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NEW INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT STUDY EXPECTS U.S. BIOFUEL SUBSIDIES TO REACH \$92 BILLION BETWEEN 2006-2012

Under existing government policies, U.S. biofuel subsidies are expected to collectively reach \$92 billion between 2006-2012, according to an updated report released on Oct. 23 from an arm of the International Institute for Sustainable Development (IISD).

In October 2006, IISD's Global Subsidies Initiative (GSI) and Massachusetts consulting company Earth Track, Inc. released "Biofuels: At What Cost? Government Support for Ethanol and Biodiesel in the United States."

The report found that U.S. biofuel subsidies--including the 51 ct/gal ethanol blender tax credit, the 54 ct/gal ethanol import tariff and biodiesel's \$1/gal tax incentive--"have reached startling levels."

The report estimated total biofuel subsidies are expected to climb to an estimated \$8 billion-\$11 billion/yr by 2012--or \$56 billion-\$77 billion collectively from 2006-2012.

The updated report "reviews market developments over the past year, re-examining the policy environment at the federal level and updating subsidy values based on recent biofuel production and consumption information."

Specifically, the updated report finds that \$5.8 billion-\$7 billion in subsidies were provided to ethanol in 2006 (versus \$5.1 billion-\$6.8 billion in the original report) and \$0.53 billion-\$0.65 billion in biodiesel subsidies were provided in 2006 (versus \$0.4 billion-\$0.5 billion in the original report).

The increase in expected subsidies was driven not only by biofuel production growth already seen from the industry, but also market projections by the U.S. Energy Information Administration and the Food and Agricultural Policy Research Institute, which "suggest that ethanol will continue to grow at a rate faster than current mandated consumption levels under the renewable fuel standard (RFS); and that non-corn feedstocks will remain insignificant for many years to come.

"Both groups project biodiesel demand stalling out at roughly 500 million gallons per year, well below the current productive capacity."

Therefore, longer-term biodiesel subsidy levels are expected to be lower

than previously estimated, in proportion with reduced production, the study noted.

The estimates in the updated report "should be viewed as conservative, given they do not incorporate many state subsidies now in effect, nor the cost of a more stringent renewable fuels consumption mandate."

They also assume that existing biofuel support policies will be renewed.

Despite the corn-based ethanol industry being heavily subsidized for nearly 30 years, "the U.S. government has not indicated an exit strategy to wean the biofuel industry from protection and subsidies," the study noted.

"Indeed, as is often the case with subsidies, current legislative proposals appear to entrench existing arrangements, which will ensure that the biofuel industry remains a significant drain on U.S. taxpayers for decades to come," the study added.

GSI is funded by the governments of New Zealand, the Netherlands and Sweden, as well as through private sector donations. It believes the main barrier to free trade is the use of subsidies.

Therefore, the updated study is recommending that the U.S. federal and state governments:

- resist increasing mandatory biofuel mandates and instead adopt a neutral policy position favoring all options to reduce reliance on oil in the transport system.
- eliminate the ethanol import tariff.
- avoid providing new biofuel subsidies.
- improve the transparency of information available on biofuel subsidies.

For already enacted biofuel subsidies, federal and state lawmakers should:

- introduce mechanisms to reduce the subsidies during times of high oil prices.
- take into account the environmental effects of biomass production cycles in the design of any subsidy program.
- establish an evaluation process that can assess the cost-effectiveness of biofuel programs at all levels of

government--but particularly the RFS--in attaining the key objectives behind U.S. biofuels policy.

Immediate reaction was not available from the Renewable Fuels Association, the U.S. ethanol industry's main trade group.

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