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Statement for the Record

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Institute of Shortening and Edible Oils and Allied Industry Organizations

Subcommittee on Water Resources and Environment

"Opportunities and Challenges in the Creation of a Clean Water Trust Fund"

July 15, 2009

Written Statement of the
Institute of Shortening and Edible Oils and Allied Industry Organizations
Submitted to the Subcommittee on Water Resources and Environment
U.S. House of Representatives

July 15, 2009

The Institute of Shortening and Edible Oils (ISEO) and the undersigned allied industry associations¹ thank Subcommittee Chairwoman Eddie Bernice Johnson, Members of the Subcommittee and James Oberstar Chairman of the Committee on Transportation and Infrastructure for the opportunity to submit a public statement regarding “Opportunities and Challenges in the Creation of a Clean Water Trust Fund.” We offer the information in our statement as evidence for the Subcommittee that the refined oils and fats industry should not be subjected to an excise tax on its products.

The May 2009 Government Accountability Office (GAO) report entitled “Clean Water Infrastructure—A variety of Issues Need to Be Considered When Designing a Clean Water Trust Fund” examines issues in designing and establishing a trust fund. In addition, the report outlines eight funding options to support a trust fund. Five of these options are excise taxes on selected products and three options explore non excise tax approaches. One of the excise tax options includes refined oils and fats as part of a category of “flushable” items. GAO does not recommend any of the eight options and acknowledges that reaching a \$10 billion annual revenue target using any one option will be difficult. With a \$10 billion target, ISEO estimates that an excise tax on refined oils and fats could range from one to five cents per pound depending on how many candidate products are taxed. A five cent excise tax added to current cash prices for refined oil (e.g. soybean oil at about 30 cents per pound) would represent nearly a 17% increase.

The nationwide burden placed on wastewater treatment systems results from a combined use of these systems by more than 220 million Americans, according to GAO. GAO identified new excise taxes on certain products as an option to support a Clean Water Trust Fund with an apparent assumption that the identified products contribute to the wastewater stream entering these systems, presumably in a significant way. Inclusion of edible oils and fats in a group of “flushable products,” implies that oils and fats are typically flushed or poured down drains, thus are potentially significant contributors to the wastewater stream. This assumption does not reflect

¹ A brief description of the allied industry groups and a list of contacts are provided in the Appendix.

the true end use and/or disposition of refined oils and fats. In fact, refined oils and fats are not significant flushable products, and present a very minimal burden on the nation's wastewater systems.

ISEO believes refined oils and fats should not be included in an excise tax on flushable products for several reasons:

1. Refined Oils and Fats Are Not Significant "Flushable" Products

Very little refined oil and fat is flushed or otherwise enters U.S. wastewater treatment facilities. ISEO's examination of these products shows that nearly all of the refined oil and fat manufactured by our industry is either directly consumed by humans and animals, used in industrial applications where they are completely incorporated into finished goods or exported.

ISEO estimates that about 13 percent of the edible oil and fat produced in 2007 was consumed outside the U.S. and never entered U.S. commerce. In 2007, about 31 percent of the fats and oils used in the U.S. were incorporated into industrial products. Refined oils and fats, when used in industrial products, are intended to be incorporated entirely into the finished products, thus losses are expected to be negligible.

Regarding the consumption of oils and fats in food, a vast majority is used by commercial food processors and foodservice operators. Edible fats and oils used for these commercial purposes rarely enter water treatment systems. When formulated into processed food products and restaurant menu items, the oil and fat is largely incorporated into the food and is consumed directly and entirely by the consumer. For example, in large commercial frying operations frying oils are constantly added to fryers because the oil is absorbed into the food moving through the fryers. There is typically no oil discarded.

In both food processing and foodservice/restaurant cooking operations any used oil is reclaimed and/or recycled because it has significant monetary value for a variety of uses. For example, U.S. mandates for renewable fuels call for greater production of biodiesel over the next several years, which will help assure the strong demand for used oil and greases as a biodiesel fuel stock.

Consumer use of refined oils and fats accounts for only a very small portion of the U.S. production (i.e. less than 10 percent). When consumers use oils they are incorporated into various food items, similar to what occurs in preparing restaurant menu items, and are consumed. ISEO is confident losses are very small (e.g. a few drops left behind in a salad bowl). Interestingly, the excise tax options do not cover other small sources of fat, oil and grease (FOG) from households such as animal fat and greases left over after cooking.

Only a minute amount of refined oil and fat reaches the drain.

2. Refined Oils and Fats Do Not Present Unique Burdens

The GAO study mentions that cooking oils can cause pipe blockages, however, the increasing monetary value of used grease and oil and effective educational programs have brought dramatic increases in the capture and recycling of FOG materials by commercial users. The refined oils and fats industry has spent millions of dollars in recent years to ensure that the wastewater systems in its plants meet state and federal regulations. In addition to the industry's recycling programs, and equipment investments, water treatment operators have instituted their own measures to minimize the introduction of oils and fats to their systems. Operators routinely require businesses to have and manage grease traps; set FOG limits as low as 100 ppm, which sufficiently dilutes FOG to avert problems in the treatment systems; and enact surcharges to penalize firms exceeding established limits.

Refined oils and fats do not cause problems for wastewater treatment systems because they are effectively managed and regulated leaving very little to be treated by these systems.

3. An Excise Tax on Refined Oils and Fats Is Unjustified and Disproportionately Burdensome

Not only is the inclusion of refined oils and fats in the flushable products category unjustified because they are not typically flushed, but an excise tax would place a very heavy and disproportionate financial burden on the industry and its customers.

The GAO estimates revenues from candidate excise taxes based on the Annual Survey of Manufacturers conducted by the U.S. Census Bureau. As previously described, the total production value of the products within this code provides a poor correlation to the minimal burden edible oils and fats have on wastewater treatment systems. Tax revenue calculations are unfair because they are based on the dollar sales value for the total amount of oil and fat refined despite the fact that the vast majority of this product will never enter water treatment systems. ISEO calculates that an excise tax might increase the cost of a pound of oil by one to five cents per pound if a \$10 billion revenue target is established (i.e. one cent, if all five product categories are taxed and five cents, if only flushable products are taxed). Refined edible oils are a most important food ingredient for U.S. consumers and an unwarranted excise tax on these products would constitute an unnecessary and regressive food tax.

Conclusion

GAO acknowledges that limited research has been done to determine the impacts on wastewater infrastructure associated with the various products under consideration for an excise tax. ISEO has shown that edible oils and fats are very minute contributors to the total burden placed on wastewater treatment facilities relative to the universe of materials that are processed in wastewater. Therefore, the financial burden to maintain and upgrade wastewater infrastructure should not be borne by the refined oil and fat manufacturers and their customers who contribute so little to the overall wastewater burden compared to the far larger universe of materials entering treatment facilities.

For the reasons set forth in this statement, ISEO and the undersigned allied industry associations, urge the Subcommittee to exempt fats and oils from the “flushable products” group, if you choose to seek excise taxes to support a Clean Water Trust Fund. Thank you for considering our concerns.

Respectfully Submitted,

American Soybean Association
Association of Dressings and Sauces
Corn Refiners Association
Institute of Shortening and Edible Oils
National Association of Margarine Manufacturers
National Institute of Oilseed Products
National Oilseed Processors Association
National Sunflower Association
U.S. Canola Association

APPENDIX

<p>American Soybean Association 600 Pennsylvania Avenue, SE, Suite 320 Washington, D.C. 20003 Phone: 202-969-8900 Contact: Bev Paul</p> <p>The American Soybean Association (ASA) represents 22,000 producer members on national issues of importance to all U.S. soybean farmers.</p>	<p>Association for Dressings and Sauces 1100 Johnson Ferry Road, Suite 300 Atlanta, GA 30342 Phone: 404-252-3663 Contact: Pamela Chumley</p> <p>The Association for Dressings and Sauces (ADS) represents manufacturers of salad dressing, mayonnaise and condiment sauces and suppliers of raw materials, packaging and equipment to the food industry.</p>
<p>Corn Refiners Association 1701 Pennsylvania Avenue NW, Suite 950 Washington, DC 20006 Phone: 202-331-1634 Contact: Audrae Erickson</p> <p>The Corn Refiners Association (CRA) is the national trade association representing the corn refining (wet milling) industry of the United States. Corn refiners manufacture sweeteners, ethanol, starch, bioproducts, corn oil, and feed products from corn components such as starch, oil, protein, and fiber.</p>	<p>Institute of Shortening and Edible Oils 1750 New York Avenue NW, Suite 120 Washington, DC 20006 Phone: 202-783-7960 Contact: Robert Collette</p> <p>The Institute of Shortening and Edible Oils (ISEO) is a trade association representing the refiners of edible fats and oils in the United States. Its members represent approximately 90-95% of the edible fats and oils produced domestically that are used in baking and frying fats (shortening), cooking and salad oils, margarines, spreads, confections and toppings, and ingredients in a wide variety of foods.</p>
<p>National Association of Margarine Manufacturers 750 National Press Building 529 14th Street, NW Washington, DC 20045 202-785-3232 Contact: Rick Cristol</p> <p>The National Association of Margarine Manufacturers (NAMM) is a non-profit trade association formed in 1936. For 60 years, NAMM has been serving health conscious consumers and the margarine industry.</p>	<p>National Institute of Oilseed Products 750 National Press Building 529 14th Street, NW Washington, DC 20045 Phone: 202-785-8450 Contact: Carol Freysinger</p> <p>The National Institute of Oilseed Products (NIOP) is an international trade association with the principal objective of promoting the general business welfare of persons, firms and corporations engaged in the buying, selling, processing, shipping, storage and use of vegetable oils and raw materials.</p>

<p>National Oilseed Processors Assn. 1300 L Street, NW, Suite 1020 Washington, DC 20005 Phone: 202-842-0463 Contact: David Hovermale</p> <p>The National Oilseed Processors Association (NOPA) represents sixteen (16) regular member firms engaged in the actual processing of oilseeds, and ten associate member firms who are consumers of vegetable oil or oilseed meal, including some refiners and mixed feed manufacturers.</p>	<p>National Sunflower Association 600 Pennsylvania Avenue, SE Suite 320 Washington, D.C. 20003 Phone: 202-969-8900 Contact: Dale Thorenson</p> <p>The National Sunflower Association (NSA) is a non-profit commodity organization working on problems and opportunities for the improvement of the sunflower industry. Membership in the NSA includes growers and industry.</p>
<p>U.S. Canola Association 600 Pennsylvania Avenue, SE Suite 320 Washington, D.C. 20003 Phone: 202-969-8900 Contact: Dale Thorenson</p> <p>The US Canola Association (USCA) is a non-profit commodity organization whose mission is to promote and encourage the establishment and maintenance of conditions favorable to the production, marketing, processing, and use of canola in the United States. Membership in the USCA includes growers and industry.</p>	