Ethanol Industry Adjusts To Changing Political Challenges

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Some in the livestock industry point the finger at ethanol for higher feed prices, grocery manufacturers want to blame ethanol for higher food prices and some in the media blame ethanol for stirring unrest overseas. But for most of the last three decades, policymakers with cooler heads have prevailed, citing national security and economic concerns as their motives for supporting the development of domestically-grown renewable fuels like ethanol.

As such, the U.S. ethanol industry has enjoyed decades of strong political support, especially in the 29 states across the Midwest where the majority of the plants are located and over 70,000 people are directly employed. Production has grown steadily, especially with the Energy Independence and Security Act (EISA) of 2007 which increased the volume of renewable fuel required to be blended into transportation fuel from 9 billion gallons in 2008 to 36 billion gallons by 2022.

However, that doesn't mean the challenges or the critics are likely to go away anytime soon. In fact, some of the critics are stirring the anti-ethanol pot like never before.

Case in point: After four days of debate over a continuing resolution that would fund the federal government until the end of fiscal 2010, Rep. John Sullivan (R-OK) succeeded in blocking funds for the Environmental Protection Agency to implement the move to E15 blends. Sullivan's amendment, which would prohibit EPA from allowing blends to increase from 10 percent to 15 percent on about 150 million light duty vehicles by 2012, passed by a whopping 285-136 margin.

Another amendment, by Rep. Jeff Flake (R-Ariz), which would stop funding for development of new blender pumps and other ethanol infrastructure, passed by 261-158.

Message for ethanol industry?

So does this mean that the industry is finally losing some of its clout? Not exactly.

If the votes against ethanol would have been two of only 10 amendments, rather than two out of over 100 amendments considered into the wee hours of a Saturday morning, it might have been more worrisome, says National Corn Growers Association Vice President of Public Policy Jon Doggett. And more importantly, many of the House members who voted for $61 billion in cuts in that continuing resolution understand that the Senate is unlikely to go along.

But Renewable Fuels Association President and CEO Bob Dinneen says the vote should serve as a "clarion call and a warning call as to the challenges we are facing today." Dinneen said the obstacles to meaningful market penetration for E15 are "great and not going away."

Indeed, the challenges facing the ethanol industry are "as vexing and complicated as any we have every faced," emphasized Dinneen during his annual "State of the Industry" speech at the RFA's recent annual meeting.

"We need to unite. We need to focus our agenda; this is not a time for a wish list. We need to develop the technical support Congress will demand. And we need to go to Capitol Hill, speaking as one voice, educating the more than 100 new Members of Congress that are new to this debate and may only have learned about ethanol from the pages of the Wall Street Journal," said Dinneen.

"If we do that, as we have when facing the insurmountable opportunities of the past 30 years, we will succeed again. If we don't, we will miss a critical opportunity to move this nation further away from imported energy."

In addition to indirectly creating and saving more than 400,000 U.S. jobs, the U.S. ethanol industry also helping improve the U.S. trade balance. Domestic firms exported a record 350 million gallons of ethanol last year, with product going to Europe, Canada, and Asia as well as, surprisingly, Brazil, the United Arab Emirates and Saudi Arabia.

"American ethanol is now being used to fuel the limos of Middle East oil sheiks and South American sugar barons. Somehow, that warms my heart," Dinneen.

Changes ahead

Still, the industry understands that many lawmakers want to cut federal spending and tax incentives for ethanol will not be immune. Last December, Congress extended, for one year, the Volumetric Ethanol Excise Tax Credit – VEETC- which provides blenders with a $.45 credit for every gallon of ethanol blended into gasoline.

"The message from that debate was unambiguous. Our industry needs to work with Congress and the Administration to reform the tax incentive moving forward," Dinneen emphasized.

The Capitol Hill veteran wants to see the discussion about ethanol incorporated into a broader conversation about all motor fuel tax policy – and all energy tax policy in general.

"We must address the permanency of tax incentives for very mature and profitable energy industries with the "extenders game" played with renewable energy technologies. We need to determine how best to insulate consumers and producers from the wild gyrations of the world oil market. We need to encourage investments in infrastructure and flex fuel vehicles such that consumers are finally empowered to make the energy choices right for them and their vehicles. And we need to be discussing how we can finally and assuredly commercialize new technologies using new feedstocks, and continue the evolution of the biofuels industry such that it is sustainable, both environmentally and economically," he explained.

Dinneen says that, "if the still emerging biofuels industry is doing its part to reduce government debt, then the entrenched petroleum subsidies are on the table as well. After all, it's more than just market access that will determine our future; it is market economics first and foremost."

Several different proposals have been floated to reform the ethanol tax incentive, including:

• A refundable producer tax incentive
• An incentive linked only to gallons above the Renewable Fuels Standard (RFS) obligations
• An incentive for only mid-level ethanol blends and E85
• A phase down of the incentive while phasing in mandates for flex fuel vehicles and blender pumps
• A carbon-based performance credit
• A variable tax incentive tied to the price of oil and/or crush margins

Industry leaders representing corn, cellulosic feedstocks, RFA and Growth Energy have been discussing the options for weeks and hope to forge a united position that they can take to Congress this spring. But as always, the devil is in the details and forging a consensus within the industry has not been an easy process.

"Frankly, each of these has both advantages and disadvantages," emphasized Dinneen. "But we must allow a dispassionate debate, based on fact and market analysis, and guided by political reality.

"We should avoid the pettiness of whose idea it is, and focus on what will be best for the industry and the taxpayer," Dinneen added. "Ultimately, the arbiter will be Congress, and we will all have to live with the consequence." Δ

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