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Glaring Hypocrisy in U.S. Ethanol's Subsidized Exports
By Joel Velasco

With gas prices up nearly 8% since Labor Day, ethanol profits soaring and a lame-duck Congress mulling over potential energy legislation, news surfaced this week that may well put the $6 billion per year ethanol subsidies and tariff in final jeopardy. According to reports from *CNN Money* and *Financial Times*, rising U.S. ethanol exports are being subsidized by the current tax credit. What that means is American taxpayers are paying hard earned money to lower prices at the pump for Europeans and other drivers around the world.

The U.S. rarely exported ethanol in the past, but that trend definitely changed this year. Recent projections show the corn ethanol industry is on track to export a record 350 million gallons in 2010, so U.S. taxpayers could spend $150 million subsidizing ethanol that ultimately gets shipped overseas.

The stated purpose for the tax credit has always been to incentivize the use of American-made ethanol by American consumers. The news that subsidized ethanol is finding its way to foreign countries undercuts this rationale and exposes a glaring hypocrisy – that U.S ethanol producers are profiting handsomely from global trade, but they refuse to let go of a 30-year-old trade barrier here at home that shields them from competition. Plus, there's the question of whether it's legal. Export subsidies are prohibited under World Trade Organization rules.

Unsurprisingly, the domestic industry has been mum on the subject – except for a few combative exchanges on Twitter. But at yesterday's Cellulosic BIofuels Summit 2010, I had the chance to ask both the Renewable Fuels Association (RFA) and Growth Energy if they defended the use of these export subsidies and if not, how they would reform the current program. Much credit to RFA's President Bob Dinneen for speaking up. On the other hand, Growth Energy's President Jim Nussle kept quiet. Dinneen provided the following response, which you can also download here.

Bob Dinneen: *I saw the Financial Times report as well, I think it's important to appreciate that I don't think it's producers that are doing this - there may be some traders that are and it's not at all clear just to what extent it is occurring. No, it shouldn't happen and if there's things that we need to do to address that situation, I think we'd all be willing to. But I think we ought to..we would be wise I think to learn a little bit more about what's actually happening than respond to a Financial Times hyperbolic report.*

It's not often you hear the Financial Times described as "hyperbolic." Dinneen is playing dodge ball with the issue too. While the immediate members of RFA's board can deny capitalizing on export subsidies, they continue to vigorously defend the very program that fuels this bad habit. So the larger question remains – with subsidized exports booming, why does the domestic ethanol industry continue to call for trade barriers at home? It's a gross double standard that distorts the market and denies consumers access to cleaner, more affordable alternatives like sugarcane ethanol from Brazil.

Free trade is a two-way street and competition in the marketplace will create a race to future with biofuels. Brazil took the first step earlier this year by removing its tariff on imported ethanol. The lame-duck Congress has a great opportunity to level the playing field once and for all so consumers benefit.

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