

Ethanol: Is it the alternative fuel of the future? Should it continue to be subsidized by taxpayers?

Government Officials

John Berner
Patrick Duffy
Christian C. Ward

What is ethanol subsidy?

A subsidy is defined as direct financial aid furnished by the government. In the topic of ethanol, it would be government spending for the production and use of ethanol from grain in the United States, which is mostly corn. Subsidy promotes the increase in jobs, personal income, tax base, reduction in petroleum imports, plus the cleaner air resulting from increasing ethanol production and use. The subsidy is divided between the ethanol producer and the blender by altering the ethanol price based on ethanol demand relative to supply. If the supply of ethanol is high relative to the demand for it, the bulk of the subsidy will be kept by the blender. Or, as ethanol supplies become tighter, the ethanol producer can demand a higher price and a larger portion of the subsidy.

How much does the ethanol subsidy cost taxpayers?

Ethanol subsidies cause a huge drain on taxpayers, and most of the financial benefit has gone to a few large agribusiness companies. Under current law, the income tax credit for ethanol producers is 52 cents per gallon. However, producers of less than 30 million gallons of ethanol annually qualify for a credit of 62 cents per gallon on the first 15 million gallons. As an alternative to the income tax credit, gasohol blenders can claim a gasoline tax exemption of 52 cents for each gallon of ethanol and 60 cents for each gallon of methanol that is blended into gasohol.

Are there state government subsidies as well as federal government money?

Right now there are both Federal and State government subsidies however there are many skeptics out there who feel that we as a country should just cut the subsidies all together because they feel that it we as a country does not benefit from ethanol at all. It was created to cut fuel emissions but after lots of research it has shown that it takes the same amount if not more fossil fuels to make the ethanol. so many of the researchers feel that having the subsidies is just a waste of money that only benefits a few farmers and the company the blends the ethanol with the gasoline.

What is the justification (supposed benefits) for providing these subsidies?

The justification for providing these subsidies are very simple to point out. It has provided many jobs, caused the price of corn to stay high which helps the farmers make a living.

Do the benefits justify the costs?

It's hard to say if the benefits justify the cost of the subsidies one hand: hundreds of jobs were created when the subsidies were created it also provided more money to the hands of the farmers producing the corn for the ethanol. However it has not seemed to do the things that it promised it has lowered the fuel emissions from automobiles but it has not reduced our dependence on fossil fuels because it takes as much fuel to create the ethanol as it would if we just left it out of the gasoline. A 1986 USDA study found we'd

be better off mailing the farmers checks rather than propping up an entire industry with tax dollars.

What is the market for ethanol?

The market for ethanol depends on alternatives. The fuel world of today is run on gasoline and big business. The natural benefits of the fuel itself mean that it can be applied to almost any type of niche that normal gasoline would be. Where it's bought or which people buy it only depend on who wants to be more environmentally aware. The market depends on who wants to buy a different product than to just buy regular gasoline. It is like buying organic food vs. any other type. Some benefits that might sway consumers include... U. S. consumers use more than 30 billion gallons of high performance, cleaner burning ethanol-blended gasoline each year. Ethanol increases oxygenate supplies, reducing the need for MTBE imports and helping to reduce consumer costs. Ethanol is a high-octane blending component used by many gasoline marketers -- helping to keep this important class of trade viable and creating competition for the major oil companies. Since the petroleum refining industry is running at near capacity, the ethanol industry helps extend our petroleum supply, thereby helping moderate fuels costs to consumers. Consumers have multiple reasons for purchasing ethanol but it still all comes down to who wants a different product.

<http://www.ethanol.org/>

<http://www.ethanol-gec.org/>

<http://scifun.chem.wisc.edu/chemweek/ethanol/ethanol.html>