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The Federal Government's Biodiesel Mandate Ensures Higher Prices All Around

By: Robert Bradley Jr. – December 17th, 2012

On January 1, the Renewable Fuel Standard (RFS), known colloquially as the ethanol mandate, automatically ratchets up, requiring American agriculture/energy producers to generate even more "renewable" transportation fuels. The 2013 requirement, 1.28 billion gallons of biodiesel, is a 28 percent increase over 2012.

Created in 2007, the RFS was mandated on the pretext of reducing both carbon emissions and U.S. dependence on foreign oil. Five years later, with reality contradicting both goals, and with a slew of unintended negative consequences, the whole program is in trouble.

Like the electricity side of the Obama Administration's energy plan, the RFS mandate has entered that rarified space even for government programs, boondoggle. Congress should abolish the RFS—or at least wave the higher 2013 requirement. Agricultural inputs should go for food, not fuel, just as the marketplace would otherwise dictate.

Environmental groups disparage biofuels for a production cycle that creates more emissions than is saved by the final product. It makes sense: so much land, irrigation, and fuel for so little corn ethanol.

Economically, artificially-created fuel demand for corn, soybean oil, grease, and other inputs drives up the input prices for food and consumer products such like french fries, soaps, detergents, hair conditioners, eggs, dairy, and sweeteners. Your grocery store bill, in other words, is higher because of what that sign says at the pump: "This product may contain up to 10% ethanol by volume."

Corn prices have increased significantly in recent years from this double-demand. And that's just the beginning. The Environmental Protection Agency (EPA) has found that "increases in the use of animal fats to produce biofuel could increase the price of those animal fats and/or reduce their availability for the production of oleochemicals" — that is, basic chemicals used in consumer products.

Looking ahead with the new mandate, EPA estimates costs exceeding benefits by as much as$425 million. The very organization responsible for running federal environmental policy has deemed the biodiesel mandate a public-interest failure.

The effects of the Midwest drought this summer were worsened by the fuel mandate. Without a requested waiver of the ethanol rule, corn prices soared 55 percent since mid-June.

The drought effects are likely to linger well into next year. A recent analysis from the Texas A&M'sMosbacher Institute, written in support of an ethanol waiver, studied a dozen of the worst American droughts since the 1920s. For eight of them, crop yields the year after the drought did not fully rebound.

More food-price increases are coming (no) thanks to the 2013 mandate. In addition to higher costs for grocery stores, Price WaterhouseCooper estimatesthat the RFS by 2015 will increase food costs of quick-service restaurants by $2.5 billion and full-service operations by up to $691 million. Those costs have to be passed on for these establishments to remain in business.

Who lobbies for and benefits from the biodiesel boondoggle? Companies like the BioFuel Energy and Archer Daniels Midland, well organized as the National Biodiesel Board and subsidiary groups, welcome their government-dictated business. Their message resonates well with the Obama administration that has long forgotten its hope-and-change agenda.

Ending or relaxing the biodiesel mandate will end the food-for-fuel boondoggle. The good news is that higher oil/gasoline requirements will be meet by more supply to moderate pump prices. Because of a technology boom, the U.S. Energy Information Administration predicts domestic crude oil production will be 7.1 million barrels a day in 2013 — about a 10 percent increase over 2012. This expansion in supply will drop the average per-gallon price at the pump to $3.43.

Back in 2007, the RFS's biodiesel mandate seemingly had a public-interest rationale. But now, with five years worth of evidence, it's clear this rule is a failure economically and environmentally. It should be scrapped, not ratcheted up in 2013.