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### Subsidies Support Ethanol

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# SUBSIDIES SUPPORT ETHANOL

The ethanol industry receives subsidies from every level of government.

BY AARON E. PRICE AND CAROLYN JOHNSEN

PHOTOGRAPH INSTITUTE OF AGRICULTURE AND NATURAL RESOURCES

New federal mandates require gasoline refiners and blenders to use 36 billion gallons of renewable fuels by 2022, including 15 billion gallons of ethanol made from corn.

Without federal assistance in the form of subsidies, the ethanol industry would probably not exist today, according to many ethanol advocates. However, critics say these subsidies distort the energy market and don't achieve the goals for which they were designed.

Federal, state and local governments play diverse and interconnected roles in supporting the ethanol industry with a variety of subsidies, including tax credits, a protective tariff, loan guarantees and direct payment for research.

"Ethanol in my view has needed incentives to remotely get to a place where it's on a level playing field with oil. It's hard to overestimate the amount of political strength that big oil has in federal policy," said John Hansen, Nebraska Farmers Union president.

The ethanol industry also carries potent political strength, in part because of its connection to agriculture. Doug Koplow, who tracks energy subsidies at Earthtrack.net, said subsidies for liquid biofuels that were initially intended to increase the demand for surplus agricultural crops have now expanded to other goals.

“... lately they have been promoted as a way to reduce oil imports, improve the quality of urban airsheds, reduce CO<sub>2</sub> emissions, raise farmer incomes and promote rural development,” Koplow wrote in his 2006 report, “Biofuels — At What Cost?” The report, which was updated in 2007, was funded by the International Institute for Sustainable Development, a policy-advocacy group headquartered in Canada.

Federal funding used to create incentives for blending or producing ethanol comes from several

sources, including the U. S. Departments of Agriculture and Energy.

One of the most significant federal incentives is the Volumetric Ethanol Excise Tax Credit or “blender’s credit.” This 51-cent credit started Jan. 1, 2005, through the 2004 American Jobs Creation Act. When ethanol is mixed with gasoline to make E85 or E10 blends, the blender receives 51 cents for each gallon of ethanol used in the blend. In 2007, blenders applied for the credit on about five billion gallons of ethanol, amounting to about \$2.5 billion in VEETC credits nationwide, according to the Nebraska Ethanol Board.

“They play a very important role in helping these plants maintain their business and their prices (for ethanol),” said Randy Klein, Nebraska Corn Board director of market development.

The 2008 farm bill expanded some other ethanol

subsidies but lowered the credit to 45 cents a gallon.

A second federal policy is the 54-cent tariff on ethanol produced outside the United States. The policy discourages importation of foreign ethanol, mainly from Brazil, by taxing it. Locally made ethanol then seems cheaper and more attractive to blenders. However, under this policy small amounts of ethanol are allowed to enter from Caribbean nations, according to David Peters, extension rural economic development specialist at the University of Nebraska–Lincoln. Peters also said Brazil could likely successfully challenge the U.S. import tax on ethanol in the World Trade Organization as an unfair “barrier to trade.”

Koplow recommends “to phase-out subsidies to biofuel manufacturers during times of high oil prices,” arguing that the market will make the manufacturing and sale of ethanol profitable without





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federal help. Considering both direct and indirect sources of federal support, Koplow says the ethanol industry will have collected between \$67-\$82 billion in federal subsidies between 2006 and 2012. That estimate doesn't include state and local subsidies to the industry.

Nebraska's subsidy for ethanol plants is the Ethanol Production Incentive Credit. Steve Sorum, project manager for the Nebraska Ethanol Board, said EPIC has paid out a total of \$204.4 million to ethanol producers since the subsidy began in 1992.

In the 2007 EPIC report, the Nebraska Department of Revenue said “the EPIC Fund will no longer be able to meet its projected obligations during fiscal year 2009-2010” and anticipated a shortfall of \$18 million by 2012. But Sorum said a \$15.5 million special appropriation from the 2008 state legislature “appears to make the EPIC solvent.”

Many local communities invest in road, water and sewer infrastructure to attract ethanol plants, hoping the larger tax base will repay the funds invested in the new infrastructure.

“Ethanol is a very young industry, and it’s competing against a very well-established petroleum industry,” Klein said. “So without the renewable fuel standards or the incentives, you wouldn’t have the investments being made because the risk would be too high.”

While drafting the 2008 farm bill, congressional leaders considered the future of federal subsidies for ethanol. In April 2007, a National Journal reporter asked Democrat Collin Peterson of Minnesota, chairman of the House Agriculture

Committee, if it was time to drop the VEETC program and the import tariff.

Peterson responded, “In order for us to develop cellulosic ethanol, we need to maintain those for the foreseeable future.”

**PHOTOGRAPH BY KATE VEIK**

**Nebraska’s crops, stored in grain storage bins such as this one, are being used to produce corn-based ethanol. The 2005 renewable-fuels mandate requires that ethanol and biodiesel be blended into the nation’s overall fuel supply.**



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