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OP-ED CONTRIBUTOR

A Growing Disaster

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THE ethanol industry, once the darling of corn growers, environmentalists and the auto industry, has fallen on hard times. Producers spent this year caught between falling ethanol prices and rising corn costs, causing many to go bankrupt. In response, they are pushing the Environmental Protection Agency to increase the amount of ethanol they can blend into gasoline to 15 percent, up from the current 10 percent. Allowing this, however, would only double down on a discredited environmental policy without solving the industry's fundamental economic problem.

That problem is simple: Ethanol prices trend higher and lower along with the price of gasoline, yet the cost of producing ethanol tends to rise with demand, since higher ethanol production exerts upward pressure on the price of corn. In a free market, corn prices might be expected to eventually fall as the market adjusts to increased demand. But because the government heavily promotes ethanol use through subsidies and regulation, the market is continually strained.

The problem is magnified because corn is a water- and fertilizer-intensive crop that requires considerable investment. Worse, since fertilizer is often an oil-based product, the cost of growing corn tends to rise at the very moment ethanol prices, which rise with oil prices, might bring a good return.

The ethanol industry has less incentive to control its costs and diversify its market as long as the federal government guarantees it a place at the pump. Yet Congress's solution to the plight of ethanol suppliers has been to mandate more ethanol use in gasoline. The Energy Independence and Security Act of 2007 mandated that use of renewable transportation fuel rise from nine billion gallons last year to 36 billion gallons in 2022. Although some of this mandate must be met by advanced biofuels from switchgrass and other sources, corn-produced ethanol is the only large-scale alternative fuel currently available to meet Congress's mandate.

The ethanol industry appears to recognize that without government mandates there can be no sustainable market, hence the push for 15 percent ethanol fuel. But we should be wary on several grounds. First, many researchers are convinced that 15 percent ethanol in gasoline will cause problems in small engines in everything from lawnmowers to portable generators and boats. Some car engines will most likely tolerate the higher blend of ethanol, but others — especially those in older vehicles — will require costly repairs, a hardship likely to be borne by lower-income Americans.

Second, if ethanol use was really helping the environment, it might be worth putting up with higher costs. But many environmental groups dropped their support for corn-based ethanol after two studies published by the journal *Science* last February concluded that ethanol production actually increases the amount of carbon

dioxide released into the atmosphere. The main culprit is large-scale conversion of forest and grassland to corn production. Researchers at Princeton University estimate it would take 167 years of ethanol use in cars to offset the release of carbon from converting lands to agricultural production.

Third, a 2008 report prepared for the World Bank concluded that “the most important factor” in rising global food prices “was the large increase in biofuels production in the U.S. and the E.U.” High food prices may be a hardship for American consumers, but they are downright deadly in poor African nations.

Last, Washington already protects American companies with a 54 cent per gallon tariff on sugar cane ethanol from Brazil and other countries that produce it at much lower costs than American farmers can. This tariff not only hits United States motorists in the pocketbook, it also leads to other mischief. An entire industry designed to evade the protectionist tax has cropped up in Trinidad and 23 other Caribbean countries that are exempt from the tariff. Trinidadian companies import sugar cane ethanol from Brazil, dehydrate it to comply with the American tariff exemption on products “substantially transformed” in the Caribbean Basin, and then sell it in America.

Allowing a higher percentage of ethanol in gasoline will not make us less dependent on such foreign energy sources. It will not help the environment. It will not lower consumer prices. And it will result in the poor of the world having less to eat. Instead of raising federal mandates on ethanol, Congress and the Obama administration should end them entirely.

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