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Opinion

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Why ethanol backfires

Shifting more corn to fuel production has serious consequences. Importing the sugar-based variety from Brazil makes more sense.

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POLICYMAKERS and legislators often fail to consider the law of unintended consequences. The latest example is their attempt to reduce the United States' dependence on imported oil by shifting a big share of the nation's largest crop, corn, to the production of ethanol for fueling automobiles.

Good goal, bad policy. In fact, ethanol will do little to reduce the large percentage of our fuel that is imported (more than 60%), and the ethanol policy will have widespread and profound ripple effects on other markets. Corn farmers and ethanol refiners are ecstatic about the ethanol boom and are enjoying the windfall of artificially enhanced demand. But it will be an expensive and dangerous experiment for the rest of us.

On Capitol Hill, the Senate is debating legislation that would further expand corn ethanol production. A 2005 law already mandates production of 7.5 billion gallons by 2012, about 5% of the projected gasoline use at that time. These biofuel goals are propped up by a generous federal subsidy of 51 cents a gallon for blending ethanol into gasoline, and a tariff of 54 cents a gallon on most imported ethanol to help keep out cheap imports from Brazil. The proposed legislation is a prime example of throwing good money after a bad idea.

President Bush has set a target of replacing 15% of domestic gasoline use with biofuels (ethanol and biodiesel) over the next 10 years, which would require almost a fivefold increase in mandatory biofuel use, to about 35 billion gallons. With current technology, almost all of this biofuel would have to come from corn because there is no feasible alternative. However, achieving the 15% goal would require the entire current U.S. corn crop, which represents a whopping 40% of the world's corn supply. This would do more than create mere market distortions; the irresistible pressure to divert corn from food to fuel would create unprecedented turmoil.

Thus, it is no surprise that the price of corn has doubled in the last year — from \$2 to \$4 a bushel. We are already seeing upward pressure on food prices as the demand for ethanol boosts the demand for corn. Until the recent ethanol boom, more than 60% of the annual U.S. corn harvest was fed domestically to cattle, hogs and chickens or used in food or beverages. Thousands of food items contain corn or corn byproducts. In Mexico, where corn is a staple food, the price of tortillas has skyrocketed because U.S. corn has been diverted to ethanol production.

And any sort of shock to corn yields, such as drought, unseasonably hot weather, pests or disease could send food prices into the stratosphere. Such concerns are more than theoretical. In 1970, a widespread outbreak of a fungus called southern corn leaf blight destroyed 15% of the U.S. corn crop.

Politicians like to say that ethanol is environmentally friendly, but these claims must be

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 Letters
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 National
 World
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 Business
 Sports
 Politics
 Opinion
 Columnists
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 Food
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put into perspective. Although corn is a renewable resource, it has a far lower yield relative to the energy used to produce it than either biodiesel (such as soybean oil) or ethanol from other plants. Moreover, ethanol yields about 30% less energy per gallon than gasoline, so mileage drops off significantly. Finally, adding ethanol raises the price of blended fuel because it is more expensive to transport and handle.

Lower-cost biomass ethanol — for example, from rice straw (a byproduct of harvesting rice) or switchgrass — would make far more economic sense, but large volumes of ethanol from biomass will not be commercially viable for many years. (And production will be delayed by government policies that specifically encourage corn-based ethanol by employing subsidies.)

American legislators and policymakers seem oblivious to the scientific and economic realities of ethanol production. Brazil and other major sugar cane-producing nations enjoy significant advantages over the U.S. in producing ethanol, including ample agricultural land, warm climates amenable to vast plantations and on-site distilleries that can process cane immediately after harvest.

Thus, in the absence of cost-effective, domestically available sources for producing ethanol, rather than using corn, it would make far more sense to import ethanol from Brazil and other countries that can produce it efficiently — and also to remove the 54-cents-per-gallon tariff on Brazilian ethanol imports.

Our politicians may be drunk with the prospect of corn-derived ethanol, but if we don't adopt policies based on science and sound economics, it is consumers around the world who will suffer the hangover.

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