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NIGHTMARES in the ETHANOL DREAM

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NIGHTMARES in the ETHANOL DREAM

Although President George W. Bush, Congress and Midwest politicians all champion corn ethanol, some economists, scientists and even a few farmers benefiting from the grain-alcohol nudge say that view is an intoxicated, rose-tinted illusion.

BY CASSIE FLEMING

Facing cameras, microphones and rows of well-heeled lawmakers, the son of an oil man and a former oil man himself told the nation once again that it had been dependent on oil, particularly foreign oil, for far too long.

In his 2007 State of the Union address, President George W. Bush said hope and opportunity for Americans ultimately depended on a stable energy supply. Through bursts of machine-gun-like applause, the president rattled off a grocery list of reasons why ethanol makes more and more sense, why it is vital if the U.S. is to curb its oil addiction.

“This dependence leaves us more vulnerable to hostile regimes and to terrorists — who could cause huge disruptions of oil shipments, raise the price of oil and do great harm to our economy,” said Bush, who did not know then that the price for a barrel of oil would jump from about \$55 in January 2007 to more than \$130 by spring 2008.

To achieve the ambitious vision laid out in his address, Bush mandated 35 billion gallons of renewable and alternative fuels to be available to Americans by 2017. Of this amount, 16 billion gal-

lons was to arrive in the form of corn-based ethanol — an amount that would require about five times Nebraska’s 2006 corn production.

Congress later changed the mandate to 36 billion gallons of ethanol by 2022 with a maximum of 15 billion gallons from corn.

Although the president, Congress and Midwest politicians all champion corn ethanol, some economists, scientists and even a few farmers benefiting from the grain-alcohol nudge say that view is an intoxicated, rose-tinted illusion.

“I don’t use ethanol in my car, and I know that sounds stupid for a farmer to say,” said Merlin Stuhr, an eastern Nebraska corn and soybean farmer. “It just costs too much money to use because my car doesn’t go as far on ethanol as it can on oil.”

Amory Lovins, a veteran U.S. energy adviser and cofounder of the Rocky Mountain Institute, a think tank, said if he could have the ear of a mayor in an ethanol town right now, he would say, “Enjoy it while it lasts.”

When all is said and done, the ethanol debate

raises several important questions:

What underscores the fierce political allegiance to ethanol?

Is ethanol a valid alternative outside the Corn Belt? In the end, is ethanol a boon or bane?

“It all boils down to economics,” said Ernie Goss, a Creighton University economist. “This area benefits from it right now, so the political support will follow.”

In fact, agribusiness coughed up \$250 million to federal candidates from 2000 to 2008, according to the campaign finance Web site, Open Secrets, <<http://opensecrets.org>>.

“High oil prices — and a high oil proportion that comes from outside countries — was the motivation to find ethanol,” Goss said. “It motivated Congress to support the industry. This bred a situation where companies see the ability to gain profit from ethanol. Then the states chimed in with their own support because state politicians are looking to help their local constituencies.

“Ethanol is just bad decisions by the government,” Goss said.

But to ethanol’s many political supporters, the alternative fuel is the cure for a number of problems: It breathes life into dying rural communities, they argue, and puts money into the hands of the heartland’s hardworking farmers, allowing them to create a more sustainable world.

All in all, the politics of ethanol and the potential mileage to be gained by supporting it have not been lost on those who would one day like to call the White House home.

“We can harness the ingenuity of farmers and scientists, citizens and entrepreneurs, to free this nation from the tyranny of oil and save our planet from a point of no return,” Illinois Sen. Barack Obama, Democratic presidential candidate, told New Hampshire voters on the day of their January 2008 primary.

“We’ve got to get serious about ending our dependence on foreign oil,” New York Sen. Hillary Clinton, another Democrat seeking the White House, said in a television commercial that played in Iowa and New Hampshire during the early primary season.



ILLUSTRATION BY ALEX HAUETER



PHOTOGRAPH COURTESY LINCOLN JOURNAL STAR

Nebraska Gov. Dave Heineman attends a groundbreaking ceremony for an ethanol plant near Adams, Neb., in fall 2007. Nebraska has 22 ethanol production plants, producing nearly 2 billion gallons of ethanol each year — and requiring almost 600 million bushels of grain, according to the Nebraska Ethanol Board.

“Our rural communities already benefit from the \$37 million in annual pay linked to the operation of Nebraska ethanol plants. State and local economies benefit whenever a new plant is built.”

Gov. Dave Heineman

R-Neb.

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Although Arizona Sen. John McCain, a Republican presidential hopeful, had once been a harsh critic of the corn-based product, he was whistling a different tune before the January Iowa caucus.

“I had my glass of ethanol this morning, and I’m feeling good,” McCain told a 2007 Des Moines crowd.

For Jordan Lieberman, publisher of Campaigns and Elections magazine, the political connection to ethanol is a fundamental one.

“People understand you don’t get through the Iowa caucus without supporting ethanol,” he said. Iowa leads the nation in ethanol production.

Stuhr, the Nebraska corn farmer, said political backing in contested areas like Iowa is basically wallet padding.

“It’s all about who can give the candidates the most money to get into office,” he said.

Iowa agricultural services and products lined politicians’ pockets with \$250,000 in 2008, according to Open Secrets.

However, money is not the only resource that agricultural interests provide.

“I would usually just say ‘follow the money,’” Lieberman said. “But in this case I would say follow the voter, too. Because the whole Iowa economy is based on corn, the corn contribution is linked with every voter.”

Still, ethanol remains rich in inconsistencies. Some farmers, political scientists, economists and politicians continue to see nightmares in the ethanol dream.

One such nightmare is a cruel irony within the industry: While the higher corn price is a boost to farmers, it also increases the cost of ethanol production.

“My cousin is a state senator, and I tell her ethanol is no salvation for the farmer,” Stuhr, the farmer, said, adding that if the price of corn gets too high or if the price of oil gets lower, the ethanol industry will collapse.

Midwest residents are beginning to see an industry unable to sustain itself, leaving local plants to either close or be gobbled up by large corporations, said Goss, the Creighton economist.

The vast majority of politicians do not know ethanol specifics, publisher Lieberman said. For example, he said nine of 10 politicians are unaware that the amount of energy used to create a gallon of ethanol is more energy than the gallon of ethanol will eventually supply.

Outside the Midwest, a different reality exists.

“No one is talking about ethanol outside the corn-growing states,” Lieberman said. “And truthfully, people in the Northeast and West don’t necessarily care about supporting ag families.”

Nevertheless, whether coming from the lips of Midwest politicians or from charismatic presidential hopefuls, the reasons to support ethanol remain clear to many politicians.

“Our rural communities already benefit from the \$37 million in annual pay linked to the operation of Nebraska ethanol plants. State and local economies benefit whenever a new plant is built,” Nebraska Gov. Dave Heineman said in 2005.

Scott Kleeb, vying to become Nebraska’s Democratic nominee in the 2008 U.S. Senate race, said ethanol is “Nebraska’s chance to rejuvenate the pioneer spirit.”

Rejuvenation comes from increased jobs and the pride farmers gain from being on the frontier for alternative energy sources, Kleeb said.

William Morgan, executive director of the Midwest Political Science Association, said politicians support ethanol because it is good for their districts, or “because it is a ‘new’ issue and they can manage to put themselves on the cutting edge and be innovators.”

Annette Dubas, a Nebraska state senator and a corn and soybean farmer, vigorously supports ethanol legislation.

“I understand farmers and agriculture and the struggles they go through,” she said. “I ask, ‘How can we be part of a broader solution?’”

Energy independence may be the broader solution, she said.

“Every dollar sent out is one less spent here,” Dubas said. “Keep the dollars in the hands of the farmers. Do it so we can be less dependent on foreign oil.”

David Redlawsk, a campaigns and voting strategy professor at the University of Iowa, said this presidential election cycle was unusual with both sides being wide open coming into Iowa. Each candidate was so engaged, he said, that candidates who once opposed ethanol switched their stances.

Hillary Clinton, for instance, voted against ethanol subsidies in 2001 as a New York senator. But on Nov. 7, 2007, the then presidential candidate said, “I will happily support corn ethanol and all forms of ethanol.”

Eventually, they all fall in line, Goss, the economist, said.

“You’d be a nut to run against agriculture,” he said.

In October 2006, for example, Heineman posed in front of a row of upright shovels at the groundbreaking ceremony of the Altra Nebraska Ethanol Plant in Carleton. Pictures show him digging up the first pile of soil from the ground and shaking hands with the ethanol board members.

“It’s good the governor is working to open more ethanol plants in the state,” said Derek Jagels, a University of Nebraska–Lincoln junior ag-economics major.

As for why he supported the governor’s ethanol push, he cited more revenue for communities and the state, a cleaner environment and a way to wean the U.S. off foreign oil.

This scene is not unique. Politicians often scurry about the Midwest to visit and endorse ethanol plants.

Elected officials benefit from supporting ethanol because of the organizational support they receive from those connected to agricultural interests. To those running for office, supporting ethanol is comparable to supporting Midwest families’ values and way of life.

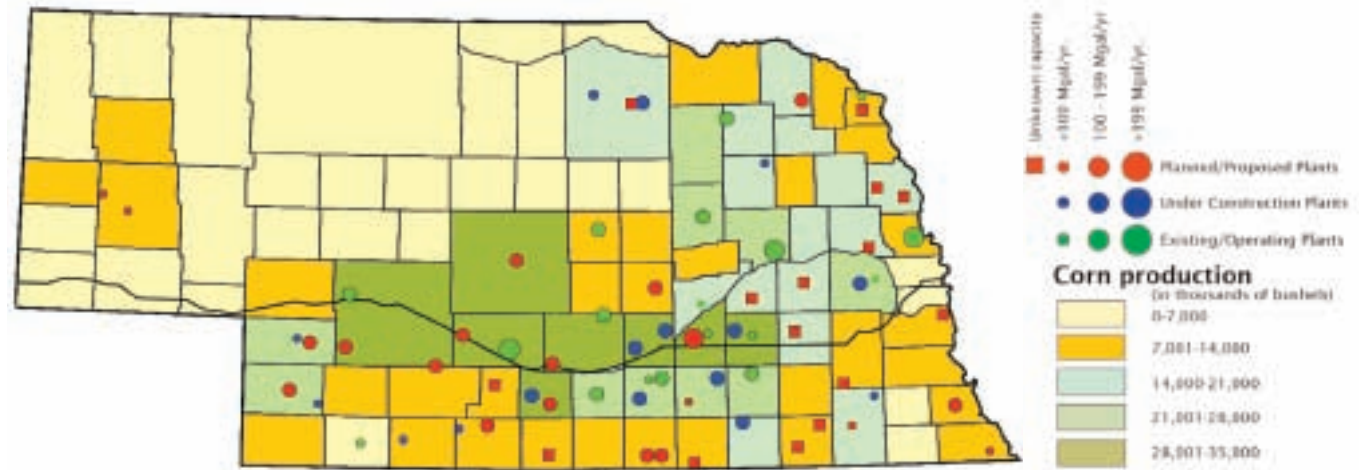
“Ethanol is political football for votes,” said M.E. “Bus” Whitehead, founder of Lincoln’s Whitehead Oil. “If I were campaigning in Nebraska like Clinton or Obama, I would love ethanol.”

Jagels, who comes from a farm family, said bio-fuel is going to be something he “definitely thinks about when he votes.”

From a rural-development standpoint, politicians realize they need to support ethanol, said Rick

NEBRASKA PLANTS

As of July 2008, Nebraska had 22 operating ethanol plants and 16 more already under construction. Thirty-five more plants have been planned and proposed, mostly in large corn-producing counties.



GRAPHIC BY ALEX HAUTER

SOURCE NEBRASKA DEPARTMENT OF ENVIRONMENTAL QUALITY

Leonard, research analyst for the Nebraska legislature’s agriculture committee.

Nebraska Gov. Heineman understands why.

“Agriculture is the backbone of Nebraska’s economy,” he states on the agriculture page of his Web site.

One thing to understand about ag issues, Stuhr said, is that to predict grain prices, only the fluidity of the market can be trusted.

“Let me tell you something,” Stuhr said, sitting in a truck-stop diner along Nebraska Interstate 80. “A guy called me the other day to tell me how to market my grain, and the last thing he said to me was, ‘This price is going to be good forever.’”

Stuhr laughed.

“You can’t say something like that to a farmer who has seen the price of corn go up and down for

as long as he has lived,” he said. “That guy must have just stepped off the graduation floor.”

Shawn Greiner, a hog farmer from southeast Iowa, has seen the number of ethanol plants in his state reach a peak. Last year, he said, ethanol companies were promising a plant on every corner, but now the companies are not making much money, if any.

“No new plants are being built,” he said. “They wanted to have one in my town next to the biodiesel plant. But they can’t get enough money. And I even heard they are thinking about shutting down the biodiesel plant.”

He said input cost — the price of corn — was too high.

Stuhr has also seen three proposed ethanol plants in his area never get off the drawing board.



PHOTOGRAPH BY KATE VEIK

Cargill owns the ethanol plant in Blair, Neb. The plant, which went online in 2005, has a capacity of 85 million gallons a year.

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He said the government's own regulations damage the industry.

"I trucked my corn down to the ethanol plant, and some kid told me I had to tarp my truck," he said. "I only haul from two miles away and don't go over 30 miles per hour. I was not tarping my truck."

He called the plant to ask about the tarp rule. The U.S. Environmental Protection Agency said the dust drifting from trucks was harmful.

"Well now, they are going to have to build a vacuum system, and that is just going to be another expense," he said. "It is so political."

Goss, the Creighton economist, said the ethanol industry is no different than any other infant industry: "It's experiencing a shakeout. Some companies are doing well. Some are not."

The less efficient ones, he said, will be closed down or bought out by the likes of Archer Daniels Midland, one of the world's largest corn and soybean processors.

"That's got to be a big rub for politicians," Goss said. "The profit isn't going to the farmers."

Two years ago, Linda and Lloyd Eichenberger watched Global Ethanol, an Australian company, buy the locally owned ethanol plant near their northern Iowa town, Lakota. They had invested in the plant four years earlier.

"There was opposition," Linda Eichenberger said. "People wanted to keep it local. They didn't trust Australia."

She said profits were supposed to double or triple when Global purchased it, but they have not. The couple probably won't invest any more in the plant.

"Politicians have not seen the research saying that ethanol may not be improving rural communities," Goss said. "They don't know it is not owned by farmers."

Another challenge created by ethanol relates to land value. Because the price of corn has increased, the value of Midwest farmland has increased, making farming more costly for people renting or buying farmland.

In fact, by Jan. 1, 2008, the average value of Nebraska agricultural real estate had reached a record high: \$1,460 an acre, according to statistics announced by the U.S. Department of Agriculture

and reported by the Grand Island (Neb.) Independent. The value of cropland rose even more — by 20 percent over the previous year — to \$2,270 an acre.

The increased land value has encouraged out-of-state companies to buy land.

"When I was younger and rented from someone I knew," Stuhr said, "he would come to me at the end of the year and ask if I had made any money. If not, he would help me with expenses. Do you think an out-of-state guy would ask if I made any money or not? Farming is a social experience."

Some fault ethanol for another reason: They say it is a short-lived solution to the energy independence issue.

Brian Donahue works for the political consulting group, Jamestown Associates, in Washington, D.C. "We're not addressing it much over here," he said. "It is a niche subject in the whole alternative energy circle."

As they look to the future, some Midwesterners see an end to corn ethanol's time in office.

"It's a way to stall before we find a permanent solution to energy independence," said Jagels, the college student, whose father invested in the ethanol plant endorsed by Nebraska's governor.

State Sen. Dubas said she, too, is looking at other forms of alternative energy.

But national politicians resist discussing corn ethanol's faults, said Lieberman, the magazine publisher.

"They can be excellent on the stump and speak intelligently without communicating anything they don't want to," Lieberman said. "So, to avoid a corn ethanol confrontation, they will just go right back to national security."

Because of the money intertwined in the relationship between ethanol and national security, Goss said he could see a storybook ending.

"If I were to write a great book," Goss said, "it would be about an ethanol plant going up in a rural community. And a guy in town starts cooking up something in his cellar that would make corn-based ethanol obsolete. Then the ethanol, big-corn guys come and bump him off." 🍷

POLITICS OIL & ETHANOL

🍷 "America's dependence on oil not only leaves families vulnerable to rising prices, but it compromises our national security and contributes to the crisis of global warming." — *John Edwards, Democrat*

🍷 "Our military and economic strength depend on our becoming energy independent, moving past symbolic measures to actually produce as much energy as we use." — *Mitt Romney, Republican*

🍷 "One of the ways to win the Islamic terrorist war against us is for us to be energy independent." — *Rudy Giuliani, Republican*

🍷 "Our rural communities already benefit from the \$37 million in annual pay linked to the operation of Nebraska ethanol plants." — *Gov. Dave Heineman, R-Neb.*

🍷 "We've got to get serious about ending our dependence on foreign oil." — *Hillary Clinton, Democrat*

🍷 "We can harness the ingenuity of farmers and scientists, citizens and entrepreneurs, to free this nation from the tyranny of oil and save our planet from a point of no return." — *Barack Obama, Democrat*

🍷 "Both climate change and reduction of our dependence on foreign oil are now national security issues." — *John McCain, Republican*

🍷 "It's time to say that we're not going to allow dictators, whether it's the Middle East or from Venezuela, to continue to, in essence, enslave the American people." — *Mike Huckabee, Republican*

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