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Betting the Farm on Ethanol

BY KENT GARDNER

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Chatting with a member of the extended family during holiday travels in Indiana, I learned that he's an electrician helping to build a new ethanol plant. He

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mentioned that there were quite a number of ethanol plants going up in that state. Turns out that it isn't just Indiana.

The Renewable Fuels Association, ethanolrfa.org, reports that 77 new ethanol plants or expansions are underway across the country. The list doesn't include recent announcements in New York State — a 60 million gallon a year facility in Caledonia and an experimental "cellulosic" ethanol plant in Greece to make ethanol from more random stuff than corn, such as wood chips, switch grass, and paper waste. The 79 new plants join 99 ethanol plants already producing about 5.4 billion gallons a year. That's a pretty small share of the roughly 140 billion gallons of gasoline burned in 2005 in America, but that's still a lot of ethanol.

The ethanol picture is confusing because there are two reasons for increasing ethanol capacity. One is to replace an additive called MTBE. The additive does good things for motor fuel but isn't something you want in your drinking water, so it is being phased out in favor of ethanol. The federal Energy Information Administration last year estimated that we'd need an extra 130,000 barrels a day — that's about 2 billion gallons a year — to replace all the MTBE.

The new plants will produce about 6 billion gallons a year, more than doubling our current capacity. So we're doing more than just replacing the MTBE. We want energy independence — the second reason for adding ethanol capacity — and the nation's corn growers are eager to help out. When the announced plants come on line, Iowa will be making 2.8 billion gallons a year, and Illinois, North Dakota, Nebraska, Indiana, Minnesota, and Wisconsin each will have capacity exceeding a half-billion gallons a year.

New York's comparatively modest output, then, will not make it the center of the ethanol universe. You need feedstock for serious ethanol production. Only about 20% of the corn feeding the Caledonia plant is expected to come from local farmers — the rest will come by rail from the corn states. So until this cellulosic ethanol experiment bears fruit, New York just isn't the perfect place to make ethanol. Not that corn is the only viable source. They're using cheese whey in California and Minnesota, and waste beer in Golden, Colo.

All this interest in ethanol says a lot about the power of incentives. Not only are gas prices higher, but also Congress passed a long-overdue energy bill last year. Federal subsidies for ethanol production were reauthorized at 51 cents a gallon. Subsidies for ethanol are hardly surprising if you tally the number of votes in

Congress from the states above and consider the historic power of the farm lobby in Congress. A 54-cent-a-gallon tariff on imported ethanol further distorts the market.

Ethanol plants receive state assistance, too. New York State plants producing renewable fuels are eligible for up to \$2.5 million a year in state tax credits. We taxpayers also subsidize construction. A plant under construction in upstate Orleans County received \$6 million from the state plus a federal loan guarantee of \$25 million.

And the federal government administers programs that directly or indirectly subsidize corn production. The annual bill for all farm commodity programs is about \$12 billion, according to the Congressional Budget Office.

Picturesque as it may be, do we know that growing corn to make motor fuel makes sense? An ecologist at Cornell, David Pimentel, has argued for years that the energy we use to make a gallon of ethanol — 131,000 BTUs, he estimates — is greater than the 77,000 BTUs we get out. One may contest some of Mr. Pimentel's assumptions, such as the relative efficiency of ethanol production processes and the amount of energy used to grow a bushel of corn. But even a more optimistic reading of the net energy balance from Hosein Shapouri at the U.S. Department of Agriculture claims that the net increase in energy by making ethanol from corn is about 34%.

Instead of mandating that 7.5 billion gallons of biofuel be mixed with gasoline by the year 2012, as does the Energy Policy Act of 2005, why don't we just tax gasoline and use the proceeds for competitive research grants? If gasoline were more expensive, we could let consumers and businesses figure out the most affordable substitute for liquid fuels. And we wouldn't be picking winning and losing technologies in the hallowed halls of Congress, investing untold billions on technologies that might not work or might suddenly become uneconomic when we change the level of subsidy.

I wonder what you can do with an abandoned ethanol plant. I sure hope we don't have to find out.

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