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If Al Gore Can Outgrow the Ethanol Fad, Why Can't Conservatives?

by Marlo Lewis on April 7, 2011

in Features

The Senate is expected to vote on S. 520, a bill to repeal the 45 cents per gallon volumetric ethanol excise tax credit (VEETC). The bill is co-sponsored by Sens. Tom Coburn (R-Okla.) and Benjamin Cardin (D-Md.).

Sens. Diane Feinstein (D-Calif.) and Jim Web (D-Va.) have also introduced [S. 530](), which would limit the VEETC to “advanced biofuels,” thus ending the subsidy for conventional corn ethanol. S. 530 would also scale back the 54 cents per gallon ethanol import tariff commensurately with the reduction in the tax credit.

The VEETC adds about $6 billion annually to the federal deficit. Unlike many other tax credits that reduce a household’s or a business’s tax liability, the VEETC is a “refundable” tax credit. That means the VEETC is literally paid for out of the U.S. general fund with checks written by the Treasury Department. The protective tariff, for its part, prevents lower-priced Brazilian ethanol from competing in U.S. markets. It increases the price of motor fuel at the pump.

Now, you would think supporting S. 520 and S. 530 would be a no-brainer for conservative lawmakers. But some are reportedly getting cold feet. To remind them of their duty to put the general interest of consumers and taxpayers ahead of the special interest of King Corn, I offer the following observations.

(1) The market for ethanol is propped up by the Renewable Fuel Standard (RFS), a Soviet-style production quota. Conservatives should be appalled by this reversion to Stalin-era central planning. Should taxpayers have to subsidize ethanol too?

(2) The Ethanol Troika – RFS, VEETC, Protective Tariff – increases consumers’ pain at the pump. Because the supply of ethanol, ramped up by the Troika, exceeds demand, ethanol today is cheaper than gasoline by volume. However, ethanol has one-third less energy than an equivalent volume of gasoline. Thus, consumers have to spend more for ethanol than gasoline to drive the same number of miles. The American Automobile Association’s Daily Fuel Gauge Report makes this crystal clear by publishing the mileage-adjusted price of E-85 (motor fuel blended with 85% ethanol). Here is today’s report:

	Regular	Mid	Premium	Diesel	85	**E85 MPG/BTU adjusted price
Current Avg.	$3.725	$3.858	$3.987	$4.017	$3.131	$4.120
Yesterday Avg.	$3.707	$3.839	$3.968	$4.003	$3.119	$4.104
Week Ago Avg.	$3.606	$3.740	$3.872	$3.963	$3.049	$4.013
Month Ago Avg.	$3.517	$3.649	$3.779	$3.889	$2.951	$3.884
Year Ago Avg.	$2.844	$3.019	$3.128	$3.006	$2.533	$3.334

		Highest Recorded Average Price
Regular Unl.	$4.114	7/17/2008
DSL.	$4.845	7/17/2008

(3) EPA and the Department of Transportion also know that ethanol policies increase consumers’ pain at the pump, although you have to dig deep into their joint Web site, www.fueleconomy.gov, to find the information. If you go to the site, click on Alternative Fuel Vehicles, then on Flexible Fuel Vehicles, then on Fuel Economy Information on Flexible Fuel Vehicles, and then on Go, you finally come to a page comparing how much an average consumer would have to spend annually to fill up each of more than 100 flex-fuel vehicles with regular gasoline and E-85. In every case, the consumer pays about $40-$70 more to fill up with E-85. Only a few months ago, when gasoline prices were lower, E-85 customers had to spend $200-$300 more per year. Obvious question for conservative lawmakers: If ethanol is such a great bargain for consumers, why do we need a law to make us buy it?

(4) The VEETC is a huge taxpayer rip-off. Analyses by the University of Missouri Food and Agricultural Policy

Research Institute, Iowa State University (in the heart of corn country), and the Congressional Budget Office (CBO) find that the mandate chiefly determines how much ethanol is produced over the next five years. The VEETC and tariff support only a small and declining fraction of total production.

- According to the University of Missouri study, the VEETC will induce an additional 1.4 billion gallons of ethanol to be blended above the 12.6 billion gallons already required by law this year. With the VEETC costing nearly $6 billion, that works out to about $4 for each "extra" gallon of ethanol. When gasoline hit $4.00 a gallon in the summer of 2008, politicians denounced gas prices as "obscene."
- The actual per gallon cost of the VEETC may be even higher. The Iowa State study estimates that extending the VEETC would induce additional blending of 680 million gallons of ethanol, costing taxpayers almost $7.00 per extra gallon in 2011. In 2014, the VEETC would induce additional blending of only 220 million gallons. That works out to a whopping $30.40 per gallon!

(5) As climate policy, the VEETC is a complete bust.

- Again, the VEETC and tariff support only a small and declining fraction of total production. Consequently, any incremental greenhouse gas reduction attributable to those policies has an unreasonably high price tag. CBO estimates that the VEETC costs taxpayers $750 to $1700 for every ton of greenhouse gases avoided — many times the estimated price of emission permits under the Waxman-Markey cap-and-trade bill, which the Senate did not see fit to pass.
- Ironically, the corn rush may increase net greenhouse gas emissions, as Tim Searchinger of Princeton University and Joe Fargione of the Nature Conservancy found in separate studies. A gallon of ethanol emits less carbon dioxide (CO2) than a gallon of gasoline when combusted. However, CO2-emitting fossil fuels are used to make fertilizer, operate farm equipment, power ethanol distilleries, and transport the ethanol to market. In addition, when farmers plow grasslands and clear forests to expand corn acreage, or to grow food crops displaced elsewhere by energy crop production, they release carbon previously locked up in soils and trees. For several decades, such land use changes can generate more CO2 than is avoided by substituting ethanol for gasoline.
- Unsurprisingly, many environmental groups and even Al Gore have disavowed their previous support for corn ethanol. Isn't it time for conservatives to outgrow this obsolete environmental fad?

(6) Corn ethanol does squat for U.S. energy security. Former OMB analyst Ken Glozer demolishes the energy-security rationale for ethanol subsidies in *Corn Ethanol: Who Pays, Who Benefits* (April 2011), published by the conservative Hoover Institution.

The chart below comes from Glozer's recent briefing at the Heritage Foundation. It shows that the Troika increases annual corn ethanol production by only 5.2 billion gallons in 2015. When that is adjusted for ethanol's lower energy content, it means ethanol will displace only 1.8% of total U.S. oil imports in 2015. Even that may be an exaggeration, because it does not factor in all the petroleum used to operate farm machinery, fertilize the corn crops, and deliver the ethanol to market. So at best, taxpayers would be on the hook for $30 billion from 2010-2015 to reduce petroleum imports by 1.8%. When we also consider that Canada and Mexico are the two largest sources of U.S. oil imports, it's obvious that the energy security benefit of that $30 billion investment is symbolism without substance, even if one views oil imports with alarm.*

(Estimates in billions of gallons per year)

	2008	2010	2015
Current federal ethanol policy	9.0	12.0	15.0
Competitive market (EIA estimate)	8.7	9.6	9.8
Increased ethanol—current policy	.3	2.4	5.2
Adjustment for ethanol's lower BTU content	.2	1.6	3.5
Total U.S. petroleum imports	176.4	180.6	191.9
Ethanol as a pctg of those imports	.1	.9	1.8

FIGURE 3.1 Ethanol Use Under Current Federal Corn Ethanol Policy Compared to a Competitive-Market Policy

Sources: Department of Energy (DoE)/EIA (Environmental Information Administration), 2008 "Annual Energy Outlook," June 2008; DoE/EIA, "Energy and Economic Impacts of Implementing a 25% Renewables Portfolio Standard and a Renewable Fuels Standard by 2025," Reference Case, Table 11, September 2007.

* In *The Energy Security Obsession*, Jerry Taylor and Peter van Doren of the Cato Institute argue that "worries about [oil] producer blackmail are only a bit less far-fetched than worries about an alien invasion." They also find no evidence of a relationship between Saudi oil profits and the number or lethality of Islamic terrorist incidents.

Tagged as: American Automobile Association, Benjamin Cardin, Bruce Babcock, Congressional Budget Office, Daily Fuel Gauge Report, Department of Transportation, Diane Feinstein, epa, ethanol, Food and Agricultural Policy Research Institute, Jim Web, Joe Fargione, Ken Glozer, S. 520, S. 530, tim searchinger, Tom Coburn, VEETC, Waxman Markey

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