After 30 Years of Federal Subsidies, Ethanol Can Go it Alone
By Joel Velasco

Corn-based ethanol has been America's leading bio-fuel for more than 30 years and has blossomed into a thriving business.

American farms and refineries now generate half of all ethanol produced around the globe.

Despite being a mature and profitable industry, corn ethanol producers are lobbying hard to extend perks they have enjoyed for three decades. The debate is heating up on Capitol Hill because the two main subsidies - a tax credit for blending ethanol with gasoline and an import tax on foreign ethanol, particularly Brazilian sugarcane ethanol - expire at the end of the year.

A diverse group of critics - including meat producers, anti-hunger activists, taxpayer advocates, free-market groups and environmental organizations - argue the subsidies are unnecessary and expensive.

These strange bedfellows, who rarely agree on much else, are urging Congress to reform the existing ethanol policies. Defenders of the subsidies counter that the United States would suffer catastrophic job losses without them, domestic bio-fuel production would plummet and America would become more dependent on foreign energy.

To learn what would really happen, Americans have only to turn to leading agricultural economists at Iowa State University, in the heart of corn country. The researchers at Iowa State found consumers would benefit from ending the tax credit and trade protection. Key findings from the study, which was published last month, included:

• Elimination of the subsidies would have practically no short-term impact on U.S. corn and ethanol demand. That's because Congress already mandates the use of renewable fuels like ethanol, and those requirements will triple from 13 billion gallons today to 36 billion gallons by 2022. As a result, corn ethanol production would continue to increase to 14.5 billion gallons by 2014 even without tax credits or tariffs.

• In a time of soaring budget deficits, $6 billion annually is real money. Ending the ethanol subsidies would save that amount. Yet some Washington politicians want to spend an additional $30 billion for five more years of subsidies to corn ethanol

• The study estimates that without continued subsidies ethanol producers would lose only about 300 jobs in 2014 - an estimate that's miles away from the corn lobbyists' dire warnings of losing up to 160,000 jobs. Spending $6 billion per year to save perhaps 300 jobs is a high price to pay - $20 million per year for each job lost!

• Because of strong demand in Brazil - the world's second-largest ethanol market - imports are constrained and would rise only modestly to about 740 million gallons in

2014 - less than 5 percent of the total U.S. Market.

• Ending the subsidies would reduce ethanol prices by 12 cents per gallon in 2011 and 34 cents per gallon in 2014. Because most gas sold in the United States contains 10 percent ethanol - a limit the Environmental Protection Agency may increase to 15 percent this fall - lower, non-subsidized ethanol prices would lead to modest savings at the pump.

The bottom line is that competition works. The market for corn-based ethanol will still grow. Productive farmers and ethanol refiners will keep their jobs. But Americans also would have access to clean and affordable sugarcane ethanol. American consumers and taxpayers will benefit.

Brazil ended government subsidies for ethanol more than a decade ago and eliminated its ethanol tariff early this year. It is time for America to do the same. As the world's top producers of ethanol, the United States and Brazil should lead by example in creating a free market for clean, renewable energy.

Consumers win when businesses have to compete in an open market, because competition produces higher quality products at lower costs. The same principle holds true for renewable fuels. Competition will create a race to the future and generate better alternatives for all Americans.

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