



The Race for Ethanol Subsidies: Taxpayers Come in Last Again

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Although ethanol is receiving greater attention recently, the federal government has subsidized the ethanol industry since 1978. Allowing government policy to choose winners and losers instead of the market has suppressed investment in other alternative fuels—including non-corn biofuels such as sugar and switch grass—which may have far greater economic and environmental benefits.

- Tax exemptions are expensive: Since 1978, tax exemptions have cost taxpayers more than \$11 billion. Estimates of lost revenue now exceed \$1 billion per year.¹
- Mandates are expensive: The 51 cent per gallon tax incentives that support the ethanol market will cost the Treasury Department \$5 billion in 2010 and, if they remain in place, more than \$15 billion in 2020.²
- Ethanol is inefficient: A gallon of gasoline has about 125,000 BTUs of energy, while a gallon of ethanol contains about 84,000 BTUs, meaning that a gallon of ethanol contains about two-thirds as much energy as a gallon of gasoline.³
- Ethanol is expensive: At February 2006 prices, gasoline was \$2.23/gallon and ethanol was \$1.98/gallon. However, once ethanol was converted to a gasoline energy equivalent gallon, ethanol prices increased to \$2.75/gallon.⁴ These numbers do not even account for the hundreds of millions of dollars in taxpayer subsidies and supports.
- Ethanol does not decrease dependency: In 2005, ethanol comprised about 1.2 percent of the world's gasoline supply by volume, and about 0.8 percent by transport distance traveled.⁵ This relatively small volume doesn't impact the market in any meaningful way.
- Ethanol is not environmentally friendly: According to Worldwatch Institute, biofuels produced on a large scale from low-yielding crops such as corn "have the potential to generate as much or more greenhouse gas emissions than petroleum fuels do".⁶

Instead of supporting the traditional American farmer and reducing our oil demands, ethanol subsidies are a corporate handout to big agribusiness disguised as fuel innovation. It could be that ethanol is on its way to becoming a viable fuel, in which case taxpayer funded subsidies and mandates need to be scaled back to let this "infant industry" start walking on its own. For now, taxpayers are writing a blank check to an industry that has not proven itself in the free market.

¹ GAO. Petroleum and Ethanol Fuels: Tax Incentives and Related GAO Work. September 25, 2000.

² *New York Times*, "An Ear for the Market," June 21, 2006.

³ Congressional Research Service, "Agricultural-Based Renewable Energy Production" May 18, 2006.

⁴ *Ibid.*

⁵ Worldwatch Institute. Biofuels for Transportation: Global Potential and Implications for Sustainable Energy in the 21st Century. May 4, 2006.

⁶ Worldwatch Institute. Bio Biofuels for Transportation: Global Potential and Implications for Sustainable Energy in the 21st Century. May 4, 2006.