



Barn Report

A Dairy Keeper Resource

January 1, 2012

Report 12.009

End of Ethanol Tax Credits Affects Corn, Feed and Biofuel Markets

ANALYSIS - The US ethanol tax credit which is worth roughly \$6 billion is due to end at the turn of the year, writes TheCattleSite Editor in Chief Chris Harris.

Many in the US ethanol industry believe they have built such secure foundations that its removal on 31 December will not have serious repercussions.

Ethanol manufacturers are focusing on promoting higher blends of ethanol into petrol and installing blender pumps to dispense higher blends and larger production of flex-fuel vehicles.

Bob Dinneen of the trade group the Renewable Fuels Association said that he expects a continued growth in the industry.

However, with now around half the corn grown in the US going to first generation biofuels, the removal of the assistance to ethanol producers could have far reaching repercussions. Ethanol takes a larger share of the US corn crop than cattle, pigs and poultry put together.

This growth in the use of corn for ethanol rather than livestock feed fueled the fuel vs. feed debate and drew howls of anguish from food manufacturers, livestock producers and environmentalists.

The change at the end of the year that was signaled during the summer will see a tariff of 54 cents a gallon on ethanol imports expire along with the excise tax credit of 45 cents a gallon.

The Brazilian Cane Sugar Association (UNICA) believes the removal of the tariff will open up the US market and spur long-term growth for Brazilian ethanol.

However, at the moment while Brazil exports premium ethanol to California, it imports more than it exports and the bulk of the imports come from the US in the form of corn based ethanol.

Up to October this year, Brazil shipped 39 million gallons of ethanol to the U.S. market. In the same period, 156.3 million gallons of US ethanol went to Brazil.

The US is the world's foremost manufacturer of ethanol with an output of 13.8 billion gallons forecast for this year.

Brazil is number two with 6 billion gallons.

For some US manufacturers, the removal of the tax breaks, which came into force in 1979, are being viewed as a major blow.

The industry has written to Congress calling for an extension of the Cellulosic Biofuels Producer Tax Credit and the Special Depreciation Allowance for Cellulosic Biofuel Plant Property.

The Advanced Ethanol Council said the credits are vital to the development of the domestic advanced ethanol industry.

"To ensure stability in the marketplace and prevent unnecessary job losses, Congress should provide long-term extensions of these provisions (5+ years)," the AEC wrote.

The AEC has called for a comprehensive approach to the reform of energy tax, but it added that in the meantime it was necessary to extend the tax incentives.

Another effect that the removal of the tax credits for corn produced ethanol is likely to have is on the price of corn for animal feed.

When the subsidies are removed, will the price of corn for ethanol production be forced down as the ethanol manufacturers strive to reduce production costs?

Will the farmers, who have been receiving good money from the ethanol producers for their corn, accept a dip in prices?

In the long run, if the removal of the subsidies has the effect of reducing corn prices, this also will be good news to livestock farmers, who could expect to see feed corn prices also come down.

Another scenario is that the price of ethanol will rise to consumers to balance out the loss of the subsidies. If this is the case, the balance between fossil fuel prices and biofuel prices will be upset, making fossil fuels more attractive.

All in all the New Year offers an interesting time on the corn markets in the US, which in turn will be reflected in corn markets and prices around the world. This is Dairy Keeper's disclaimer notice.

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