

Statement of Steven J. Abramson
Publisher, VATinfo.org
Submitted to Joint Hearing of the House Ways and Means Committee
on Energy Tax Policy and Tax Reform
September 22, 2011

Dear Chairman Tiberi, Chairman Boustany and Members of the Committee,

Thank you for the opportunity to provide you with this submission for your hearing on Energy Tax Policy and Tax Reform.

Historically, with the notable exception of the internet bubble, to climb out of recession we have needed growth in one of two core industries, automobiles or housing. Today, automobiles are a smaller portion of our economy, with much of that industry comprised of imported cars and outsourced parts. The housing market is sitting on a huge inventory, and heightened foreclosures threaten further price decline.

There is no more promising industry to create economic growth and jobs than in renewable energy, particularly solar and nuclear, but that will require a robust industrial policy to support private investment. This is the role that government should play — to encourage the private sector creation of jobs, while reducing our dependence on imported oil. China now produces over half the world's supply of solar panels and exports 96% of them to the U.S. and Germany. This is an industry in which we must successfully compete. Our industrial policy will have to include domestic content provisions that skirt WTO restrictions, just as China has managed to do in building its industries. Domestic content provisions will assure that we capture solar manufacturing jobs, here, for our middle class.

Overall, we must find the way to create and hold these domestic manufacturing jobs in the face of low Asian labor costs and subsidies. In the absence of such policies, CEO's can be expected to outsource all the new ideas for production to Asia for the benefit of their shareholders and their own stock options. In January 2011, Evergreen Solar, the third largest domestic solar panel producer announced that it was [closing its main U.S. factory, eliminating 800 jobs, and shifting its proprietary technology to China](#). In August 2011, Evergreen filed for bankruptcy, as did Solyndra and SpectraWatt. In May 2011, [BP closed its U.S. solar manufacturing](#) plant in Maryland and shifted its production to India, China and other low-cost countries. Then CEO, BP's Tony Hayward said: "We remain absolutely committed to solar, (but BP was) moving to where we can manufacture cheaply."

The Evergreen example, particularly, should be another wake-up call for the need of a protective renewable energy industrial policy. Even though Evergreen received \$43 million in tax credits and grants from Massachusetts, Evergreen is not to blame for making

the decision to sell their technology and outsourcing their labor. The business motive is rightfully the bottom line, and not to protect domestic jobs. Incentivizing job creation is the policy role of government.

About Solyndra. The failure of this manufacturer has much to do with the hyper-competitiveness of the industry, including the plummeting cost of silicon (which Solyndra does not use) and lower costs in Chinese manufacturing (labor and overhead plus subsidies). Solyndra's technology is unique (<http://www.youtube.com/watch?v=2DICUmBw7AU>), and their robotic manufacturing plant with one-of-a-kind systems represents hugely expensive start-up costs. However, the Solyndra solar panels have features and benefits not available with other systems, and are superior for commercial flat roofs and apartment buildings: lower installation costs, wind resistance, omni-directional placement affording more wattage per square meter, zero-visibility on flat roofs, no need for roof-penetrating fasteners. Hopefully, by virtue of the public investment in this technology (plant and equipment), Solyndra will emerge from bankruptcy in the hands of an American company, rather than see this promising breakthrough technology exported to China as was Evergreen's.

A U.S. Patent Restriction? Recently, it was revealed that the Defense Department is requiring domestic content for solar panels. This is a step in the right direction to build and retain a home-grown industry and jobs. Government policy could also make it more difficult for companies like Evergreen to transfer their technology abroad. For example, U.S. Patent protection could be restricted to products with a minimum 80% domestic value-added in manufacturing.

On January 9, 2011, The New York Times reported that China is disturbed that the Pentagon, a rapidly growing consumer of renewable energy products — in insisting on buying solar panels made here is interfering with world trade. This despite China's pervasive export subsidies and local content requirements. China has subsidized their solar panel manufacturing industry, something the U.S. is loath to do. Our policy has been to subsidize consumers and let them choose in the "free market." But, the price advantage to Chinese panels gives them an almost insurmountable advantage. The result: today, China produces well over half the worlds solar panels and exports 96% of them to Germany and the U.S.

The intent of the Buy American provision in the defense appropriations section of the 2009 stimulus legislation is that Chinese manufacturers, and others, will be encouraged to establish manufacturing production in the U.S. This restriction can and probably will be challenged under WTO free trade rules. However, the U.S. would be wise to look at additional barriers to protect nascent industries for future U.S. jobs. Innovators will make their initial products in the U.S., but if successful in finding a market, will look to scale-up in lower-waged countries with fewer workplace and environmental restrictions.

Replacing the Corporate Income Tax with a VAT. Under GATT rules, the value added tax is subtracted from exports and added to imports with the purpose of excluding the burden of a producing country's government from the price/value relationship of

competing goods and services. Currently, all U.S. trading partners and over 120 countries use a VAT to the competitive disadvantage of the U.S. The U.S. should consider replacing the Corporate Income Tax and other taxes including the payroll tax with a VAT balanced by a flat personal income tax with a high threshold as [recommended by Gov. Mitch Daniels](#).

Federal FIT Match for States Paid-for with Gas Tax. The uncertainty of the incentive price for clean energy production is a large impediment to domestic demand. In 2010, I had the opportunity to ask then energy czar Carol Browner about the potential for a national Feed-In Tariff (FIT), i.e. the incentive price at which green energy could be sold back to the grid. The FIT has propelled Germany into first place in the installed base of solar panels; this, even though Germany is at a latitude close to New York City's, i.e., far from the maximum incidence of light. Ontario, too, which has recently implemented a VAT, is rapidly expanding solar installations. Ms. Browner responded that a FIT would not work here because the U.S. has diverse power companies regulated by individual states. However, that should not preclude the incentive of a federal matching FIT subsidy to the states. Electric utilities would be responsible for their average production cost per kilowatt hour and the FIT incentive overage would be shared by the states with a federal match. The FIT demand incentive expense should be paid-for by an increase in states' gasoline taxes, adding an economic disincentive for imported fossil fuel.

Fully Deductible PACE Financing. Demand would also be fueled by the state and local government adoption of fully deductible PACE bonds (Property Assessed Clean Energy Bonds) that would enable the deduction of principal as well as interest for residential installations of solar panels. Fannie Mae and Freddie Mac are known to oppose this incentive since the liens would come before their mortgage liens. Congress could and should legislate this hurdle away.

Again, thank you for the opportunity to submit these ideas for your consideration.