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Fight to End Corn Ethanol Subsidy Creates Strange Bedfellows

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In a "strange bedfellows" story of sorts, some environmental groups have moved to cement ties with free-market conservatives on energy policy.

Their goal: to end a lucrative subsidy for corn ethanol they contend is a colossal waste of money and producer of greenhouse gases.

A joint briefing being held today on Capitol Hill by the Cato Institute, a libertarian think tank, and environmental group Friends of the Earth (FOE) is the latest evidence. The unlikely partnership is an indication of just how wide and deep the disdain for the corn ethanol tax credit has become.

FOE is a long-time defender of federal intervention to clean up fossil fuel pollution. It backs subsidies for third-generation cellulosic biofuels that come from nonfood crops—but not corn. Cato, in contrast, believes all ethanol feedstocks must stand on their own; it frowns upon government regulation in energy markets.

"If we can show that Friends of the Earth and the Cato Institute can sit in a room together and agree on something when it has to do with energy policy, that's probably pretty significant," said Kate McMahon, a biofuels campaigner for FOE, who is speaking today alongside Harry de Gorter, a Cato Institute senior fellow.

De Gorter, an economist and professor at Cornell University, agreed the partnership is rare.

"I have lots of disagreements with these particular environmentalists on other issues on how you analyze biofuels," he told SolveClimate News. "But not on this one."

Causing the collective angst is the Volumetric Ethanol Excise Tax Credit (VEETC), commonly known as the "blender's credit."

The subsidy gives oil companies $0.45 for each gallon of pure ethanol they blend with gasoline. It went into effect in 2005 under the Bush Administration's American Jobs Creation Act of 2004, and is set to expire at the end of the year.

Sens. Charles Grassley (R-Iowa) and Kent Conrad (D-N.D.) introduced legislation in April that would preserve the subsidy for five years at a yearly cost of up to $6 billion.

Expensive Waste

Both groups say the extension would be a redundant waste of tax dollars.

Under the Renewable Fuel Standard (RFS), the ethanol industry is already required by law to mix 15 billion gallons of ethanol into the nation's gas supply in 2015—much of that from corn—and 36 billion gallons by 2022.

"With this policy you're essentially handing over billions of dollars to produce nothing," McMahon told SolveClimate News. "It's a silly subsidy. It's got to go."

Indeed, findings from a July report by the nonpartisan Congressional Budget Office (CBO) revealed the subsidy to be something of a boondoggle. "The 45 cent credit for each gallon of ethanol is equivalent to paying blenders 67 cents for each gallon of gasoline that ethanol displaces," it said.

In all, taxpayers pay $1.78 for every gallon when fuel is made from corn, the report concluded.

According to de Gorter, the authors were "completely erroneous" in their cost estimates. Using the CBO methodology, he recrunched the numbers and discovered that the subsidy is even more expensive than anyone thought.

"The cost of the tax credit is seven to 11 times higher than the CBO reported," he said.

De Gorter claims the subsidy forces the price of fuel down and consumption up—of conventional gas, that is.

"It turns out that the tax credit does not do anything to the ethanol market. But it does something," he said. "It subsidizes gasoline consumption."

"Taxpayer money is doing the opposite of what you think it's doing," de Gorter said. Rather than greening fuel, it's increasing oil dependence and greenhouse gas emissions, he said.

It's a "comprehensive screw up," de Gorter said, sounding much like his environmentalist colleagues.

Not on the Exact Same Page

However, talk enough with the two groups and differences emerge.

Early in the year, Friends of the Earth, together with the Natural Resources Defense Council, the Union of Concerned Scientists and

"I wish it went straight into the oil companies' profit line," de Gorter said. "That way it wouldn't subside any gasoline consumption. But that's not how the market works. It's not a big monopoly where they just get to keep the cash free...in some big bank account in the Bahamas."

It ends up as lower prices at the pump, and a boost in greenhouse gas emissions, he said.

"We have a slight disagreement there," he said with a laugh. "But they're catching on."

Attention Needed

One thing they both agree on is the need to shine a public spotlight on the problem so the subsidy doesn't squeak through as part of a lame-duck spending package.

"With everyone tightening budgets all over the place, it seems more and more ridiculous to continue to throw billions of dollars away at an industry that is by no means immature," McMahon said. "But there's definitely still a threat that we're going to continue to subsidize this stuff."

Sen. Grassley, the ranking Republican member on the Senate Committee on Finance, "is really pushing hard for it," she said.

De Gorter said he has seen a shift in Congress away from extending the subsidy. "But we need momentum," he said. "We need media."

For him and his Cato colleagues, the better move is to target the source, not enact "funny" and "far too indirect" subsidies.

"The best option is always to tax the source of the problem," de Gorther said. "If it's greenhouse gases, you just tax greenhouse gases. If the problem is oil dependence, you just tax oil."

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