Mr. Charlie Peters

Time to End Taxpayer Subsidies to the Corn Ethanol Industry

Pete Stark, December 12th, 2011

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This year alone, the corn ethanol subsidy has cost taxpayers $6 billion. At a time when Congress is struggling to find ways to pay for an extension of unemployment insurance and middle class tax cuts, we should not be sending money to an industry that is able to stand on its own. Worse, the ethanol subsidy does not go to farmers, but to the big oil companies that already receive billions each year in tax breaks.

Reports by the non-partisan Congressional Budget Office and the Government Accountability Office have concluded that ethanol subsidies increase food prices, do not create jobs, and have no environmental benefits. Corn ethanol is not part of a clean energy future. It is time to end these handouts to an industry that has been taxpayer-subsidized since 1978.

To read a copy of the letter, click here.

Sincerely,

Pete

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The Cellulosic Ethanol Debacle

Congress mandated purchase of 250 million gallons in 2011. Actual production: 6.6 million.

Wall Street Journal, DECEMBER 13, 2011

'We'll fund additional research in cutting-edge methods of producing ethanol, not just from corn but from wood chips and stalks or switch grass. Our goal is to make this new kind of ethanol practical and competitive within six years."

—George W. Bush, 2006 State of the Union address

Years before the Obama Administration dumped $70 billion into solar and wind energy and battery operated cars, and long before anyone heard of Solyndra, President Bush launched his own version of a green energy revolution. The future he saw was biofuels. In addition to showering billions of dollars on corn ethanol, Mr. Bush assured the nation that by 2012 cars and trucks could be powered by cellulosic fuels from switch grass and other plant life.

To launch this wonder-fuel industry, the feds under Mr. Bush and President Obama have pumped at least $1.5 billion of grants and loan subsidies to fledgling producers. Mr. Bush signed an energy bill in 2007 that established a tax credit of $1.01 per gallon produced.

Most important, the Nancy Pelosi Congress passed and Mr. Bush signed a law imposing mandates on oil companies to blend cellulosic fuel into conventional gasoline. This guaranteed producers a market. In 2010 the mandate was 100 million barrels, rising to 250 million in 2011 and 500 million in 2012. By the end of this decade the requirements leap to 10.5 billion gallons a year.

When these mandates were established, no companies produced commercially viable cellulosic fuel. But the dream was: If you mandate and subsidize it, someone will build it.

Guess what? Nbody has. Despite the taxpayer enticements, this year cellulosic fuel production won't be 250 million or even 25 million gallons. Last year the Environmental Protection Agency, which has the authority to revise the mandates, quietly reduced the 2011 requirement by 243.4 million gallons to a mere 6.6 million. Some critics suggest that even much of that 6.6 million isn't true cellulosic fuel.

The EPA has already announced that the 2012 mandate of 500 million gallons is unattainable, so it is again expected to lower the mandate to fewer than 12 million gallons for next year.

One reason the mandates can't be met is the half-dozen or so companies that received the first round of subsidies to produce cellulosic fuel never got off the ground. Some 70 million gallons, or 70% of the cellulosic supply to meet the 2010 mandate, was supposed to come from Alabama-based Cello Energy. Incredibly, those projections were made before Cello had built its plant to produce the fuel and before the technology was proven to work.

In 2009 a jury in a civil fraud case ruled that Cello had lied about how much cellulosic fuel it could produce. Some of the fuel that Cello showed to investors was derived from petroleum, not plants. The firm produced little biofuel and in October 2010 it declared bankruptcy.

It gets worse. Because there was no cellulosic fuel available, oil companies have had to purchase "waiver credits"—for failing to comply with a mandate to buy a product that doesn't exist. In 2010 and this year, the EPA has forced oil companies to pay about $10 million for these credits. Since these costs are eventually passed on to consumers, the biofuels mandate is an invisible tax paid at the gas pump.

And for what? An October 2011 report on biofuels by the National Academy of Sciences concluded that the mandates "may be an ineffective way to reduce global greenhouse gas emissions." Because production is so low, advanced cellulosic fuels also do very little to reduce U.S. dependence on foreign oil. The report notes that "currently, no commercially viable biorefineries exist for converting cellulosic biomass to fuel."

Why? Because of what the National Academy report calls "the high cost of producing cellulosic biofuels compared with petroleum-based fuels, and uncertainties in future biofuel markets." The report does say that technological breakthroughs could make cellulosic fuels cost-competitive in the future, but that same leap of faith has driven subsidies to alternative energy for 40 years.

Still, the subsidies roll on. In August 2011 the Obama Administration funded a $510 million program in partnership with the Navy to produce advanced biofuels for the military. In September the feds loaned $134 million to Abengoa Bioenergy to build a cellulosic plant in Kansas. The optimistic forecast is that this plant will produce about 23 million barrels a year—a fraction of what Washington promised in 2006. In September the Department of Energy provided POET, which advertises itself as the "world's largest ethanol producer," a $105 million loan guarantee for cellulosic.

To recap: Congress subsidized a product that didn't exist, mandated its purchase though it still didn't exist, is punishing oil companies for not buying the product that doesn't exist, and is now doubling down on the subsidies in the hope that someday it might exist. We'd call this the march of folly, but that's unfair to fools.

http://online.wsj.com/article/SB10001424052970204012004577072470158115782.html

Dance of the ethanol giants: US and Brazil in shuffle game

Renewable Fuels Association, December 12, 2011 2:07pm

Flawed carbon accounting schemes at both the federal and state level are creating a dynamic where the U.S. is importing ethanol from Brazil while simultaneously exporting greater volumes back to Brazil. This "ethanol shuffle" is occurring exclusively as the result of state and federal fuel regulations that "treat Brazilian sugarcane ethanol as if it were the Holy Grail of biofuels," according to Geoff Cooper, the Renewable Fuels Association's Vice President of Research and Analysis.

In his recent blog post, "The Ethanol Shuffle," Cooper explores this convoluted trade relationship and how U.S. policy is turning world ethanol markets upside down.

The heart of the issue is how both the U.S. Environmental Protection Agency (EPA) and the California Air Resources Board (CARB) are calculating carbon emissions for corn-based ethanol and Brazilian sugar ethanol. Under both the federal Renewable Fuel Standard (RFS) and the California Low Carbon Fuels Standard (LCFS), the carbon footprint of Brazilian based sugar ethanol is deemed far superior to corn-based ethanol. This results in a growing incentive for imports of ethanol from Brazil to meet increasingly aggressive carbon standards. At the same time, a struggling Brazilian ethanol industry cannot meet its own domestic demand. As such, Brazilian ethanol producers are finding it more valuable to export their product to America (and the carbon emissions that go with ocean transport) and import growing volumes of U.S. ethanol (and the same carbon emissions).

As Cooper writes in his blog, "So, that's how the "Ethanol Shuffle" works. California imports sugarcane ethanol from Brazil rather than corn ethanol from Nebraska or Kansas; and in turn, corn ethanol from the Midwest travels to Houston or Galveston via rail, then is shipped to Brazil via tanker to "backfill" the volumes they sent to the U.S. Picture the irony of a tanker full of U.S. corn ethanol bound for Brazil passing a tanker full of cane ethanol bound for Los Angeles or Miami along a Caribbean shipping route. Remember, this is all being done in the name of reducing GHG emissions."

Cooper explores just how environmentally destructive this practice can be. Cooper found that transportation-related GHG emissions more than double in the scenario where California imports Brazilian cane ethanol and Brazil "backfills" those volumes with U.S. corn ethanol imports. And the miles traveled in in this scenario are more than eight times the miles traveled in a scenario where California ethanol demand is met with corn ethanol from the Midwest.

There are economic ramifications to the shuffle effect as well. In concept, California gasoline blended with imported Brazilian ethanol has been 16 cents per gallon more expensive than gasoline blended with U.S. ethanol.

All of this is compounded by trade distorting practices that the Brazilians discretely engage in to disadvantage U.S. ethanol. The RFA recently raised this point in a letter to the U.S./Brazil Council.

http://westernfarmpress.com/government/dance-ethanol-giants-us-and-brazil-shuffle-game#comment-76041

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