



# State of South Carolina

## Office of the Governor

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The Honorable Robert W. Harrell, Jr.  
Speaker of the House of Representatives  
Post Office Box 11867  
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Dear Mr. Speaker and Members of the House:

I am hereby vetoing and returning without my approval H. 3649, R-274. This bill amends incentives for alternative fuel and energy production.

While the bill is certainly well intentioned, I am vetoing it for what boils down to two reasons.

One, we think that taking action on this should wait until we see if it works with, or is at cross purposes with, the findings of the Climate, Energy, and Commerce Advisory Committee (CECAC), chaired by Representative Ben Hagood. The CECAC was composed of business and environmental leaders from across the state and has met for the last year. The committee will come out with its report next month, and we think incorporating ideas like those contemplated in this bill would make more sense if we waited to see if they fit with the committee's extensive work.

Two, it is the administration's view that wherever possible, and certainly in new incentives offered, that incentives should start with the consumer. Supply over time always equals demand, and in the history of man, consumers armed with cash have, indeed, always been met with supply. Beginning with that premise is the key to a market-based solution, though, since the consumer starts this virtuous cycle.

In this regard, I continue to have reservations about how these incentives are enacted. What troubles us about these incentives is that they pick winners and losers in the marketplace by directly subsidizing businesses. We believe that while we should encourage alternative fuels, those incentives should be directed to the individual where the cost-benefit belongs. This is the reason why I signed H. 4312 in 2006, which gave a direct tax credit for hybrid vehicles and vetoed S. 243 in 2007, which included the original tax credits modified in this legislation.

First, the demand for the alternative fuels described in this legislation is simply not there yet. If you look at the demand from 2007 for alternative fuels versus petroleum, you will find that only 6.5 billion gallons of ethanol and 500 million gallons of biodiesel were sold in the U.S. compared to 142 billion gallons of gas. We believe in the laws of supply and demand. This model predicts that in a competitive market, prices adjust to equalize the quantity demanded by consumers and the quantity supplied by producers. However, in the case of this bill, the incentive is at the retailer level and unless you provide the incentive to the end user, there is no guarantee that the cost benefit is passed on to the consumer. As a result, we

are supporting an industry that is otherwise not economically viable. We believe that a truly competitive market is a consumer-driven market.

In addition to giving retailers of these alternative fuels a per-gallon subsidy, these fuels are still subject to the South Carolina motor vehicle tax. This bill attempts to ensure that South Carolina will not lose the funding that is needed for road and highway maintenance. Unfortunately, it also means the retailers of alternative fuels are getting incentives to sell while the consumer still pays a tax. Moreover, most alternative fuels sold in this state contain petroleum in their mix. So, we are, in essence, encouraging a continued, though lessened, dependence, on petroleum products.

Last year, I vetoed S. 243 which dealt with incentives for hydrogen research. In that message, I raised concerns that these alternative technologies are not far along enough in their development to warrant taxpayer investment. It is still the position of this administration that it is not wise to put all of your eggs in one basket and that government should not "lead" the private sector. This is particularly true given that last month, British Petroleum announced an investment of \$1.6 billion in biofuels research and General Electric is currently testing airplanes and their ability to fly using biofuels. It is simply foolish to think that government can pick the "winning" industry of tomorrow and beat the marketplace and private capital in this instance at a state level.

Ultimately, the cost for a consumer to utilize the technology that would, in turn, use the fuels in this bill simply prevents most South Carolinians from even considering this as an option due to their high cost. For example, it costs around \$40,000 to fill a tank in one of Honda's experimental hydrogen prototypes, not to mention the nearly \$2 million dollar price tag for the car. Even cars that utilize E85 ethanol blend as a fuel option on average cost over \$50,000. To further harm the demand on this front, H. 3649 strips the only incentive for the consumer which was the sales tax rebate for automobiles that utilize E85 technology.

I would encourage the General Assembly to sustain this veto and pass legislation that contains market-based solutions such as incentives for consumers not corporations. Once consumers are able to afford the technologies that will utilize these fuels, then the demand that this legislation seeks to establish will grow and no incentive will be necessary for the alternative fuel industry to thrive in South Carolina.

For the above reasons, I am vetoing H. 3649, R-274.

Sincerely,



Mark Sanford