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Corn-based ethanol: The negatives outweigh the positives

JEFFREY SIMPSON

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Canada's governments have done something really stupid in subsidizing corn-based ethanol, and requiring its increased use, but apparently cannot correct their mistake.

As a policy to reduce greenhouse gas emissions, corn-based ethanol is a poor option; as a farm subsidy program, it's also a poor bet. Making matters worse, corn-based ethanol takes corn-for-food out of production, and moves land from other kinds of production into corn, thereby adding to what are already rising food prices.

Governments, here and in the U.S., thought they were doing great things for the environment and helping farmers, too. Ethanol policy was, to quote the Harper government, a "win-win." Actually, it was a lose-lose policy for all but corn producers, who, naturally enough, have rallied furiously to protect their good fortune.

Many researchers have exposed the follies of subsidizing corn-based ethanol production, the latest being Douglas Auld, in an extremely well-documented paper for the C.D. Howe Institute.

Mr. Auld has surveyed the research literature about the putatively beneficial effects of corn-based ethanol on replacing gasoline. The theory is that such ethanol produces fewer greenhouse gas emissions than gasoline from a vehicle engine.

Indeed, it does, but that simple statement ignores what energy is required to produce a litre of ethanol. When the so-called "lifecycle" of ethanol production is counted, Mr. Auld concludes (as have many others) that ethanol doesn't lower GHG outputs. Remember, too, that ethanol delivers less energy per litre than gasoline, so more litres of production are required to move a vehicle a certain distance.

Mr. Auld, therefore, correctly concludes, "It is clear from the evidence to date that there is no consensus regarding the efficacy of corn-based ethanol either to reduce GHGs or reduce overall energy demands."

But we aren't dealing with "evidence," rather with political optics from governments wanting to look "green" and from a desire to help farmers.

And so, the Harper government replaced the previous special tax exemption for ethanol to a

producer credit that will cost the country about \$1.5-billion. To this sum were added loans, biofuel research grants plus mandatory ethanol content requirements. In other words, the government pushed up the supply of corn-based ethanol through subsidies, then pushed up the demand through regulation.

Provinces got in on the act, offering producer credits and mandatory ethanol content requirements. Putting the provincial and federal policies together produced whopping advantages for ethanol of about \$400-million a year.

For such money, Canadians might expect at least some decline in greenhouse gas emissions. They will be disappointed. There will be few reductions, and Mr. Auld estimates that these might cost \$368 a tonne - way, way higher than other per-tonne costs for eliminating carbon dioxide, the main climate-warming gas.

By contrast, one part of the Harper government's proposed climate-change policy would see big companies that do not meet their intensity-based reduction targets paying \$15 a tonne into a technology fund. World prices for carbon offsetting these days are about \$30 a tonne.

However, even if this form of ethanol is a climate-change bust, at least it's great for farmers. Not so fast. It's a boon to the corn producers, but to supply all the additional demand for ethanol, up to half the current farmland for corn will be used. As more land is diverted to corn for ethanol, there will be less corn for human and animal consumption.

So whereas corn producers will gain, livestock producers will suffer. As their costs rise, so will the price of their products to consumers.

It's wrong to blame the rush to ethanol for rising food prices here and abroad. Let's just say the rush contributes to the problem. Mr. Auld estimates that if you take the direct subsidies for ethanol production of \$400-million a year, and add the costs of higher food to consumers, the wealth transfer to corn-based farmers could soon be about \$800-million.

It's the classic case of subsidies distorting markets: One group gains and mobilizes all of its resources to protect its gains, insisting these gains reflect the public good; whereas in reality almost everyone else loses but doesn't complain.

So we have a silly policy with hundreds of millions of dollars going down the policy drain, achieving none of the objectives the politicians claimed.

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