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Ethanol Subsidies: $10 A Gallon And $14 Million Per Job Created; Irresponsible' subsidy for inefficient alt-fuel added to Senate tax bill

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Here's the bottom line for the ethanol tax credits additive to the White House-GOP tax compromise:

** $6 billion in subsidies for 2011.

** $10 per extra gallon of ethanol.

** $14 million per extra job.

** $1.2 billion to attract one extra Senate vote.

In a season of giving in Washington, the ethanol lobby may come away with even more than it hoped for and its ardent defenders sought.

The Senate version of the $858 billion tax bill unveiled late Thursday -- just a week after Sen. Max Baucus, D-Mont., proposed extending the ethanol tax credit at a reduced 36 cents a gallon -- would keep the current 45-cent credit.

The Renewable Fuels Association had praised the Baucus approach for "recognizing the importance of this investment and providing some market stability as good faith efforts to responsibly reform ethanol tax policy."

That concession came after a bipartisan group of 17 senators led by Dianne Feinstein, D-Calif., and Jon Kyl, R-Ariz., penned a letter arguing that ethanol subsidies are "fiscally irresponsible and environmentally unwise."

It also followed former Vice President Al Gore's recent reversal of his long backing of corn ethanol. Declaring the subsidies bad policy, Gore admitted that his presidential ambitions had skewed his motivations and had made him feel a "certain fondness for the farmers in the state of Iowa."

Nevertheless, thanks to 11 th-hour horse-trading that restored the full 45-cent credit, the tax bill may be able to count on one extra vote to clear the Senate's 60-vote hurdle on Monday: Iowa Democrat Tom Harkin.

"The only way this (ethanol deal) gets done is by tucking it into something big so people can't see it," said Franz Matzner, climate legislative director at the Natural Resources Defense Council.

He notes that "70 cents of every renewable energy dollar" appropriated by Congress go to corn ethanol, an alternative fuel with "questionable benefits."

Despite the latest victory for the industry, Matzner believes the politics are shifting against it, noting that until recently, the ethanol lobby had been seeking a five-year extension of the tax credit worth $31 billion.

Extending ethanol subsidies at a cost of $6 billion for one year would result in an extra 600 million gallons, putting the subsidy at $10 per incremental gallon, according to recent projections from Iowa State University's Center for Agricultural and Rural Development.

$6 Bil For 420 Jobs

Center director Bruce Babcock said in an e-mail that each 100 million gallons of ethanol creates 70 jobs. Thus, 600 million gallons would result in 420 jobs, or about $14 million per job.

Feinstein and Kyl highlighted this finding in their letter. They also note that ethanol may be the only product that benefits from all three forms of government support: subsidies, tariffs to protect it from competition, and mandates that require its use.

In addition to a 45-cents-a-gallon ethanol tax credit, there is a 54-cents-a-gallon import tariff on sugar-based ethanol and a mandate that oil companies use 12.6 billion gallons of ethanol in their fuel supply in 2011.

If the tax credit and tariff were eliminated, Babcock estimates the mandate would limit any reduction in output to 600 million barrels of ethanol.

If the mandate were also suspended, that would lower ethanol production by 1.7 billion barrels, costing about 1,200 jobs. Meanwhile, corn prices would drop from $5.21 to $3.84 per bushel, at a time when food prices have been on the rise.

Cornell University agricultural economist and Cato Institute scholar Harry de Gorter contends that while ethanol displaces some demand for oil, the resulting drop in oil prices pulls back much of that demand.

Using Babcock's figure of $10 per incremental gallon of ethanol, which de Gorter believes is understated, he puts the subsidy cost per displaced gallon of gas at $30.

Feinstein and Kyl also highlighted the 54-cent tariff on sugar-based ethanol, which is more environmentally friendly the corn-based variety. Because the tariff is greater than the 45-cent credit it is designed to offset, it "puts imported ethanol at a competitive disadvantage against imported oil," they wrote.

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