

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

# Ethanol and oil subsidies: A case of competing claims and self-justification

A common question we hear when we tell people that we are agricultural policy analysts is "Well, whaddya think about ethanol subsidies?" That question becomes critically important as the blenders credit, the ethanol import tariff and the small producers' tax credit face a deadline of December 31, 2010 for renewal by a lame duck Congress.

Over a period of three weeks (October 13 - October 29, 2010), Todd Neeley, a DTN staff reporter, wrote a series of six articles that compared the subsidies received by the ethanol and oil industries. Neeley writes, "DTN spent months examining the various tax credits, incentives, and other financial support received by the oil and ethanol industries to see which one gets more subsidies." The information he uses was culled from "academic studies, state government documents, press releases, government websites, and other sources."

Reading the articles, one is reminded of a scene from the 1972 movie, *Deliverance*, only this time what we have is not "Dueling Banjos," but rather "Dueling Subsidies."

The first thing that becomes apparent from reading the six articles is that hard numbers are difficult to come by. Second, there is no common definition of a subsidy, especially when various tax credits and deductions used by oil and ethanol are available to a large number of other firms and industries as a part of the overall industrial policy framework of the US.

That being said, DTN is to be commended for tackling an issue that will be hotly debated as soon as the election is over. Though DTN is a subscription service, we hope that they will find a way to make the series of six articles available to the public.

According to Neeley, "Looking at state and federal taxes and incentives available exclusively to the oil industry, DTN's tally comes to \$17.9 billion annually. The comparable figure exclusively for ethanol is \$7.1 billion. This does not include tax credits and other incentives that both industries share, such as the blenders' credit or VEETC."

When other "subsidies" are included the numbers can soar. For oil, the numbers Neeley came up with can range between \$100 billion and \$200 billion annually, not including any costs for military activities in the Persian Gulf. When a share of military costs is added in, the numbers can go as high as \$281 billion according to Neeley.

The comparable number for ethanol is \$16 bil-

lion, not counting multiple state subsidies-Tax Increment Financing granted by counties to attract plants and other state incentives for ethanol-that are difficult to track. The oil industry argues that the net effect of the subsidies is offset by the more than \$200 billion that they spend annually on research and development.

For ethanol, the subsidies have been crucial to the development of the industry over the last 30 years. Without the subsidies and mandates, the ethanol industry would be far smaller than it is today.

Both industries have costs that are not factored into the balance sheets of either industry: the sealing of wells, and environmental remediation for oil, and water usage and the dead zone in the Gulf of Mexico for agriculture in general and 4 billion bushels corn used by the ethanol industry in particular.

In reading the articles, one gets the clear impression that Neeley's research for DTN has just scratched the surface of a contentious issue where accurate numbers are difficult to come by-neither industry publishes a list of the subsidies they receive. In addition, some of the numbers are provided by sources that have an ax to grind.

The series did not deal with the issues surrounding the use of a finite resource (oil) compared to the use of a renewable resource (ethanol)-though the production of ethanol is currently dependent upon fossil fuel in the production of the corn used to make ethanol. Nor did it deal with climate change caused by the burning of fossil fuels and the clearing of land for agricultural use.

Even with the uncertainty of the numbers, we were left asking ourselves, "compared to what?" Given the difference in the relative size of the two industries, it would have been more informative if the numbers were converted to a per gallon subsidy estimate. Certainly that will be a question that many will ask.

Lastly, the series did not explore the role of ethanol in using up to 4 billion bushels of corn a year. If the ethanol industry were to shrink in the absence of the subsidies up for renewal this year, corn prices could end up somewhere south of the loan rate. If that were to happen, we could see LDPs (remember them?), soaring federal expenditures, and people talk-

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ing about how US policy has hurt the income of farmers around the world.

Whaddawe think about ethanol subsidies? Well, to start with, it is complicated. And how we deal with them could affect farm prices around the world.

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