

INDIANAPOLIS BUSINESS JOURNAL

CENTRAL INDIANA'S BUSINESS AUTHORITY

VOL. 27 NO. 9 • MAY 8-14, 2006

Should we invest in ethanol or education?

During times of high gasoline prices, the investment made by the Daniels administration in six ethanol plants would seem prudent. The touted benefits of ethanol plants are that they create jobs in rural communities, support Indiana corn growers, improve air quality, and lower dependence on foreign oil.



**BRIAN
WILLIAMS**

Commentary

As an Indianapolis resident with little exposure to our farm economy, my first question was, "How do you make ethanol?" Ethanol is made by fermenting and distilling simple sugars like those found in corn.

To create corn-based ethanol, you first have to grow corn, which even a city boy knows requires energy to produce fertilizers, operate farm equipment, transport corn, convert corn to ethanol, and distribute the final product. Since large amounts of fossil fuels are used to make fertilizer for corn production and to run ethanol plants, ethanol use leads to little or no net reduction in fossil energy use.

The biggest use of fuel ethanol is as an additive in gasoline where it reduces air pollution, prevents "engine knock," and extends gasoline stocks. However, ethanol has a lower energy content per gallon than gasoline, which means more fuel is required to travel the same distance.

So why fund the construction of ethanol plants? Fuel ethanol is heavily dependent on federal incentives. The

federal subsidy for ethanol is about 51 cents per gallon. A study by the Food and Agriculture Policy Research Institute concluded that elimination of federal subsidies would cause annual ethanol production to decline roughly 80 percent from 1998 levels. The General Accounting Office estimated that the exemption for ethanol reduced the Highway Trust Fund by \$7.5 billion, to \$11 billion. For Indiana, federal subsidies for ethanol cost Indiana taxpayers \$187 million to \$275 million.

The United States consumed 145 billion gallons of gasoline and 3.4 billion gallons of ethanol in 2004. Ethanol represents only 2.5 percent of total consumption. Low market penetration and low energy content of ethanol led the Government Accountability Office to conclude that the 20-plus years of ethanol tax incentives have done little to promote energy security.

In the 2006 session of the Indiana General Assembly, Gov. Mitch Daniels signed a biofuel tax incentive providing \$30 million in state tax credits for manufacturers of biodiesel and ethanol. This is in addition to the \$20 million in credits approved in 2005. The General Assembly also gave a 1-cent-per-gallon credit on retail gas tax for school districts and farmers, up to an additional \$2 million.

In response, plans for six Indiana ethanol plants have been announced, which would create a projected 300 jobs. Facilities that produce ethanol are significant producers of "volatile organic compounds," which require some of the most extensive environmental permits. At full capacity, the six plants will produce 400 million gallons per year. In

2004, Indiana consumed an estimated 3.3 billion gallons of gas. Today, Indianapolis has only one ethanol station and Indiana has fewer than 40.

So, for Indiana's \$50-million-plus investment over the last two years, we get a technology that the federal government has already concluded is not worth subsidizing, a major source of pollution, and a few jobs. No infrastructure exists to transport ethanol due to its corrosive properties. No retail network exists to sell ethanol, and few cars can handle ethanol unless it is significantly diluted with gasoline.

A \$50 million investment in full-day kindergarten would have generated a better long-term return for the state's economic prosperity.

However, if the objective was to create tools for rural economic development, the governor's "A Strategic Plan for Indiana's Agricultural Economy" identified as one of its five strategies for success the creation of a national food-processing research center to identify new, value-added products from Indiana's grains. As the strategy noted, "Indiana's raw agricultural products are shipped to other states, where products are processed and sold back as finished products." That same \$50 million would have built such a world-class facility at Purdue University, home of the nation's largest food science department, which would have had a more profound, positive impact on rural Indiana than six ethanol plants. •

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