On April 8, 1992, EPA also issued guidelines establishing specific requirements which must be met by any State wishing to petition EPA to delay the start of the wintertime oxygenated fuels program beyond November 1, 1992. This assures EPA will not receive unsubstantiated petitions to delay the start of the program, thereby assuring new markets for ethanol by November.

P/ EPA/ Ethanol

8/10/92

Administration Ethanol Initiatives

1. Extension of the ethanol gasoline tax exemption and production tax credit of 54 cents/gallon to 2000. Enacted by President Bush, November, 1990.
2. Allowing ethanol/gasoline mixtures to receive a pro-rata share of the gasoline tax exemption. Supported by the Administration in the 1992 tax bill.
3. Treasury ruling allowing the ethanol in ETBE to receive a tax credit of 54 cents/gallon. Ruling issued by Treasury in March, 1991.
4. Substantially increase R&D funding (to over \$40 million in FY-1993) for ethanol. (USDA \$10.0 million, DOE over \$30 million.)
5. One pound psi RVP exemption to the RVP rule of 1989 by EPA.
6. CAA provisions requiring 2.7 percent oxygenate in gasoline for CO non-attainment areas and 2.0 percent for ozone non-attainment areas. CAA signed by President Bush, November, 1990.
7. Required use of alternative fuels in private fleets in the Clean Air Act and the National Energy Strategy. NES submitted by President Bush, February, 1991.
8. Removing the CAFE cap on credits earned from alternative fueled vehicles. Proposal submitted as part of NES by President Bush, February, 1991.
9. Purchase of E85 vehicles for the Federal fleet. Bush Administration -- FY 1993 budget includes funds to purchase 5,000 alternative fueled vehicles.

GENERALLY, A GOOD STATEMENT
WE AND SEVERAL DAMAGE LIMITATION, "ORDERING"
REFERENCES TO PRESIDENT
EPA & NOT LEAVING THE DETERMINATION TO
EPA ALONE MUST STAY IN.
REMARKS AT ILLINOIS STATE FAIR

I know that a lot of you want to increase market opportunities for ethanol, a clean, renewable energy source made from corn grown right here in Illinois and elsewhere in the Midwest. So do I. So today I am announcing a number of steps that should double the demand for ethanol in this country over the next eight years. Let me describe those steps for you.

First, there are some bureaucrats back in Washington who think that ethanol should never be allowed at all in the reformulated gasoline program of the Clean Air Act. I will not tolerate that negative attitude. Therefore, in evaluating ethanol blends under the provisions of the Clean Air Act, I have ordered the Environmental Protection Agency to take into account all environmental benefits of ethanol, such as reduced tailpipe emissions of carbon monoxide.

I will not leave that determination to EPA scientists alone. To make sure that all benefits are included, I will tomorrow ask the National Academy of Sciences to make its own independent, objective evaluation of those benefits.

Second, on my return to Washington I will propose to Congress legislation to enhance to 54 cents the after tax value of the blender tax credit for ETBE, the ether form of ethanol. Giving ETBE the same economic incentive as ethanol should over time totally eliminate any environmental question mark. As a result, refiners and distributors will have much more flexibility in using these corn-based products, and that should expand the market by as much as half a billion gallons during this decade.

These two steps, along with several other actions we will announce today, and dozens of actions we have taken over the past few years, should more than double the demand for ethanol by the year 2000--from about 800 million gallons annually last year to more than two billion gallons at the turn of the century.

I am personally committed to reaching that goal, and I will do everything within my power as President to achieve it. If litigation or other unanticipated hurdles should hinder us in reaching that goal, I will seek whatever legislation may be needed to fix the problem.

THIS DOES NOT DIRECTLY ADDRESS FARMERS' CONCERNS
ABOUT ACCESS TO THE NECESSARY BASE GASOLINE AND
THE QUESTION OF PLACING THE FATE OF ETHANOL IN THE HANDS
OF THE OIL COMPANIES WITH NO CLEAR ADDRESS IN THE EVENT
OF INJURY.

These actions will not be popular with some bureaucrats, or with the environmental extremists, who often are more interested in creating problems than in solving them. Remember, these are the same folks I had to help persuade, starting nearly ten years ago, that you farmers were right about ethanol's value in reducing carbon monoxide by 25%. Since that time, ethanol's market has tripled, and I believe it could triple again by early next century with all the steps I've just outlined.

9/3 Thurs 8:00 AM

RBZ:

Senator Durenberger called at 8:00 am with the following:
ETHANOL

"Back last march when we started working on this, I sent Clayton Yeutter a copy of memo*from Jimmy Powell from staff Senate Environment Public Works, he did all work on Clean Air Act, etc., that memo recommends reactivity solution to this problem --

I am given to understand that Bob Dole staffer has made that same recommendation within the last couple of days....activists on this thing have come to the same conclusion: if you are looking for A solution, use the reactivity solution but PLEASE GOD do something, this is the wrong time of year in rural America not to have an answer to this sort of thing"

Senator Duerberger will call back later today (on the road) but says he can't underline any better -- he is having a copy of the Jimmy Powell memo faxed to us today -- it is the clearest understanding of this thing -- Jimmy Powell is the brightest thing around, understands and is reliable...

**Copy of memo is Attached. Cdf*

LRT

March 27, 1992

To: Senator Durenberger

From: Jimmie Powell

Subject: Ethanol and Reformulated Gasoline

This subject can be divided into substantive and procedural problems.

The Substantive Problem.

Gasoline is a complex mixture of some 200 chemical substances that vary by refiner, grade, time-of-year, crude feedstock and so on. Each blend of gasoline has a different pollution rate depending on how much of each chemical is in that blend. Part of the pollution comes from the tailpipe and part from evaporation of the fuel from the gas tank and engine block. The compounds that evaporate or are emitted from the tailpipe are called VOCs (volatile organic compounds). In the atmosphere VOCs react with sunlight and other pollutants to make smog on warm summer days.

Reformulating gasoline means, in part, changing the blend so that less material evaporates or so that material coming from evaporation or emissions makes less smog. The 1990 Clean Air Act requires refiners to sell gasoline that puts 15% less VOCs into the air in 9 major cities beginning in 1995.

Because gasoline is so complex, there are any number of ways to change the blend so that it emits 15% less VOCs. Because refineries each start with a different base gasoline and because reformulating is not just directed to control evaporative and tailpipe emissions (toxicity is also to be reduced), it was expected that EPA would be certifying a vast number of different fuel mixes as meeting the 15% reduction requirement.

Instead, EPA's proposed rule takes a simple approach. It only applies a measure of how much material evaporates, called Reid Vapor Pressure (RVP), to every gallon of reformulated gasoline. In another part of the Clean Air Act, the Congress applied an RVP limit to all gasoline sold in every part of the country. The reformulated gasoline rule will simply lower that limit in the 9 cities with the worst smog problem.

Adding ethanol to any gasoline makes more material evaporate. A chemical reaction occurs between the gasoline and the ethanol that causes the number of VOCs evaporating to increase. When Congress set the RVP limit for all gasoline, it recognized this chemical reaction by setting a higher limit for gasoline containing ethanol. It did not extend that waiver to the reformulated gasoline section, however, because it did not expect EPA to implement the reformulated gasoline program by

- 2 -

simply lowering RVP.

Because it can't be sent through pipelines, ethanol is added to gasoline after it is finished. It is added to increase octane (and to reduce CO emissions in some cities) at the terminal just before the gasoline is delivered. It is not practical to make an "unfinished" grade of gasoline that has lower specifications for RVP to make room for the ethanol blend later. Other oxygenate additives can be added at the refinery and the gasoline can be designed to take their (octane-enhancing and CO-reducing) properties into account.

If ethanol is added to a finished gasoline that meets the lower RVP limit for reformulated gasoline in the proposed rule, that gasoline will no longer achieve the 15% reduction in VOC emissions mandated by the Congress. Simply adding the waiver that Congress provided in the general RVP limitation, would rob the reformulated gasoline of most of its pollution control benefit.

There is, however, another modification that could be made in the rule to make room for ethanol. Each of the 200 different chemicals evaporating from gasoline has a different potential to make smog in the atmosphere. Some (like xylene) are very "reactive", that is, they make more smog molecules sooner than others. Ethanol is one of the least reactive. Pound-for-pound ethanol emissions makes less smog over a longer period than most other components of gasoline that might evaporate.

EPA reads the Clean Air Act can to require that the 15% VOC reduction be "mass-based", e.g. measured pound-for-pound. This reading prevents the very low "reactivity" of ethanol from being recognized as a benefit. If 15% reduction were measured according to "reactivity" (smog-forming potential) and not just "mass" (the weight of the molecules evaporating), ethanol would have a better chance to participate in the reformulated gasoline marketplace. EPA would have to say that what Congress meant was a 15% reduction in smog and not just a 15% reduction in the weight of the VOCs that are emitted.

(In the alternative, the Clean Air Act could be amended to require consideration of reactivity and not just mass-based VOC emissions. However, if that amendment were offered and failed enactment, it would be more difficult for EPA to carry that position in litigation brought against a regulation.)

The Process Problem.

EPA has written this rule through a regulatory negotiation. All of the parties with an interest (except the Congress and the White House) were invited to participate in the process. The purpose of the regulatory negotiation is to insulate the EPA rule

- 3 -

from: 1) White House changes upon review; 2) Congressional pressure; and 3) interest group litigation. Any change in the product upsets the negotiated outcome and EPA has played that "fire wall" to the hilt in these discussions about the ethanol problem.

The rule as drafted is not in compliance with the plain requirements of the Clean Air Act in several respects. Among these departures from the law, it does not include the limit on nitrogen oxide emissions (no increase), it doesn't start from the same base gasoline mandated by the Congress and the enforcement procedures are contrary to Congressional intent.

These departures were made with the agreement of all the interests present in the negotiations and were balanced by other changes from the legislative base until all parties thought they were better off than they would have been if the law had simply been translated into regulation.

Telling EPA to change the rule to take into account the reactivity of VOC emissions will be seen by some of the "reg-neg" participants (environmentalists and states) as a departure from the clear requirements of the Clean Air Act. But even if it is, it is certainly no larger a departure than others that have already been taken with respect to other provisions.

The reformulated gasoline debate is a three-sided discussion: 1) the oil industry; 2) the ethanol industry; and 3) the environmentalists and state air administrators. The reformulated gasoline amendment passed in Congress because the environmentalists teamed up with the ethanol interests to beat the oil industry. But the environmentalists, the states (and EPA) have never liked ethanol as an additive. The regulatory negotiation reflects a deal between the oil industry and the environmental/state coalition. And they will be upset if the negotiated proposed rule is set aside. But it must be, if ethanol is to play a role in the reformulated gasoline marketplace. There is no way for ethanol to participate in the program under the "simple" model as it stands.

QUENTIN N. BURDICK, NORTH DAKOTA, CHAIRMAN

DANIEL PATRICK MOYNIHAN, NEW YORK
GEORGE J. MITCHELL, MAINE
MAX BAUCUS, MONTANA
FRANK R. LAUTENBERG, NEW JERSEY
HARRY REID, NEVADA
BOB GRAHAM, FLORIDA
JOSEPH I. LIEBERMAN, CONNECTICUT
HOWARD M. METZENBAUM, OHIO
HARRIS WOFFORD, PENNSYLVANIA

JOHN H. CHAFFEE, RHODE ISLAND
ALAN K. SIMPSON, WYOMING
STEVE SYMMAS, IDAHO
DAVE BURNSHESBER, MINNESOTA
JOHN W. WARNER, VIRGINIA
JAMES M. JEFFORDS, VERMONT
ROBERT SMITH, NEW HAMPSHIRE

United States Senate

COMMITTEE ON ENVIRONMENT AND PUBLIC WORKS

WASHINGTON, DC 20510-6175

TELECOPIER NUMBER - 202-224-5167

OFFICE NUMBER - 202-224-8832

TO: Bob Zoellick (Linda)

FAX NUMBER: 456-1121

FROM: Senator Durenberger (Jimmie Powell) ²²⁴⁻²³⁷⁶

DATE: 9/3/92

NUMBER OF PAGES 3 (EXCLUDING COVER SHEET)

MESSAGE: