

United States Senate Committee on Finance

For Immediate Release

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Grassley, Baucus: Highway Bill Offers Needed Fuel Fraud Crackdown

WASHINGTON – The new highway bill signed into law today contains a series of needed crackdowns on fuel tax fraud, according to Sen. Chuck Grassley, Finance Committee chairman, and Sen. Max Baucus, ranking member. Grassley and Baucus worked to include anti-fuel fraud measures in the bill. Today they released an Internal Revenue Service report showing that their reforms are needed because illegal, hazardous fuel blending to avoid federal fuel taxes occurs routinely across the country.

“Whether you’re driving an 18-wheeler or a pick-up truck, you should know what you’re getting when you fill up the tank,” Grassley said. “Research shows anything but. The IRS identified a variety of potentially harmful petrochemicals that were illegally blended into highway diesel fuel to dispose of these hazardous wastes. This is troubling from a consumer safety and environmental standpoint, but also because these filler materials help dealers skip out on federal fuel taxes. We need a much better handle on what goes into the diesel fuel that drives a big piece of our economy.”

Baucus said, “Fuel fraud robs our nation of better highways and safer infrastructure. In order to skirt taxes, some will resort to mixing other substances to highway diesel fuel. Not only are they avoiding taxes, but their cost-cutting ways are creating harmful by-products, compromising the health of our environment. The anti-fraud measures take common-sense approaches to cracking down on these abusive practices. More funds will be generated for improved roads and vehicles will be safer because of the highway bill.”

President Bush signed the highway bill containing the Grassley-Baucus fuel fraud crackdowns into law today. Grassley and Baucus released an IRS study indicating that illegal, hazardous fuel blending activity is occurring frequently across the country, with at least 6.7 percent of samples showing evidence of adulteration. The report summarizes a series of sampling and national data-gathering exercises aimed at identifying illegal highway fuel-blending activities. The report identifies a wide variety of potentially harmful petrochemicals that were illegally blended into highway diesel fuel to dispose of these hazardous wastes. Additional testing and investigations also disclosed a wide variety of blending schemes in which semi-refined blendstocks were systematically co-blended outside of a regulated refinery environment to produce untaxed, off-specification diesel mixtures. Additionally, off-specification partially refined blendstocks have been frequently used as untaxed extenders of conventional refinery-blended diesel fuel.

The study suggests that it is costly and complex to systematically prevent ordinary fuel blending schemes – using regular but off-spec hydrocarbons -- through field chemical sampling. However, frequent random sampling in high risk areas is necessary to prevent disposal of hazardous wastes by blending with conventional fuels. It is well-known that both practices, if unchecked, can lead to serious engine and emissions systems damage, especially in the newest generation of low

emission diesel trucks and automobiles with sophisticated technology emission control systems. Human health issues resulting from exposure to the vapors from hazardous blends, and emissions from partially combusted off-specification blends, constitute another societal harm that needs to be addressed.

Grassley and Baucus worked to enact other anti-fuel fraud measures in past legislation and said they will continue to look for ways to improve the security of the nation's fuel network.

The IRS report they released is attached.