

WebMemo



Published by The Heritage Foundation

No. 1925
May 15, 2008

Time to Repeal the Ethanol Mandate

Ben Lieberman and Nicolas Loris

Though intended to help consumers and reduce greenhouse gas emissions, the ethanol mandate has done just the opposite, contributing to high food and gas prices with little environmental benefit. Representative Jeff Flake (R-AZ) has introduced H.R. 5911, the Remove Incentives for Producing Ethanol Act of 2008, which would eliminate the mandate and other benefits for ethanol, and other measures may soon be introduced.

A return to a free market for ethanol would be a welcome step. Congress should eliminate the ethanol mandate, ethanol-related tax breaks, and protectionist tariffs that keep out potentially cheaper foreign supplies.

A Growing Mandate. Renewable fuels, and particularly corn-ethanol, have long enjoyed preferential treatment from the federal government. This includes a tax credit worth \$0.51 per gallon. In addition, tariffs discourage imports of ethanol, including potentially cheaper sugar cane-based ethanol from Brazil.

Yet the ethanol industry still wanted more, and Congress, concerned about high gas prices, global warming, and domestic energy production, enacted a mandate. The 2005 energy bill contained the first-ever requirement that renewable fuels be mixed into the gasoline supply. The 2007 energy bill increased the mandate substantially. The U.S is now committed to using 9 billion gallons in 2008, rising to 36 billion by 2022.

Ethanol and Fuel Costs. With pump prices rising to record levels, consumers are not seeing the

promised benefits from ethanol use. Proponents of the mandate insist that without ethanol, prices would be even higher, but this is not likely.

The logistical and regulatory costs of mixing ethanol into the fuel supply raise the cost of driving beyond the level imposed by plain gasoline usage. Unlike gasoline, ethanol cannot be shipped via pipelines and must be transported via rail, barge, or truck. Ethanol use also complicates compliance with some Environmental Protection Agency regulations for gasoline, especially those designed to fight summer smog. Most significantly, as the American Automobile Association and others have pointed out, ethanol use lowers fuel economy.¹

Ethanol and Food Costs. Diverting corn from food to fuel use has raised food prices. At a little over \$2 per bushel when the 2005 energy law was signed, the price of corn has surged above \$5 per bushel, primarily because a quarter of the crop is now used to produce energy. A host of corn-related foods, such as corn-fed meat and dairy, have seen sharp price increases. Farmers, realizing the benefits to be derived from producing corn, are switching from soybeans and wheat, reducing the supply and contributing to the price rise.

This paper, in its entirety, can be found at:
www.heritage.org/Research/EnergyandEnvironment/wm1925.cfm

Produced by the Thomas A. Roe Institute
for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002-4999
(202) 546-4400 • heritage.org

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For corn farmers, the mandate has exceeded their wildest dreams, but for consumers, it has been an expensive hit—higher costs to drive to the supermarket and higher prices once you're there. A recent study from Purdue University puts the added food cost from the renewable mandate at \$15 billion in 2007—about \$130 per household.² The impact thus far in 2008 is even higher.

The effects of America's ethanol policy, as well as similar food-for-fuel policies in Europe, are felt globally. Several United Nations and anti-hunger organizations have weighed in heavily against current policies. World Bank President Robert Zoellick has acknowledged that "biofuels is no doubt a significant contributor" to high food costs, adding that "it is clearly the case that programs in Europe and the United States that have increased biofuel production have contributed to the added demand for food."³ There has been food-related rioting in several developing nations.⁴ Although a number of factors have led to this, biofuels mandates are undeniably a contributor and exacerbate any other pressures on food prices.

Repealing the ethanol mandate would have an immediate effect on food prices. A study conducted by the International Food Policy Research Institute found that placing a moratorium on biofuels in 2008 would decrease corn prices by 20 percent and wheat prices 10 percent by 2009–2010.⁵ The faster

Congress acts, the quicker consumers will see a drop in food prices.

Ethanol and the Environment. Ethanol was promoted in part for its claimed environmental benefits: lower pollution and reduced greenhouse gas emissions relative to gasoline. That is why the growing chorus of environmentalist criticism of the mandate is particularly noteworthy.

Many environmental organizations have raised concerns about the increased inputs of energy, pesticides, and fertilizer needed to grow more corn.⁶ The same is true for the stress on water supplies, especially now that corn production is being expanded in locales where rainfall is insufficient and irrigation is needed.⁷ Even land that is now protected under federal conservation programs may soon be cleared for corn.⁸

Even worse is the turnabout on the major environmental issue of the day: climate change. Proponents of ethanol and other biofuels claimed that they are responsible for lower carbon dioxide and other greenhouse gas emissions than the gasoline they displace, but several recent studies challenge this assertion and argue that biofuels increase such emissions.⁹ Oxfam, an international aid organization, argues that "large-scale growth in biofuels demand has pushed up food prices and so far there is little evidence that it is reducing overall carbon emissions."¹⁰

1. See AAA, "Daily Fuel Gauge Report," at <http://www.fuelgauge.com>.
2. Corinne Alexander and Chris Hurt, "Biofuels and Their Impact on Food Prices," Purdue University, September 2007, at <http://www.ces.purdue.edu/extmedia/ID/ID-346-W.pdf>.
3. NPR, "World Bank Chief: Biofuels Boosting Food Prices," April 11, 2008, at <http://www.npr.org/templates/story/story.php?storyId=89545855>.
4. *Ibid.*
5. Missy Ryan, "Biofuels halt would ease food prices," April 29, 2008, at <http://www.guardian.co.uk/feedarticle?id=7492008>.
6. See Paul Rauber, "Decoder: Corn-fed Cars, Detroit's Phony Ethanol Solution," *Sierra*, January/February 2007, at <http://www.sierraclub.org/sierra/200701/decoder.asp>.
7. See Environmental Defense Fund, "Potential Impacts of Biofuels Expansion on Natural Resources: A Case Study of the Ogallala Aquifer Region," 2007, at <http://www.edf.org/page.cfm?tagID=1550>.
8. *Ibid.*, p. 1.
9. Joseph Fargione *et al.*, "Land Clearing and the Biofuel Carbon Debt," *Science*, Vol. 319 (February 29, 2008), pp. 1235–1238; Timothy Searchinger *et al.*, "Use of U.S. Croplands for Biofuels Increases Greenhouse Gases Through Emissions from Land-Use Change," *Science*, Vol. 319 (February 29, 2008), pp. 1238–1240.
10. Press release, "Oxfam and Care call for fundamental changes in tackling global hunger and food prices hikes," April 18, 2008, at http://www.oxfam.org.uk/applications/blogs/pressoffice/2008/04/oxfam_and_care_call_for_fundam.html.

Conclusion. Policymakers are rightly beginning to reconsider whether biofuels are worth the cost. Ethanol policy has contributed to a rise in energy and food costs, both domestically and internationally. Moreover, ethanol has damaged—not protected—the environment.

The anti-consumer and environmental impact can only get worse. Even many long-time critics of ethanol mandates did not expect serious problems to arise this soon. We are only one-quarter of the way toward the 36 billion-gallon mandate. More corn will have to be devoted to ethanol production—up to 15 billion gallons annually—and then the rest of the mandate will have to be met through fuels like cellulosic ethanol that currently are even more expensive.

It should be noted that there is little to no downside risk in repealing the ethanol mandate, as well as the generous tax credits and protectionist tariffs that also tilt the playing field in favor of corn ethanol use. To the extent that there is a valid economic case for fuel ethanol, it will continue to be used even in the absence of government dictates and incentives.

The lesson seems clear: The consequences of the ethanol mandate have had detrimental effects on both the economy and the environment. Congress should take a hard, honest look at America's ethanol policy, and the mandate should be repealed, along with the tax breaks and protectionist tariffs.

—*Ben Lieberman is Senior Policy Analyst for Energy and Environment and Nicolas Loris is a Research Assistant in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.*