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House Bill 2060, HD2, SD1: Relating to Taxation

Aloha Chair Ige and Vice Chair Kidani, and members of the committee:

House Bill 2060, HD2, SD1 establishes a renewable fuels production income tax credit and repeals the ethanol facility tax credit. We offer comments regarding House Bill 2060, HD2, SD1.

Tax credits intended to stimulate a particular commercial activity have a dubious recent history, failing to provide sustainable economic benefits in exchange for significant costs. The controversial Act 221 intended to stimulate the technology sector provided a few industries and companies a lower cost alternative, which they wisely and to their benefit, claimed. There may have been temporary localized gains from the additional economic activity, unfortunately, once the immediate credits were claimed, no lasting residual economic benefit has remained. On a national level, we have witnessed the failure many high profile "green" initiatives. We believe that it is the competitive marketplace which truly prepares an industry for widespread commercialization. With government assistance, firms can make themselves better off without benefiting the broader community.

Tax credits and subsidies are costly to taxpayers. The Congressional Budget Office (CBO) in their study released in July 2010 – "Using Biofuel tax Credits to Achieve Energy and Environmental Policy Goals" determined the cost (energy content adjusted) of displacing petroleum fuels through use of federal biofuel tax credits on a per gallon basis is: \$2.55 for biodiesel, \$3.00 for cellulosic ethanol, and \$1.78 for corn ethanol. This comprehensive analysis included the cost associated for: 1) production incentives, 2) changes in federal tax receipts, and 3) increase share of biofuel consumption. Though no specific study has been done to examine the effect of biofuel tax credits and subsidies, why should the experience of Hawaii taxpayers be any different?

Subsidizing one business over another is not only unfair, it does not produce gains for the community. Testimony provided by supporters of these measures raise serious questions as to whether they are needed. At a recent hearing in the House Committee on Economic Development and Business, a representative from a local biodiesel production facility was clear to say that their production facility is already built and currently competing in the marketplace. Furthermore, their biodiesel product was, at least 90% of the time, less expense then petroleum diesel. These facts quickly drew the attention of committee members who questioned the need for a tax credit by those who have already established a successful business model. Under further scrutiny, it was revealed that the goal was to reduce the risk to investors for future facilities. Risk taking is an essential feature and plays a fundamental role in the competitive marketplace.

Thank you for the opportunity to testify.