

Ethanol Bubble Pops; Biofoolery in Congress

by Marcia Merry Baker and
Robert L. Baker

The ethanol bubble has popped. The price has fallen by 30% on the ethanol spot market, now down below \$2 a gallon, from \$3 in Fall 2006. Meantime, corn prices have doubled. Many of the 86 new ethanol plants or expansions underway in the United States are being put on hold. In the shadows lurk the agro-cartel operations, run by Cargill, Archer Daniels Midland (ADM) and others, ready to buy up—for nickels on the dollar—the farmer-owned ethanol cooperatives, and other ventures that now might sell out.

The ethanol boom-turned-bust was predictable. It was also not the result of some “natural mistake,” but rather a destructive policy pushed onto the United States and other nations by financial networks intending to do harm. The “Big Ethanol” promotion nexus includes the likes of Morgan Stanley and Chevron, as well as the agro-cartels ADM, Cargill, Monsanto, and DuPont. For example, it was just one year ago this month, that a biofuels summit took place in Missouri. Called, “Advancing Renewable Energy,” it was addressed by President Bush, and sponsored by Goldman Sachs, Chevron, Monsanto, et al. Former CIA Director James Woolsey was a featured speaker, proclaiming that biofuels are essential for national security. He and George P. Shultz, architect of the George W. Bush Administration, launched this line in October 2005, in a position paper for the Committee on the Present Danger, titled, “Oil and Security.” (See “Bio-Cons Fool With Ethanol: Just Another Word for War,” by Creighton C. Jones, *EIR*, Feb. 9, 2007).

Now the Big Ethanol Bubble is bust. The bogus “security” argument is bust. So the real scandal is: why does Congress continue its biofoolery? The new five-year farm bill still backs biofuels; likewise, the various new energy bills. Right from the start in January, Iowa Sen. Tom Harkin (D) said, “Biofuels will be the engine of the next farm bill.” This is insanity.

In its own terms, the Biofools Rush was bound to fail. The current drop in the ethanol wholesale price reflects the combined effects of lack of rail and other transport capacity to move the product, the jump in corn prices, and the stampede to build distilleries and gush out gallons of the stuff—without being able to even use it. The gory details are now provided to readers in the financial press every day. “Ethanol’s Boom Stalling As Glut Depresses Prices” (Sept. 30 *New York Times*), “Ethanol Is Running Out of Gas” (Oct. 1 *Wall Street Journal*), and so on.

Add to this the fact—also reported widely—that the mass switchover to raising crops for fuels is having a severe impact on the food chain.

Import ‘Cheap’ Biofuels? Genocide!

So what alternative is proposed by the financial interests behind these headlines? Import cheap ethanol! The argument now being made, is that: yes, overdosing on corn ethanol may be bad for North America and for Europe, but sugar cane ethanol and other “tropical” biofuels is the answer. The United States should drop its tariffs on ethanol imports from Brazil and Central America. This was asserted, for example, in a report from the Organization for Economic Cooperation and Development (OECD) released in September. Stating, “To harness the real potential of bio-energy and biofuels, an important shift in current expectations and policies is necessary,” the report then gave approval to three bio-inputs for alternatives to petroleum-based fuels: Brazilian sugar cane gasohol, used-vegetable oils for blended bio-diesel, and paper-making by-products. The OECD advises governments to end their tariffs on imports of such fuels from Brazil, and other tropical countries, where they assert it is “economical” to produce biofuels compared to temperate climates.

The October *National Geographic* cover feature is “Growing Fuel—The Wrong Way, The Right Way.” In fact, any way you do it, this is crazy. “Importing” biofuels is another name for genocide: let the poor and dark people produce your fuel, on slave-labor plantations.

Still, Brazilian President Luiz Ignacio Lula da Silva and President Bush discussed the United States ending its 52% tariff on imported Brazilian cane ethanol, at their meeting the week of the opening of the UN General Assembly. Lula said, speaking Sept. 26 on the Larry King Live show, that countries kept poor in the 20th Century, can now look to improvement in the 21st Century, because they can “take part of their land,” use it for energy crops, and export biofuels to rich countries. Calling this a “new energy matrix,” Lula chose not to add that the same supra-governmental outfits—ADM, Cargill and the rest—dominate bio-fuels wherever the schemes are imposed.

It’s critical to step back from this whole ethanol disaster, to see why the current bust should be made the occasion to end the biofoolery once and for all.

The Insane Bio-Energy Boom

Apart from the pleasures of a campfire in the wilds, any form of bio-energy today—ethanol, bio-diesel, methane capture—is insanity as an energy base. The energy it requires to produce, move, and process the inputs for fuel, far exceed the content of energy output. The advent of nuclear power, especially the fourth generation designs, means that even fossil fuels—which are far more energy dense than biomass—can be superseded as the power supply for mod-

ern economies. As for the claims that \$100 a barrel oil, will make bio-energy “economical,” no refutation is necessary for such sophistry.

The way the Great Biofuels Bubble started, was from the top. In 2005, the United States, France, and a number of other nations, passed laws mandating what volume of biofuels must be included in fuel consumption by specified target dates. The U.S. law passed in August 2005, called the Energy Policy Act, mandated the consumption of 7.5 billion gallons a year of biofuels by 2012 (compared with 3.5 billion in 2004). The Bio-Fools Rush was on.

A building boom took off for new ethanol facilities. ADM and Cargill—already foremost in corn ethanol, due to years of government tax-breaks—expanded their operations. Several private venture companies launched Initial Public Offerings amidst grand hoopla on Wall Street. Thousands of farmers, underpaid for decades for their output, made plans to vastly expand corn acreage. The Agriculture and Energy Departments promoted all this.

From 2005 to 2006, U.S. corn acreage increased, much of it at the expense of wheat, soybeans, and cotton, by 10%. Trade-offs showed up all along the food chain. Livestock feed prices shot up, as corn prices rose. The percentage of the annual corn crop going into ethanol rose from 6% in 2000, to 20% in 2006. As of Winter 2006-2007, Mexico, forced into corn-import dependence by the North American Free Trade Agreement, was hit by a doubling of prices of corn tortillas.

But when the new Democratic Party Congress convened in January 2007, it pushed the craze even harder than the White House had been doing.

In Spring 2007, U.S. acreage planted to corn was pushed up by 19% over 2006, to a total of 92.9 million acres, which is more U.S. area seeded to corn than at any time since 1944, when yields per acre were much lower, and the pressure for wartime food supplies was intense. This expanded corn planting comes in part from acreage that would otherwise be growing soybeans, wheat, or cotton. U.S. soybean acreage fell 15% from 2006 to 2007. Wheat futures prices have doubled in the past year, from the biofuels displacement effect, on top of pre-existing low stock trends, and problem weather. Making it all worse is the hot money speculation in agro-commodities of all kinds, now that other bubbles in the financial system are bursting.

In Iowa—the world center of corn and ethanol production, farmland prices have risen fully 20% over the past 12 months.

The Bio-Energy Bust

As of the end of 2007, the U.S. ethanol production capacity is projected to reach 7.8 billion gallons annual output—exceeding even the biofuels goal of 7.5 billion gallons set by Congress for year 2012! The number of ethanol plants in the United States has shot up from 81 in early 2005, to 129 today, according to the Renewable Fuels Association. The result?

Chaos. There is destruction on the physical economic side, as well as an old-fashioned financial bust.

To begin with, corn costs account for roughly 70% of the expenses of producing ethanol, and corn prices have doubled since 2006, going from the \$2 a bushel range to the \$3.60 to \$4 range. Secondly, expenses have risen for transporting corn to the distilleries, given the hyperinflation in gasoline. Thirdly, water is costly and scarce in many regions, for both the crop and the processing.

Finally, no matter what the price, the infrastructure does not exist for handling and storing all the grain, handling and storing all the ethanol, and then delivering it to the gasoline blenders near the final markets. Ethanol cannot be moved by pipeline, because it is interactive with the surfaces and causes corrosion. But the rail, barge, and truck fleets don't exist in the U.S. economy to haul it. In early 2007, the backlog of rail tank cars on order had soared to 36,166, way up from the backlog of 10,000 in 2005.

These and other logistical constraints have been documented in detail, for any lawmaker concerned to know. A new Agriculture Department study uses understated language to warn that there are, "several supply chain issues that could inhibit growth in the ethanol industry."

An Iowa State University study in July 2007, titled "Potential Infrastructure Constraints on Current Corn-Based and Future Biomass-Based U.S. Ethanol Production" (Working Paper #07018) by Roger Ginder, goes through in detail the "stress on the physical infrastructure" involved in ethanol.

Just visualize conditions in the five Midwestern states in which well more than half of all the U.S. ethanol is now produced: Iowa, Illinois, Indiana, South Dakota, Nebraska. In these states—the heart of the U.S. farmbelt, the ethanol craze has eaten up the core of the nation's agriculture capacity.

What next? The *Wall Street Journal* gloats that, ADM, Cargill, and their like can be expected to survive, and the little guy farmer and processor to go under. In the "shake-out," the "more established ethanol producers are expected to roll up smaller producers."

HOTLINE

**LaRouche and EIR Staff
Recorded Briefings**

—24 Hours Daily

918-222-7201, Box 595