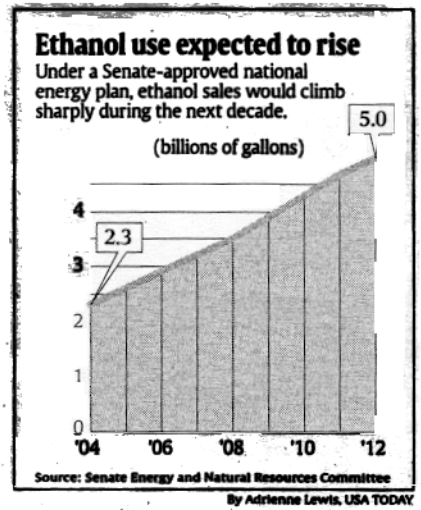
Despite grand plans, ethanol falls short as 'miracle fuel'

Our view:

Senate calls for more production. Pollution, prices may rise.



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Ethanol makes up just 1.2% of the nation's gasoline supply, and its production employs just 0.1% of the nation's workforce. But in Washington, the renewable fuel is increasingly sold on both sides of the political aisle as a magic elixir for the nation's energy, economic and environmental woes. And the unbridled enthusiasm could cost consumers at the gas pumps for a product that hasn't proved it can live up to supporters' claims.

As President Bush put it in April, the fuel, derived mainly from corn, is "good for our air, it's good for our economy, and it's good for our national security." Senate Majority Leader Tom Daschle, D-S.D., called ethanol the "cornerstone of any sensible plan for American energy independence."

Yet with seemingly so much in its favor, the ethanol industry needs an extraordinary amount of federal hand-holding. For years, it has received a 53-cent-per-gallon taxpayer subsidy to make it cost-competitive with gasoline. It got a sales boost thanks to the 1990 Clean Air Act amendments, which require a gasoline additive such as ethanol in areas plagued by dirty air.

Now ethanol is poised for its biggest score — a federal mandate that would require using 5 billion gallons of ethanol in the nation's gasoline by 2012, triple today's ethanol use. The mandate is part of a much broader Senate energy bill passed late last month.

The mandate would be great for the ethanol industry, sending billions of dollars into the nation's farm belt and creating jobs for corn growers and ethanol producers. It also marks a healthy return on years of political donations. Archer Daniels Midland, which accounts for 40% of ethanol production, has given more than $6 million to campaigns since 1990.

Less clear is the public benefit.

▸ **Environmental gains questionable.** Despite hype from the industry, ethanol's air-quality credentials are mixed. A National Research Council study found that adding ethanol to gas in the summer could increase smog. A report commissioned by the Environmental Protection Agency found that burning ethanol boosts emissions of acetaldehyde, a toxic air pollutant. Refiners say they can cut other toxic emissions from gasoline without necessarily adding ethanol.

▸ **Energy savings negligible.** Even under the mandate, ethanol would replace just 3% of oil imports. And that assumes oil isn't used in ethanol harvesting and processing machines. If it is, expanding ethanol use might "do nothing to contribute to energy security," according to a Congressional Research Service report earlier this year.

▸ **Gas prices would go up.** Forcing more ethanol into gasoline would raise pump prices, since even with the generous tax subsidy it costs more to produce than conventional gasoline. The Department of Energy estimates that the mandate would boost prices a half-cent a gallon; other studies put the increase upward of 9 cents.

There is also a hidden cost: Ethanol cuts fuel economy, requiring more frequent fill-ups. And a crop-reducing drought could push ethanol prices higher still.

Backers of the mandate say it is flexible enough to mitigate any of these potential problems. Maybe so. But the marketplace, not congressmen looking for campaign cash, should decide the size of its role.

Ethanol fuels progress

Opposing view:

Consumers would get a safer, affordable gasoline alternative.

By Bob Dinneen

The fuels agreement included in the Senate's energy bill represents the most positive step forward for U.S. motor fuels since lead was banned in 1977. It is supported by a diverse coalition of oil companies, environmentalists, agricultural organizations and renewable-fuels producers.

The agreement phases out the use of MTBE, a chemical in gasoline that is contaminating drinking-water supplies. MTBE accounts for about 3% of the nation's gasoline supply. Simply removing MTBE from gasoline without identifying a safe replacement would increase gas prices.

The Senate energy bill prevents price spikes by phasing in the use of domestically produced renewable fuels such as ethanol and biodiesel as MTBE replacements, while improving air quality. In fact, it could reduce gas prices by providing greater flexibility in meeting clean-air standards and phasing out MTBE use nationally, rather than through piecemeal state actions that create a patchwork of boutique fuels.

An analysis by the Energy Information Administration demonstrates that the renewable-fuel standard in the energy bill would cost less than half a penny per gallon.

The American Petroleum Institute has said it may actually lower gasoline prices by adding fuel supplies while providing increased flexibility.

President Bush has stated: "We will not have homeland security until we have energy independence." He's right, and Americans agree. By encouraging the use of domestic renewable fuels, this agreement promotes U.S. energy security and rural economic development. The results will be profound: 214,000 jobs created; gross domestic product increased $156 billion by 2012; the trade deficit cut by more than $34 billion; and more than 1.6 billion barrels of oil displaced.

Some oppose mandating renewable fuels. Really? Gasoline is one of the most regulated products in the country. Isn't it time one of these regulations enhanced energy security and created jobs? The agreement is sound public policy that moves the U.S. toward a cost-effective and secure energy future. That future starts here at home with renewable, domestic fuels such as ethanol.

Bob Dinneen is president and CEO of the Renewable Fuels Association, the national trade association for the U.S. ethanol-fuel industry.