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Ethanol in Nebraska

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Department of Agricultural Economics
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Ethanol in Nebraska

Market Report	Yr Ago	4 Wks Ago	2/11/05
<u>Livestock and Products,</u>			
<u>Weekly Average</u>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight	\$76.85	\$89.81	\$88.85
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb	110.06	123.85	130.40
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb	*	108.07	105.77
Choice Boxed Beef, 600-750 lb. Carcass	126.57	151.97	146.60
Western Corn Belt Base Hog Price Carcass, Negotiated	61.67	73.10	64.69
Feeder Pigs, National Direct 45 lbs, FOB	44.62	66.09	63.45
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean	67.48	74.41	71.27
Slaughter Lambs, Ch. & Pr., 90-160 lbs., Shorn, Midwest	97.50	106.00	109.00
National Carcass Lamb Cutout, FOB	210.46	244.05	260.37
<u>Crops,</u>			
<u>Daily Spot Prices</u>			
Wheat, No. 1, H.W. Omaha, bu	3.75	3.36	3.33
Corn, No. 2, Yellow Omaha, bu	2.68	1.73	1.79
Soybeans, No. 1, Yellow Omaha, bu	4.57	5.13	5.33
Grain Sorghum, No. 2, Yellow Columbus, cwt	8.25	2.45	2.46
Oats, No. 2, Heavy Minneapolis, MN, bu	1.67	1.87	1.87
<u>Hay</u>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton	115.00	115.00	115.00
Alfalfa, Large Rounds, Good Platte Valley, ton	62.50	62.50	62.50
Grass Hay, Large Rounds, Good Northeast Nebraska, ton	*	57.50	57.50
* No market.			

Ethanol production in the U.S. has mushroomed at the rate of nearly 20 percent per year in this young century. In Nebraska, ethanol production increased from about 500 million gallons in 1999 to over 700 million gallons in 2004. Furthermore, recent Nebraska plant construction suggests that it can be expected to increase by at least another 40 percent within the next year or two.

Why the Big Increase in Production?

Demand is up. Demand for ethanol has increased, due in part to pollution-related fuel blending requirements of state and federal governments, and in part to the rising price of gasoline, for which it is a substitute. The result: ethanol prices during the first five years of this century are about 25 percent higher than the five previous years.

Subsidies are up. Second, government subsidies have also increased (they have existed for much longer), adding further incentive for expansion. Some producers could be benefitting from well over \$.80/gal of federal and state subsidies, compared to recent prices in the vicinity of \$1.60/gal.

Federal subsidies for which producers may qualify include the \$0.53/gal gasoline tax subsidy, the \$0.10/gal small ethanol producers tax credit, and further grants and loan assistance available through USDA.

At the state level, LB 536 (2001) provides for a \$0.18/gal subsidy paid to qualifying producers, LB 775 (1987) provides tax refunds and credits that could amount to several cents per gallon over a seven year

period, and LB 620 (2001) provides an income tax credit on wages for which most new ethanol plants would qualify. Finally, LB 840 (1991) authorizes cities to help fund and guarantee loans for business construction, funded by local sales or property tax. The value of state and local subsidies for recently constructed plants in Nebraska is probably about \$35 million per year.

Only a few ethanol producers are currently receiving all the subsidies mentioned, but all are receiving some of them.

Economic Impacts of More Ethanol Production

Employment and the Ensuing Economic Activity. A medium-sized ethanol plant of 40 million gallon capacity will create economic activity during the year or more construction phase, then will permanently employ about 40 workers and will contribute to the tax base. The direct employment will stimulate additional economic activity, but the size of this indirect impact on local and state economies depends on many factors, and it is a speculative venture to estimate it (though many are willing to do so). In any case, it is clear that local economies are stimulated by the addition of an ethanol plant.

Nebraska's Crop Production Sector. Ethanol used about 17 percent of the state's corn crop in 1999, about 23 percent in 2004 and is expected to use about a third of the crop within another two years. Because Nebraska now ships about 45 percent of the crop out of state, diversion of exports to in-state use will increase corn price only a little, perhaps \$0.04/bu or so, with very little stimulus for increased production. Alfalfa producers, however, may see a significant negative impact as cattle feeders are able to substitute cheaper roughages, such as corn stalks, in combination with the ethanol byproducts (see below).

Nebraska's Cattle Sector. Cattle feeders will find that the increase in the price of corn will be more than offset by the increased availability of wet byproducts from the milling process. These byproducts have higher feeding value than corn, but have been priced lower due to the high shipping costs. Our preliminary research suggests that the improved profitability of cattle feeding will lead to an increase in feeder calf prices of perhaps 6 or 7 percent.

State Government Budget. The primary state subsidy program, LB 536, no longer accepts applications, but

it is already committed to an average of about \$30 million per year in producer payments over the next seven years, with funding of about \$7.5 million per year from an excise tax on corn and sorghum and another \$1.9 million from other funds. The legislature has not yet decided how to fund the remaining \$20 million per year of existing commitments, nor whether to extend the program in some form to new plants. The legislature has also yet to decide whether the LB 775 program will be extended to future expansions of ethanol plants and other businesses. Clearly, the economic benefits described above come at a significant cost to taxpayers.

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