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Ethanol Future Remains Cloudy After EPA Delay

Dan Looker

Both backers of the ethanol industry and its opponents saw positive signs in the U.S. Environmental Protection Agency's (EPA's) recent announcement that it will likely decide whether to allow 15% ethanol by next summer. And the corn futures market reacted with a yawn.

"[The recent] announcement prompted kind of a flat attitude," said Jerry Gidel of North America Risk Management Services in Chicago. "It was a modest reaction at best."

EPA's announcement that it will monitor further testing of E15 before making a decision on a petition from Growth Energy to boost ethanol blends in gasoline did not boost corn futures.

"From the standpoint of what is being projected by USDA, I don't know that it changes the projection of 4.2 billion bushels," said Gidel, who tracks the ethanol industry's use of corn. "That USDA projection for the current marketing year might have been on the low side if EPA had approved a temporary boost to 12% ethanol blends," he said. Some analysts expected the ethanol industry to use up to 4.5 billion bushels of corn if that had happened.

"The ethanol market, and demand for corn used to make it, might be helped more by current high prices for sugar," Gidel stated. If they remain high until next summer's vacation driving season, less of Brazil's sugar crop could be used for fuel, translating into lower imports of Brazilian ethanol and perhaps demand for another 300 million gallons of U.S. ethanol.

If the EPA had approved an immediate jump to 12% blends, this would have translated into additional demand of as much as 2 billion gallons of ethanol, according to Matt Hartwig, spokesman for the Renewable Fuels Association (RFA). That would be an obvious boost for an industry that still has about 1.2 billion gallons of idled capacity after bankruptcies and losses a year ago.

RFA has argued that the EPA already has legal authority to allow E12 because it once allowed 10% ethanol to be blended into gasoline that had another octane booster, MTBE. The combination of the two fuel additives was comparable to E12, Hartwig said.

A Higher Waiver

Growth Energy CEO Tom Buis notes that if EPA was going to have to test vehicles for the effects of higher blends on automobile engines, it made sense to ask for a higher waiver of the Clean Air Act that would allow 15% blends.

Growth Energy had asked EPA to approve 15% blends for all vehicles, but in a November 30 letter to Growth Energy, EPA Assistant Administrator Gina McCarthy indicated that it's likely to approve E15 for cars made in 2001 or later.

"Although all of the studies have not been completed, our engineering assessment to date indicates that the robust fuel, engine, and emissions control systems on newer vehicles (likely 2001 and newer model years) will likely be able to accommodate higher ethanol blends, such as E15," McCarthy wrote.

General Wesley Clark, Co-Chairman of Growth Energy, said that the likelihood of an EPA approval of E15 would give investors in cellulosic ethanol more certainty that the ethanol market will grow and make room for such new sources of the biofuel. "It's very significant," Clark said.

But opponents of higher blends were pleased that EPA has postponed a decision. "We applaud EPA's decision to delay a final decision," Mat Dunn of the National Marine Manufacturers Association said when he was joined by representatives of the Natural Resources Defense Council, the Outdoor Power Equipment Institute, the Environmental Working Group, the Grocery Manufacturers Association, and the National Petrochemical and Refiners Association.

Dunn said that his group, which represents most boat and boat engine makers, was concerned that higher ethanol blends will cause engine stalling, and damage engine valves, rods, and fuel lines. Boat owners often operate miles from shore, he noted. "In our case, we cannot just pull over and wait for AAA," he said.