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THE ENERGY CHALLENGE

Springtime for Ethanol

By [ALEXEI BARRIONUEVO](#)

WASHINGTON — The Renewable Fuels Association, the ethanol industry's major lobbyist, works out of cramped offices that it shares with a lawyer near Capitol Hill. Pictures of ethanol plants from its 61 board members hang everywhere. "We're about to run out of wall space," said Bob Dinneen, the association's president.

The association may only have six staff members but it is now bursting with energy, a far cry from the early days when its founder, a South Dakota farm boy who was convinced America needed to break the stranglehold of foreign oil, quit in frustration after four years.

After three decades of surviving mostly on tax subsidies, the industry is poised tonight to get its biggest endorsement from on high that it has a long-term future as a home-grown alternative to gasoline.

In his State of the Union address, President Bush is expected to call for a huge increase in the amount of ethanol that refiners mix with gasoline, probably double the current goal of 7.5 billion gallons by 2012.

While the details of the proposal are not known, 15 billion gallons of ethanol would work out to more than 10 percent of the country's current gasoline consumption, and is far beyond the current capacity of about 5.4 billion gallons.

At least half of the new ethanol would come from corn, signaling the administration's support to the Midwest farm states that have benefited the most from the recent ethanol boom.

For an industry once dominated by the will of a single powerful producer, Archer Daniels Midland, ethanol has come a long way, joining the oil industry and producers of major agricultural commodities as an entrenched political force in Washington. And it now enjoys a powerful role in presidential politics because of Iowa's status as one of the first states to select delegates to the parties' nominating conventions.

But with dozens of new ethanol plants coming online this year, the ethanol lobby is facing a critical point. The political reality is that corn's days as the chief crop for making the fuel may be numbered.

Corn-based ethanol can only marginally reduce America's dependence on foreign oil. But it does little, if anything, to improve energy efficiency, and the mounting concern of some politicians is that relying on corn is leading to collateral damage in other parts of the agricultural economy and threatening the nation's status as the leading corn exporter. The big increase in the works may mean consumers would end up paying more at the supermarket.

So the ethanol lobby and its political supporters now face the challenge of trying to maintain the momentum of ethanol's feel-good story before the potential negative consequences of the rapid ramp-up become all too apparent.

Clutching the reins these last five years is Mr. Dinneen, a longtime Washington lobbyist who joined the association in 1988. He recalled his early years there as a pitched war with the oil industry. "I would wake up in the morning and try to think of a way to vilify the oil guys," he said.

Today, to keep the ethanol train moving, ethanol makers are cozying up to the oil industry, forming political alliances and enlisting executives from companies like Chevron as they race to make a quicker transition to cellulosic ethanol made from nonfood crops, like switchgrass.

Otherwise, public support could turn against the fuel, which yields a third less energy than petroleum-based gasoline and still relies on a federal subsidy of 51 cents a gallon to remain competitive.

"We are no longer debating whether this makes sense, if this public policy should be pursued," Mr. Dinneen said. "The discourse now is how much ethanol can we produce, how quickly can we produce it and what is the pathway for greater production of domestic renewables."

That pathway, at the moment, relies on commercializing cellulosic ethanol made from crops like switchgrass or wood chips, which today is twice as expensive to produce as ethanol made from corn.

Some analysts, though, believe that politics has already trumped economics. "Once we have a corn-based technology up and running the political system will protect it," said Lawrence J. Goldstein, a board member at the Energy Policy Research Foundation. "We cannot afford to have 15 billion gallons of corn-based ethanol in 2015, and that's exactly where we are headed."

Mr. Goldstein said that rather than speed up the process of producing more ethanol, Congress should "step back and reflect on the damage we have already done."

By contrast, ethanol advocates in Congress are pushing to accelerate research into cellulosic sources with the stated goal of speeding the timetable for when corn can be supplemented — or supplanted — as the chief ethanol crop.

"We need additional funds for transitioning to making more energy crops for our national security," Senator [Tom Harkin](#), an Iowa Democrat and the new chairman of the Senate Agriculture Committee, said in an interview earlier this month.

The agriculture secretary, Mike Johanns, said there will be an "adjustment period" for ethanol that will last a few years. But he is confident that more corn will emerge to ease the pain of higher grain prices, as seed companies improve yields and farmers shift their acreage from other crops. "When you look at the whole constellation of issues, and advancements that are out there, it is a very encouraging time for agriculture," Mr. Johanns said in an interview.

The race to crack the code to produce cellulosic ethanol more efficiently has attracted dozens of researchers,

venture capitalists and even the interest of major oil companies like BP and Chevron. Vinod Khosla, a major venture capitalist who has poured money into seven different start-up companies, has been pushing Washington lawmakers to set more aggressive targets to ensure that the demand for corn moves beyond corn. “If I am going to take the risk, the market has to be big,” Mr. Khosla said.

The Renewable Fuels Association is trying to balance the competing concerns. The organization was not always interested in rapid expansion, particularly if that meant allowing competition for A.D.M. from sources like Brazilian sugar. David Hallberg, the association’s founding president, said he left after four years in the job partly because he grew tired of disputes with A.D.M. executives over the future direction of the industry.

“I thought my job was to grow the industry to be as large as it could be,” said Mr. Hallberg, who denied he was forced out. “That isn’t what our bigger members always wanted.”

By the time Mr. Hallberg left the organization in 1985, oil prices had plummeted to \$9 a barrel, making ethanol uneconomic as a fuel. The industry turned its efforts toward selling ethanol as an oxygen enhancer for gasoline that could lift octane and reduce carbon monoxide.

With the influence of Dwayne O. Andreas, A.D.M.’s longtime chief executive and now chairman emeritus, Congress passed the federal excise tax in 1978 that gave ethanol its primary subsidy, a credit worth 51 cents per gallon of ethanol, or \$21 per barrel of oil. Mr. Andreas had powerful friends in Congress, including Senator Robert J. Dole, [a Republican](#) from Kansas who rose to majority leader and who pushed consistently over the years to retain the ethanol subsidy.

In those early days the influence of Mr. Andreas and A.D.M.’s generous contributions to both Republicans and Democrats kept ethanol alive. The company also held greater sway within the organization because of its great weight as an ethanol producer. Even today, at around 25 percent of total ethanol capacity, A.D.M. remains the largest maker.

At first, the ethanol producers had few allies. The National Corn Growers Association was agnostic about ethanol at best, and the American Farm Bureau opposed ethanol, worrying that it could raise the price of livestock feed and cut into exports, Mr. Hallberg said.

That began to change in the late 1980s when the groups began to work together to supply ethanol to some 30 cities as a gasoline additive in the winter months. Those months were also when A.D.M.’s wet mill corn processing plants made more ethanol.

While the ethanol and corn forces preferred their wintertime plan, they later threw their support behind a federal proposal to implement a reformulated gasoline with an “oxygenate” — either ethanol or methyl tertiary-butyl ether — in nine of the country’s smoggiest cities. The program took effect in 1995.

Ethanol’s big breakthrough came over the battle to ban M.T.B.E. After gasoline spills in California revealed that M.T.B.E. could corrode groundwater, the Renewable Fuels Association and the corn growers were among those pushing ethanol as an environmentally safer alternative.

California banned M.T.B.E. in 1999 and requested a waiver from the federal oxygenate standard, arguing it

could make a cleaner-burning gasoline without ethanol. President Bush rejected the waiver, spurring an ethanol construction miniboom.

In 2001, Mr. Dinneen took over as president, focused on reaching détente with the oil industry. To win approval for the renewable fuels standard, he eventually cobbled together an unlikely coalition of consumer groups, the [American Petroleum Institute](#) and environmentalists like the [Natural Resources Defense Council](#).

The fuel standard Congress approved in 2005, which called for a ramp-up of ethanol use to 7.5 billion gallons by 2012, ended up lighting a fire under the industry. When oil prices shot over \$50 a barrel, ethanol became profitable, and then President Bush set off an industry building boom when he said last January that “America is addicted to oil.”

It helped that the mix of ethanol’s advocates had been changing. About a decade ago farmers began investing in ethanol plants; today more than half of the 110 ethanol plants in production are at least partly owned by farmers. The ownership by farmers brought home the rural benefits of the ethanol industry more directly.

The association’s expanding board, which is 10 times the size it was some 20 years ago, has also become more diverse and less beholden to the business agendas of its biggest members.

As ethanol expands, Mr. Dinneen dismissed the concerns of some economists that its explosive growth could threaten exports and livestock prices, and that a potential investment bubble could burst before cellulosic ethanol has a chance to hit the market.

“I don’t get all that worried that we are building too fast,” he said. “I am not bright enough or foolish enough to try to control the market.”

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