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# Ethanol Subsidy Ends; Will it Raise or Lower Prices at the Pump?

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A major part of the United States' misguided policy on ethanol usage came to an end as the $6 billion-a-year ethanol subsidy dies

> America's corn farmers have been benefiting from annual federal subsidies of around $6 billion in recent years, all in the name of ethanol used as an additive for the nation's vehicles.
>
> That ends on Jan. 1, when the companies making ethanol will lose a tax credit of 46 cents per gallon, and even the ethanol industry is OK with it -- thanks in part to high oil prices that make ethanol competitive.
>
> Subsidized since 1979 as a homegrown fuel cleaner than gasoline, corn ethanol had plenty of opponents, environmentalists among them.
>
> Environmentalists question the cleaner energy premise -- adding factors like tractor diesel emissions and fertilizer runoff make it dirtier, they say.
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> "Corn ethanol is extremely dirty," Michal Rosenoer, biofuels manager for Friends of the Earth, said in heralding the tax credit's demise. "It leads to more climate pollution than conventional gasoline, and it causes deforestation as well as agricultural runoff that pollutes our water."
>
> Opponents also see corn ethanol, which now takes a larger share of the U.S. corn crop than cattle, hogs and poultry, as a factor in driving food prices higher.
>
> "The end of this giant subsidy for dirty corn ethanol is a win for taxpayers, the environment and people struggling to put food on their tables," Rosenoer added.
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> But there's a nearer-term battle brewing over corn-based ethanol. A 2005 law requires that 7.5 billion gallons of renewable fuel be produced by 2012 -- 6.25 billion gallons were produced in 2011. A 2007 revision gradually increases that to 36 billion gallons by 2022.

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## AAA Predicts 4 Cent Rise in Gasoline Prices

Please consider End of ethanol subsidy expected to bring higher gas prices

> In January, the federal government is stopping a 45-cent-a-gallon subsidy to ethanol producers, who will pass that extra expense to drivers who buy ethanol-supplemented gas, said AAA Carolinas spokesman Tom Crosby. Extra costs at the pump will amount to about 4 cents, he said.

**Not So Fast**

The Brazilian Sugar Cane Association reports Congressional recess means the end of three decades of US tariffs on imported ethanol

> For the first time in more than three decades of generous US government subsidies for the domestic ethanol industry, coupled with a steep tariff on imports, the United States market will be open to imported ethanol as of January 1st, 2012, without protectionist measures. Today's adjournment of the 112th Congress means both the US$0,54 per gallon tax on imported ethanol and a corresponding tax credit of US$0,45 per gallon for blenders, the VEETC (Volumetric Ethanol Excise Tax Credit), will expire as expected on December 31st.
>
> "With Congress in recess, there are no opportunities for further attempts to prolong the tax credit or the tariff, so we can confidently say these support mechanisms will be gone at the end of 2011," said the Washington Representative for the Brazilian Sugarcane Industry Association (UNICA), Leticia Phillips. This means that in 2012, the world's largest fuel consuming market will be open to imports of less costly and more efficient ethanol, including sugarcane ethanol produced in Brazil, recognized since 2010 by the US Environmental Protection Agency (EPA) as an advanced biofuel because of its verified reduction of up to 90% in greenhouse gas emissions compared to gasoline.
>
> If attempts in Congress to prolong the tax credit had been successful, the subsidy package now about to expire would continue to cost American taxpayers about US$6 billion per year. As for the tariff, meant primarily to keep Brazilian sugarcane ethanol out of the US market, its demise should reinforce fact-based assessments about the various feedstocks used around the world to produce ethanol, according to UNICA President Marcos Jank.

**45 Cent Subsidy Ends, So Does 54 Cent Tariff**

With the tariff ending, price of imported ethanol should drop by 54 cents per gallon. The net effect of the end of expiring bill, *all thing being equal* (which they won't be), should be a 9 cent drop in price of ethanol.

**Federal and State Ethanol and Biodiesel Requirements**

Please consider Federal and State Ethanol and Biodiesel Requirements

> Minnesota, a major producer of ethanol, has required all gasoline to contain at least 7.7

> percent ethanol since 1997. Hawaii requires 85 percent of its gasoline to contain 10 percent ethanol, effective on April 2, 2006. The intention of the law is to spur local production of ethanol from sugar, but the ethanol could also come from the U.S. mainland or from Brazil.
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> Minnesota was also the first State to require biodiesel blending into diesel fuel, at 2 percent by volume. The requirement became effective in mid-2005, when two new biodiesel plants, each with 30 million gallons per year capacity, began operation in the State. The law was waived several times because of quality problems with the biodiesel, but it is again in effect.
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> Washington requires 2 percent ethanol in gasoline and 2 percent biodiesel in diesel fuel no later than November 30, 2008. The requirement will increase to 5 percent once the State can produce biodiesel equal to 3 percent of its diesel demand.
>
> Louisiana enacted a requirement for 2 percent ethanol in gasoline and 2 percent biodiesel in diesel fuel, once sufficient capacity is built in-State. Assuming that Louisiana's 2-percent and Washington's 5-percent requirements are triggered, Louisiana, Minnesota, and Washington will require 102 million gallons of biodiesel in 2012 and 146 million gallons in 2030.

### State Mandated Ethanol Usage

As noted above, some states mandate its usage, others don't. Mandating various blends adds to the price, due to inefficiencies. Moreover, given that ethanol from corn makes no environmental sense, promoting the idea is absurd.

The California Energy Commission [Consumer Energy Center] states

> Most ethanol used for fuel is being blended into gasoline at concentrations of 5 to 10 percent. In California, ethanol has replaced methyl tertiary butyl ether (MTBE) as a gasoline component. More than 95 percent of the gasoline supplied in the state today contains 6 percent ethanol. There is a small but growing market for E85 fuel (85 percent ethanol and 15 percent gasoline) for use in flexible fuel vehicles (FFVs), several million of which have been produced by U.S. automakers. But E85 is primarily found in the Midwest in corn-producing states. Ethanol is also being used to formulate a blend with diesel fuel, known as "E-Diesel", and as a replacement for leaded aviation gasoline in small aircraft.
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> All gasoline vehicles in use in the U.S. today can accept gasoline blended with up to 10 percent ethanol (sometimes called gasohol). Flexible Fuel Vehicles (VVFs) are cars and trucks that can use any level of ethanol up to 85 percent. They're built with special fuel system components designed to be compatible with higher ethanol concentrations.

### Calculating the Savings

For California then, assuming Brazil supplies the ethanol 9 cents cheaper, and the ethanol content of gasoline is 6%, California prices might drop about a half-cent per gallon. In states where the ethanol content is 10%, the price should drop nine-tenths of a cent per gallon.

However, this assumes Brazil supplies 100% of US ethanol and that is not a realistic assumption even if it makes good environmental and economic sense.

More than likely costs go up a couple pennies rather than the 4 cents calculated by the AAA. However, any price hikes on gasoline would be more than made up for by the drop in corn prices which in turn will pass through to grain-fed beef, corn flakes, etc.

Regardless of what happens to prices, ending all tariffs and letting the free market set prices is a very good thing in and of itself. Unfortunately, inane state rules and still intact federal rules mandating ever-increasing amounts of biofuels in gasoline formulations are still in control even though the subsidies ended.