Ethanol Subsidies: Too Much for Too Little

March 2007

Through a combination of subsidies, trade restrictions, and government mandates a handful of corporate agribusinesses and oil companies reap billions in taxpayer funded profits from ethanol. Furthermore, more than 95 percent of U.S. ethanol is produced from corn, one of the most heavily subsidized commodities in the country. Yet corn remains a very inefficient source of ethanol. Consider the following:

- Various tax credits and incentives for ethanol will cost taxpayers an estimated $6.3–$8.7 billion dollars annually between 2006 and 2012.[i] This cost is due largely to a federal 51-cent-per gallon excise tax credit that refiners receive for meeting the federal Renewable Fuels Standard (RFS) mandate.

- Imported ethanol is largely prevented from entering the U.S. thanks to a 54-cent-per-gallon tariff. Two Iowa State University economists estimate that if this import tariff were removed, domestic ethanol prices would drop by about 18 percent.[ii]

- Corporate agricultural industry giants Archer Daniels Midland, Ethanol Products, and the Renewable Products Marketing Group control two-thirds of all ethanol production; more than 90 percent of all ethanol is controlled by just eight firms.[iii]

- U.S. ethanol from corn costs $1.05 per gallon to produce, while Brazilian ethanol from sugar cane costs 81 cents per gallon to produce.[iv] U.S. ethanol production from corn, per acre, yields about 400 gallons; Brazilian ethanol production from sugarcane, per acre, yields about 590 gallons.[v]

- Ethanol cannot replace current gasoline consumption. As a Princeton economist points out, <u>even if</u> we met the President's goal of 60 billion gallons of ethanol by 2030 that would merely put a dent in the projected <u>increase</u> in fuel consumption between now and then,[vi] doing nothing to decrease our dependence on oil.

- University of Minnesota researchers estimate that converting the entire U.S. corn crop into ethanol would reduce fossil fuel use by only 2.4 percent.[vii] Meanwhile, this would increase the cost of feedstocks for poultry, beef, and pork.

By using subsidies to effectively pick corn ethanol as our main future fuel alternative, the federal government is forcing taxpayers to pad the profit margins of agribusiness and big oil, without much bang for the buck. And with ethanol profitability tied to oil prices, the taxpayer is on the hook for potentially costly investments that are already fueling a speculative investment craze. Tad Patzek, at the University of California Berkeley's Department of Civil and Environmental

Engineering, observes that the ethanol industry's success stems from "the massive transfer of money from the collective pocket of the U.S. taxpayers to the transnational agricultural cartel."

The burden of corn-ethanol subsidies could be severely reduced by a phase out of the import restrictions and excise tax credits that protect and support domestic ethanol production. In the face of ever-increasing mandates for new sources of biofuels, the nation is faced with limited and inefficient alternatives, price and land pressures on other crops and from the increased demand for corn, and an overly speculative ethanol production sector. Research shows that ethanol profits do not spread to most of the rural economy, nor is it the silver bullet to end our foreign oil dependency. Corn-ethanol long ago proved itself a failure for U.S. consumers.

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[i] Doug Koplow, "Biofuels – At What Cost? Government Support for Ethanol and Biodiesel in the United States," Global Subsidies Initiative of the International Institute for Sustainable Development, Geneva, October, 2006.

[ii] Amani Elobeid and Simla Tokgoz, "Removal of U.S. Ethanol Domestic and Trade Distortions: Impact on U.S. and Brazilian Ethanol Markets," Working Paper 06-WP 427, October 2006 (Revised) Center for Agricultural and Rural Development Iowa State University Ames, Iowa 50011-1070. www.card.iastate.edu

[iii] U.S. EPA, "Renewable Fuel Standard Program" (EPA420-D-06-008), September 2006.

[iv] USDA, "The Economic Feasibility of Ethanol Production from Sugar in the United States," July, 2006.

[v] Wes Allison, "U.S. sugar is too expensive to convert to fuel," *St. Petersburg Times*. Published March 9, 2007.

[vi] Robert J. Samuelson, "Blindness on Biofuels," *Washington Post*, January 24, 2007; Page A23.

[vii] Greg Breining, "Five Reasons Corn Ethanol Won't Save the Planet," University of Minnesota Alumni Association Magazine, January-February, 2007.