

U.S. ethanol policy: Fact and fiction

This year the U.S. taxpayer will be asked to spend \$6 billion dollars in refundable tax credits (tax credits that provide financial support above what a company would initially be taxed) on corn ethanol based on the misguided claims that this dirty biofuel benefits the environment, the economy and energy security. Below we ask questions based on common assertions that corporate ethanol champions make and answer them with the true facts.

Is ethanol good for the environment?

No. Producing ethanol requires a number of different polluting inputs, such as fertilizers, water, fossil energy for transportation and powering, etc., in order to grow the feedstock and refine the ethanol. Between the significant land footprint for increased crop production for biofuels, the agrochemicals used on the crops, the energy needed to power farm machinery and the ethanol plant, and the water demand, the environmental impact of ethanol is significant. Also, EPA's own data found that on a full life cycle basis, corn ethanol is worse for global warming than gasoline!¹

Do conventional ethanol subsidies benefit family farms?

No. The largest ethanol subsidy is the Volumetric Ethanol Excise Tax Credit, and will cost the U.S. taxpayers over \$6 billion dollars this year.² This subsidy pays oil refiners to blend ethanol into gasoline. Oil companies such as BP receive significant amounts of ethanol subsidies — their own website notes that they blended 1 billion gallons of ethanol in the year 2008³, meaning they could have received some \$500 million dollars in U.S. taxpayer dollars for this action alone. According to the American Coalition for Ethanol, only 20 percent of the ethanol we use today comes from farmer-owned ethanol plants.⁴ It is unclear how many of these qualify as small or family farms.

Do conventional ethanol subsidies create jobs?

No. Economists, including ethanol supporter Bruce Babcock at the University of Iowa, have shown that eliminating tax credits for blending ethanol does not really result in a significant amount of ethanol produced — and therefore, if the credit was eliminated, it would not result in significant job loss. According to Babcock, if VEETC was not in effect this year, a little over 400 jobs could be lost in 2011.⁵ In other word, we're currently paying out some \$6 billion dollars each year for around 400 jobs — at a cost of around \$15 million per job! In addition, rising cost of feed for animal agriculture is resulting in job losses in the agricultural sector.

Do U.S. ethanol policies reduce oil imports and increase national security?

No. Ethanol policies barely reduce oil consumption. According to Ken Glozer, Former Deputy Associate Director of the Office of Management and Budget, in 2010 U.S. ethanol consumption represented less than one percent of the more than 180 billion gallons of oil imported last year.⁶ On the flip side, increased food prices as a result of competition for land between food production and fuel production has resulted in global food insecurity and increasing numbers of hunger riots.⁷

1 Emissions Results." Document ID: EPA-HQ-OAR-2005-0161-3173.5. (Please refer to summary sheet and emissions data for the year 2012). <http://www.regulations.gov/#documentDetail:D=EPAHQ-OAR-2005-0161-3173.5>, page viewed 4/7/2011.

2 Derived from figures on EIA Annual Energy Outlook (http://www.eia.doe.gov/oiaf/aeo/aeoref_tab.html; page viewed 4/7/2011) and multiplied by cost of credit per gallon of ethanol blended.

3 BP. "BP and Verenium Form Leading Cellulosic Ethanol Venture to Deliver Advanced Biofuels." Media Release, February 18, 2009. <http://www.bp.com/genericarticle.do?categoryId=2012968&contentId=7051362>, page viewed 4/7/2011

4 Plants for Contributions to U.S. Ethanol Industry." Media Release, Sioux Falls, SD, March 18, 2010. http://www.ethanol.org/pdf/contentmgmt/ACE_commends_former_plants_Natl_Ag_Week_31810.pdf, page viewed 4/7/2011.

5 Bruce A. Babcock, Kanalya Barr, and Miguell Carriquiry. "Costs and benefits to Taxpayers, Consumers and Producers from U.S. Ethanol Policies." Center for Agricultural and Rural Development, Iowa State University, Staff Report, July 2010, p. 32. <http://www.card.iastate.edu/publications/synopsis.aspx?id=1140>, page viewed 4/7/2011.

6 Ken Glozer. Corn Ethanol: Who Pays? Who Benefits. Hoover Institute Press and Publication, Stanford, CA, 2011, p. 75.

7 For Example: Elizabeth Rosenthal. "Rush to Use Crops as Fuel Rises Food Prices and Hunger Fears." New York Times, 4/7/2011, page A1 of New York Edition. <http://www.nytimes.com/2011/04/07/science/earth/07cassava.html?partner=rss&emc=rss>, page viewed 4/7/2011.



Is conventional ethanol a cost-efficient way to reduce oil consumption?

No. The cumulative cost of U.S. ethanol policy born by taxpayers and fuel consumers is enormous. In a report for Friends of the Earth, Douglas Koplow of EarthTrack found that from 2006 through 2022, U.S. ethanol policies will subsidize the corporate ethanol industry by more than \$200 billion dollars.⁸ The Congressional Budget Office found that it costs taxpayers \$1.78 in tax subsidies to displace a gallon of petroleum oil with corn ethanol — this doesn't even cover the market costs of the RFS mandate for consumers.⁹

Will subsidies for conventional ethanol and ethanol pipelines lead to better biofuels?

No. U.S. biofuel policies are for the large-part supporting a single biofuel: corn ethanol. Despite decades of rhetorical claims about a burgeoning cellulosic ethanol industry, according to EIA data, this year, 97 percent of ethanol consumed in the U.S. will be produced from corn or other starch.¹⁰ This is likely because we spend billions of dollars in tax subsidies each year on supporting corn ethanol rather than investing in next-generation fuels. Likewise, building pipelines from Iowa to the coasts to ship ethanol will serve primarily to lock in dirty corn ethanol, and lock out cleaner energy alternatives. Even industry spokespeople have referred to advanced biofuels as “unicorn tears, pixie dust and other fictional fuels.”¹¹



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⁸ Douglas Koplow. “A Boon to Bad Biofuels: Federal Tax Credits and mandates Underwrite Environmental Damage at Taxpayer Expense.” Friends of the Earth and EarthTrack, April, 2009, p. 23. <http://www.foe.org/sites/default/files/FOE%20VEETC%20Evaluation%20FINAL.pdf>, page viewed 4/7/2011.

⁹ Congress of the United States Congressional Budget Office. “Using Biofuel tax Credits to Achieve Energy and Environmental Policy Goals.” A CBO Study, July 2010, p. 7. <http://www.cbo.gov/ftpdocs/114xx/doc11477/07-14-Biofuels.pdf>, page viewed 4/7/2011.

¹⁰ U.S. Energy Information Administration. “Annual Energy Outlook 2011 with Projections to 2035.” Table 17. “Renewable Energy Consumption by Sector and Source.” http://www.eia.doe.gov/oiaf/aeo/aeoref_tab.html, page viewed 4/6/2011

¹¹ Matt Hartwig. “Hypocrisy in the name of the planet.” The E-xchange, Renewable Fuel Standard Blog, October 27, 2010. <http://www.ethanolrfa.org/exchange/entry/hypocrisy-in-the-name-of-the-planet/>; page viewed 4/7/2011