Another handout to the grain cartel

While farmers bicker among themselves, grain cartel ethanol producers scored big in the so-called drought relief bill.

As the federal drought relief bill was signed into law on Aug. 11, some Western cattlemen and a few other farmers complained that special groups of farmers (e.g., milk, tobacco) would get more drought assistance than others. This impotent distraction—farmers blaming each other—overlooks one special interest group that did "score" in the drought relief law: the cartel corn ethanol lobby.

This group successfully obtained a provision in the drought relief law that authorizes assistance to ethanol producers. This provision permits the Agriculture Department to sell corn held by the Commodity Credit Corporation (CCC) as feedstock for ethanol producers at reduced prices. The CCC could sell up to 12 million bushels per month to ethanol producers, as long as the company utilizes no more than 30 million bushels of corn per year. Those supporting the provision argued that the ethanol industry is still an "infant industry" and needs to show itself as a "stable and good supplier."

Some of the CCC stocks were purchased by the goverment from farmers for $1.50 per bushel. This grain would be sold back to the cartel for not less than 110% of the basic country corn loan rate, or approximately $2.30-$2.40 at the lowest—substantially below market levels, and at the expense of the American farmer and taxpayer.

The biggest promoters of ethanol are the food cartel companies and international financial interests. Of the 151 ethanol plants in the United States at the beginning of 1987, nearly 75% of the operating capacity was accounted for by the eight largest plants owned by five cartel-related companies, foremost of which is Archer Daniels Midland.

Since 1981, these ethanol promoters have obtained big subsidies and tax breaks through their influence in Washington. They are now receiving "drought corn" to prop up an industry that is using food for fuel while millions are facing starvation. The government is willing to subsidize corn purchases by cartel ethanol producers while letting farmers become serf-slaves to an immoral farm product pricing system.

The ethanol industry processed appoximately 340 million bushels of corn in 1987. That is projected to grow to 1 billion by 1995. If the current USDA drought projection for 1988 of 4.4787 billion bushels is borne out, the 1987 ethanol corn usage of 340 million bushels would amount to about 7.6% of 1988 corn production. A significant amount in a year of "surplus," let alone severe drought.

Ethanol is not economical. It is being promoted under the guise of environmental quality, energy security, and agricultural income stabilization. Because it is not economical, the grain cartel has successfully obtained government subsidies to make a profit. Along with government-subsidized loans, the ethanol industry argues it could not compete without being exempt from paying 6¢ of the 9¢ federal excise tax on gasoline. The minimum 10% blend requirement for the exemption translates to an effective 60¢ per gallon ethanol subsidy. In addition, 28 states offer state fuel tax exemptions or producer subsidies for ethanol averaging 20-30¢ per gallon.

In 1987, ethanol producers could purchase corn for $1.41 per bushel and sell by-products for $1.26 per bushel, which is a net per bushel cost of 15¢. Processing about 2.5 gallons of ethanol from 1 bushel of corn translates into a net cost of 6¢ per gallon of ethanol. In 1986, the tax break combination of investment credit, accelerated cost recovery schedule, and a motor fuel excise tax reduction amounted to $912.3 million on 300 million bushels of corn, or $3.04 per bushel. This is not a bad subsidy for an industry that can't afford to compete in the energy market, when the main raw material needed to produce ethanol, corn, has a pre-processing cost of $1.95 per bushel and a net cost of $0.32 per gallon after by-products are sold.

The National Corn Growers Association, the American Farm Bureau, and *Successful Farming* magazine co-sponsered a Nashville, Tennessee conference aimed at promoting ethanol in late July. "As farmers and ranchers, we need to recognize a good product when we see it and use it ourselves," said Dean Kleckner, president of the American Farm Bureau. Kleckner said the Farm Bureau strongly supports ethanol production.

Barry Carr, with the Congressional Research Service, reviewed a study in which farm subsidies would be reduced by $3 billion per year if ethanol use could be boosted to 5 billion gallons per year. But $3 billion is the same amount as the federal excise tax reduction to ethanol-producing companies. A 60¢ per gallon federal excise tax reduction times 5 billion gallons comes to $3 billion, too. In other words, the government would save a net nothing.