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Interim Committee Recommends Ethanol Subsidy

Watertown Public Opinion Associated Press story, September 7, 1985

The Legislature’s Interim Agriculture Committee began a sharp turn in rural policy Friday, calling for a bill to subsidize new ethanol fuel plants in South Dakota through a sales tax on motor fuels.

A tax in the 1 percent range per gallon of diesel, LP gas and straight gasoline fuels would raise in excess of \$16 million by the program’s mid-1990 end, according to legislative staff estimates.

A detailed outline of the plan was hammered out in a day-long meeting of the special committee and carried full bipartisan support.

The committee chairman, Rep. Scott Heidepriem, R-Miller, said the committee should have a draft of the bill before talking about a special session of the Legislature to consider the plan.

The committee invited the Legislature’s leadership, Gov. Bill Janklow and members of his staff to fine-tune the plan at the committee’s next meeting Sept. 20 in Pierre. Discussion of a special session will also take place then, Heidepriem said.

“I’m all in favor doing everything we can, but I just got a feeling the thing will go down the tubes in a special session. If it does, when it goes to the regular session it’s got three strikes against it,” said Rep. George Mortimer, R-Belle Fourche.

Rural Democrats on the committee with the help of Rep. Bob Weber, R-Stranburg, have pushed hardest for increases in the ethanol subsidy, to favor South Dakota plants. They seemed pleased with their progress despite once again seeing talk delayed about a special session.

The plan’s main author is Orrie Swayze, a Wilmot farmer who says he has no financial interest in ethanol except for better crop prices created by more demand. “This is really a tax incentive for agriculture,” he told the committee.

Legislators from both parties preferred calling the plan a rural investment program rather than a new tax.

“If this will get it rolling, we have to do it. Those millions of dollars will be turned over many times in our small towns that build plants,” said Sen. Doris Miner, D-Gregory.

There are no ethanol plants operating in the state, although an \$11 million wheat processing plant is planned at Winner and an existing plant at Yankton should be operating later this year.

Supporters see ethanol production as a benefit for corn and grain farmers, whose products would be used at the plants to create alcohol.

An ethanol expert from Nebraska told the committee the state has about two years to take advantage of ethanol's growth potential. He tied it to the push for new development created by the federal government's gradual phase-down of lead in gasoline. Ethanol can be used as an octane booster to replace lead.

The bill would impose a motor-fuels sales tax to support a production-incentive system paying South Dakota producers a subsidy for every gallon of ethanol made at their plant through July 1, 1990.

The subsidy plan calls for a payment to producers of 40 cents for every gallon up to 5 million total in the state by June 30, 1987. The payment would decline as more production was realized, falling to 15 cents by the program's final year.

The bill would also cut the fuel-tax exemption for ethanol products from 3 cents to 2 cents per gallon, dropping losses to the state's highway fund from an estimated \$37 million to about \$17 million over the next seven years.

That point is expected to help the bill's passage because it eliminates some of the force in the Janklow administration's argument that the exemption is subsidizing out-of-state producers with no benefit to South Dakota. The exemption would expire in 1992, as does the current exemption, corresponding to the elimination of the federal exemption of 6 cents per gallon.

In other action Friday, the committee adopted four resolutions.

- Support of a farm debt-restructuring bill now before Congress.
- Opposition of a plan by Farm Credit Banks of Omaha to consolidate its local Production Credit Associations and Federal Land Banks into one four-state association with regional boards.
- Opposition of U.S. Treasury plans to delay a tariff on ethanol imported into the country.
- Support of the state's debt-counseling program for farmers and ranchers.