



## **Should Obama Back Ethanol Subsidies?**

**By Joel Velasco**

*This week, the National Journal's Energy & Environment Expert's blog posed the question of whether or not the White House and Congress should incentivize corn-based ethanol in the transportation sector. Our answer details why the best thing President Obama and Congress could do for ethanol policy this year is nothing.*

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Tax credits and import tariffs probably made sense in 1980 to foster the nascent ethanol industry, and the policies have unquestionably worked. America's corn ethanol has blossomed into a thriving business with booming exports to other countries and now accounts for half of all ethanol produced around the globe. But 30 years later, the time has come to remove the industry's training wheels and promote market competition.

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Brazil made such a move two decades years ago by ending its ethanol subsidies. And the South American country took another important step towards building an open and global biofuels marketplace earlier this year by eliminating its tariff on imported ethanol. 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 fuel.

Predictably, defenders of the status quo argue that the United States would suffer catastrophic job losses without the subsidies, domestic biofuel production would plummet and America would become more dependent on foreign energy. To learn what would really happen, the Brazilian Sugarcane Industry Association (UNICA)



turned to leading agricultural economists at Iowa State University for objective answers. Their study, which was published this summer, found that Americans would actually benefit from ending the tax credit and trade protection. Those benefits include:

- **Lower Fuel Prices.** Ending the tax credit and tariff 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% ethanol – and the Environmental Protection Agency just increased that limit to 15% for newer vehicles – lower ethanol prices would lead to savings at the pump for all drivers.
- **Taxpayer Savings.** In a time of soaring budget deficits, \$6 billion annually is real money. Ending the ethanol subsidies would save taxpayers that amount.
- **Clean Energy Diversity.** Americans would gain greater access to Brazilian sugarcane ethanol – a clean and affordable renewable fuel that reduces greenhouse gas emissions by 60% compared to gasoline.

The Iowa State study also found that 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, American corn ethanol production would continue to increase to some 14.5 billion gallons by 2014 (even without tax credits or tariffs) meaning productive farmers and ethanol refiners in the U.S. will keep their jobs. And far from becoming dependent on foreign ethanol, Iowa State estimates that sugarcane ethanol would supply about 5% of America's needs in 2014.

Turns out Econ 101 has it right. 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. Because of the renewable fuel standard, the market for corn ethanol will still grow without the tax credits and trade protection. Productive farmers and ethanol refiners will keep their jobs. But allowing other alternative fuels like sugarcane ethanol to compete fairly in the U.S. would save Americans money, cut dependence on Middle East oil and improve the environment."

More on U.S. subsidies and the tariff on imported ethanol, on Sweeter Alternative website.

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