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Wishful thinking fuels ethanol dreams - Monday, Jan. 10, 2005

SUMMARY: Ethanol's an uneconomic alternative, and new mandates for Montana motorists won't change that.

There's something terribly intoxicating about ethanol. The idea of converting grain to fuel to help wean Americans off their oil addiction makes some people downright giddy. Ethanol connoisseurs include environmentalists worshipping at the altar of alternative fuels, giant agribusiness corporations in line for the subsidy dollars taxpayers tithe and farmers praying new demand for grain to produce ethanol will lead to higher incomes.

But a sober look at the ethanol promise is less exciting. The ethanol economy has proved more delusion than dream, despite massive federal subsidies paid out over decades. The problem, of course, is that ethanol is an expensive alternative. The only reason anyone burns ethanol is because the government makes them do it, and the only reason there's much ethanol to burn is because taxpayers subsidize its production.

Almost a third of the gas sold in America already is blended with up to 10 percent ethanol for at least part of the year. But that's because of government mandates, not consumer choice. Adding ethanol to gasoline increases its octane rating, making it burn hotter and cleaner. The U.S. Environmental Protection Agency requires cities with air pollution problems to soup-up their gasoline, and adding ethanol is one way to do that. Missoula's one of those cities. And the fuel sold during the winter months has been, for more than a decade, a blend of gasoline and ethanol.

Helena's now abuzz with excitement over proposals to compel all Montanans to use gasoline containing ethanol (also known as gasohol) all the time. The notion here is that this will somehow create a market for Montana-made ethanol and that will spread new prosperity across the eastern plains: ethanol plants will be built and farmers will sell them grain to distill into fuel alcohol.

But there aren't enough cars and trucks in Montana to make any noticeable dent in the national demand for ethanol. There won't be any more or less ethanol produced, new mandate for Montana or not. The main thing governing ethanol production is government subsidies, not demand.

There's no reason why Montana can't be home to plants producing ethanol. But to amount to anything, they'll have to compete with ethanol producers elsewhere that are closer to major markets and also have access to a perennial oversupply of corn for distilling. A large ethanol industry that could import tax subsidies from Washington, D.C., and export ethanol to other states compelled to buy it might show up as a net economic benefit for Montana. Overall, however, ethanol costs more to produce and use than it's valued in the marketplace. In case we ever run out of oil in this world, it's comforting to know we've got a fallback. Until then, ethanol's a bit of a waste.

Making people buy ethanol will make money for a few folks by taking it away from lots of others. This isn't economic development.