

ETHANOL SUBSIDIES: THE PROMISE AND THE PERIL

Ethanol's the rage not just with environmentalists, but with Prairie governments, too. Both Manitoba and Saskatchewan support the fledgling industry with tax reductions on ethanol-blended gasoline (EBG) and now want to require universal use of the fuel. Such a radical step is, at best, premature and, at worst, a step backwards for rural economies.

Does EBG show promise, in terms of lowering air pollution and increasing energy efficiency? Yes. Do the currently known advantages of the alternative fuel justify subsidies or mandates that force everyone to use it? No. What's more, a rapid expansion of ethanol production may risk the health of the burgeoning livestock industry by exacerbating an existing shortage of feed grain. Before the province buys a permanent seat on the EBG subsidy bandwagon some sober thinking is required.

Supported by government policy, the ethanol industry has expanded rapidly. EBG now represents nearly 10% of gasoline sales in the United States, where a similar combination of subsidies and mandated blending of ethanol, as well as "free" allocations of surplus corn, have distorted both fuel and grain markets. The Prairie governments openly state that they are taking their cue from progressive Minnesota, where a 20 cents a US gallon "producer incentive" pushed the state's ethanol output from un-

der 4 million litres in 1986 to 757 million in 2000. Although Canada was much slower to legislate favours for the ethanol industry, about 1,000 gas bars now hawk it across the country.

In a polity pervasively "greenwashed" by the media and the school system, it is no surprise that governments have rushed to make political hay with ethanol. How "green" is EBG compared to regular gasoline? The answer to that question depends on the process used to distill the ethanol from grain. In the United States, where ethanol plants rely on electricity from coal-fired generators, the outcome for air pollution can be negative. In Manitoba, with cleaner hydroelectric generation, that is not a problem.

The issue of energy efficiency is more contentious. Ethanol's critics have long maintained that, when all factors are considered, the energy used to produce the fuel and the inputs used to grow corn and wheat and to distill them add up to more than the energy it releases when burned. However, some recent data suggests that technical improvements in processing and the economies of scale implicit in newer, large-scale plants have tipped the energy balance. It now appears that there may be a slight net gain of energy in ethanol production.

Does that fact justify subsidies? Not in Manitoba and Saskatchewan where ethanol plants are quite small and therefore, unable to attain that energy advantage. Manitoba for-

gives its single ethanol producer in Minnedosa, which like its counterpart in Lanigan, Saskatchewan distills wheat instead of the most common source, corn by gas tax reductions of 2.5 cents a litre, a subsidy that costs the provincial treasury \$2.25 million a year. The best argument for ethanol, that it diversifies rural economies and makes them more sustainable, fades when you consider that each job created in Minnedosa costs about \$75,000 in taxpayer subsidies.

Mandating EBG in all gasoline sold would cost Manitoba and ultimately its citizens about \$35 million a year. Premier Gary Doer says he likes the idea, but his government plans more study and public consultation before it proceeds. Saskatchewan passed its Ethanol Fuel Act in June, which allows the Province to force subsidized EBG on all consumers. The province has also indicated an interest in spending up to \$100 million to foster Saskatchewan ethanol production.

The risks are all too obvious, here - easy, ultimately subsidized, money is a known recipe for taxpayer boondoggles. Is the promise really worth the peril?

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