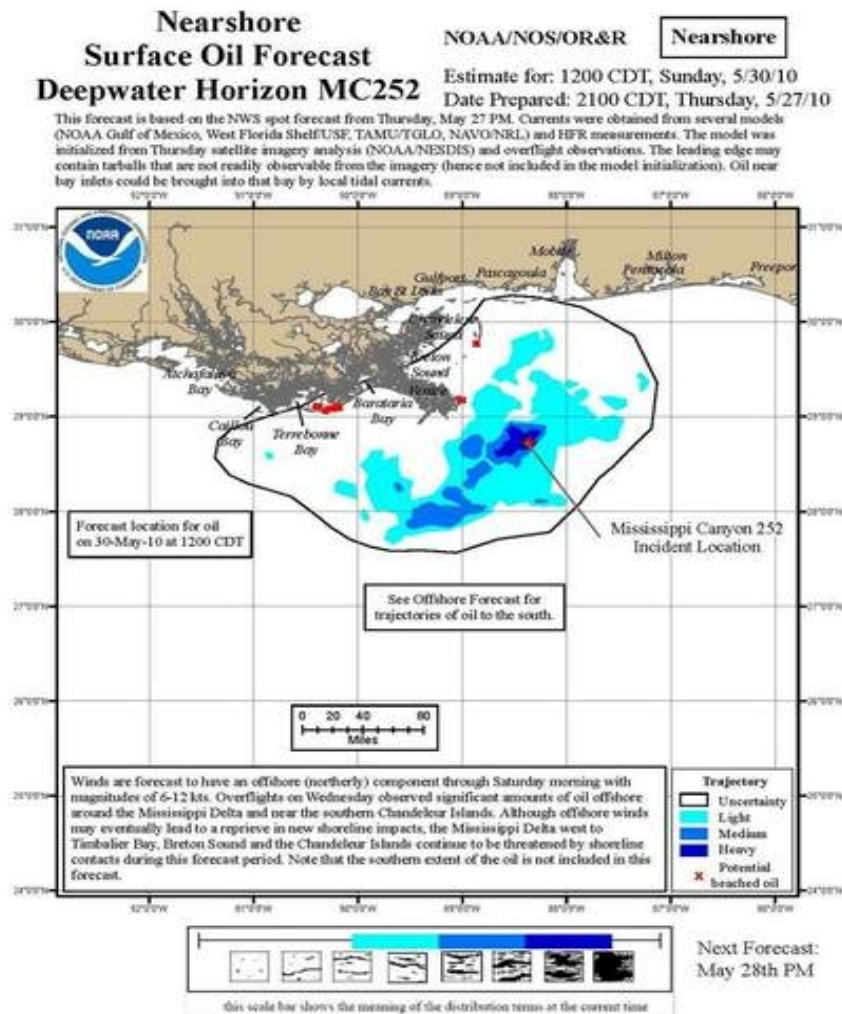


Biofuels: The Current State of Play

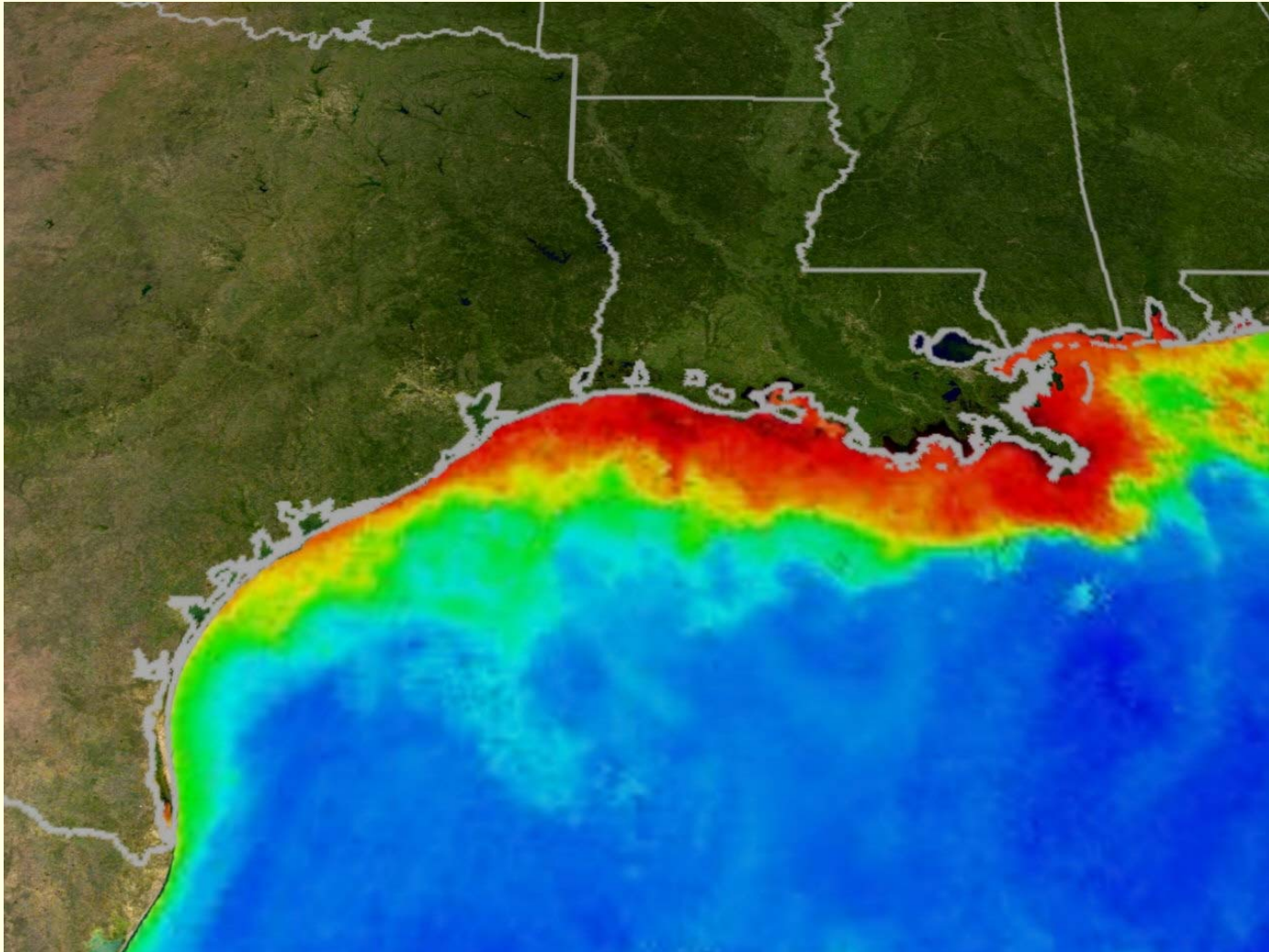
C. Ford Runge, Distinguished McKnight University Professor of
Applied Economics and Law, University of Minnesota

Woodrow Wilson International Center for Scholars
July 23, 2010

Deepwater Horizon Oil Spill



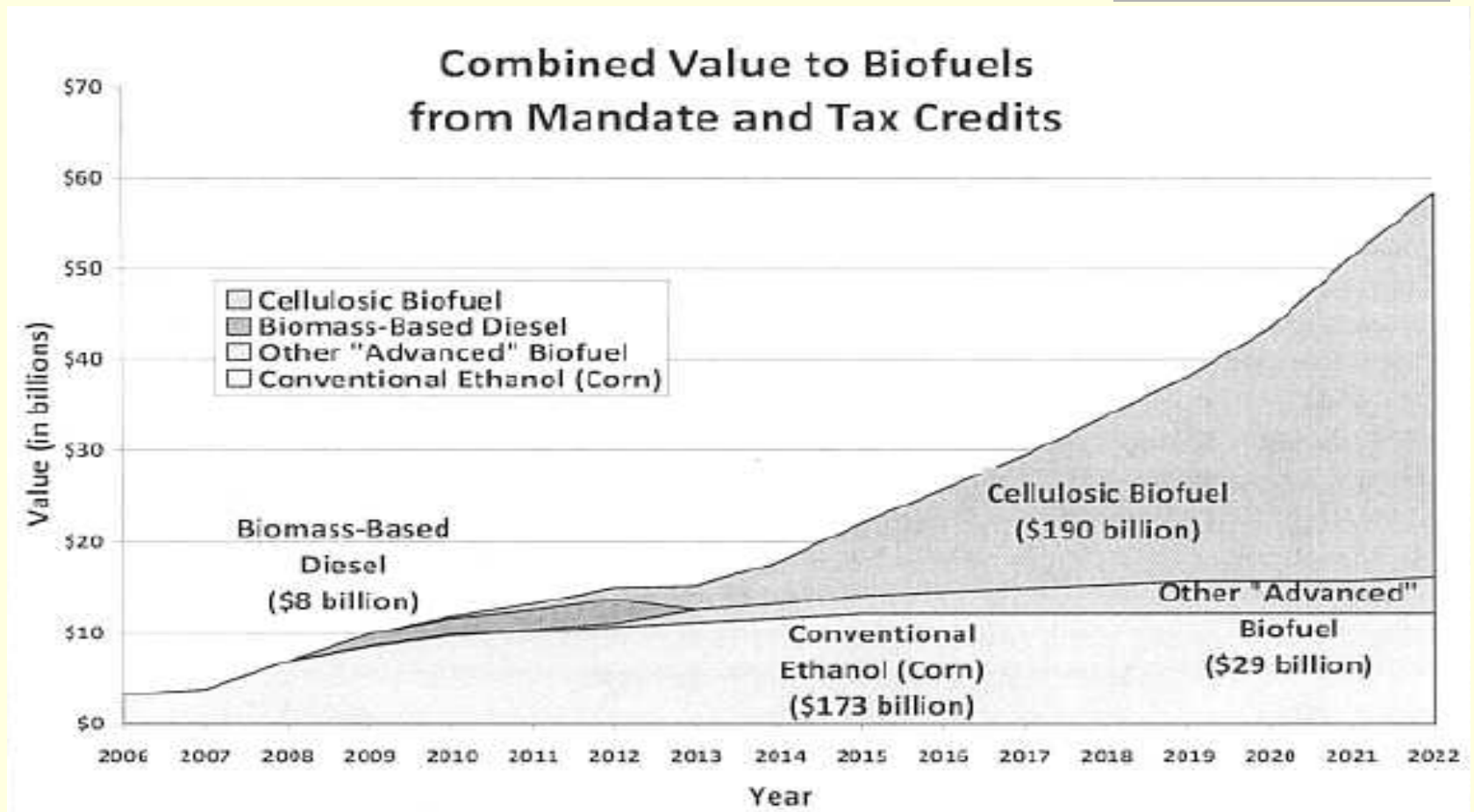
The “Dead Zone”: 2010



U.S. Biofuels Policy

- 45¢/gallon “blenders credit” passed through to producers (reduced from 51¢/gallon to 45¢/gallon in 2008 Farm Bill)
- 54¢/gallon tariff on imported ethanol (extended from 2010 to 2012 in 2008 Farm Bill)
- Obama has proposed raising mandate to 60 billion gallons by 2030.
- 36 billion gallon mandate by 2022, of which 21 billion “cellulosic”
- 385 million dollars in subsidies to cellulosic pilot plants (more subsidies in 2008 Farm Bill)

U.S. Government Support in Dollars from Combined Subsidies to Biofuels



U.S. Subsidies to Biofuels

Summary of Subsidy to Biofuel Industry through the Tax Credits and RFS (in billions)

In Year 2008	\$10
In Year 2022	\$60
<i>Cumulative Between 2008 and 2022</i>	<i>\$420</i>

Summary of Subsidy to Biofuel Industry through the Tax Credits and RFS under “Obama Plan” (in billions)

In Year 2030	\$125
<i>Cumulative Between 2008 and 2030</i>	<i>>\$1,000</i>

Corn (C, CBOT)

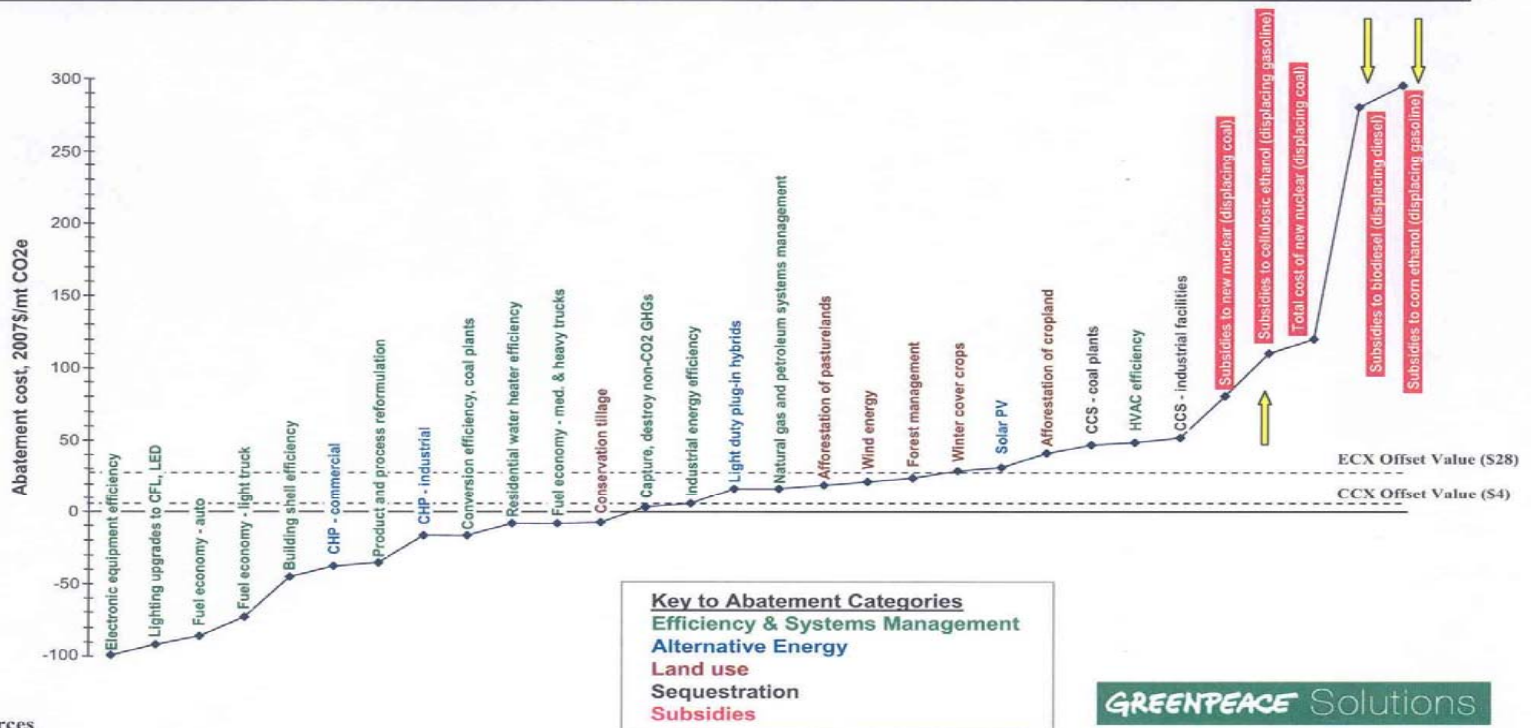


Food Price Index (FAO)

2000	90		2009 - May	152
2001	92		- June	151
2002	90		- July	147
2003	98		- August	152
2004	111		- September	153
2005	115		- October	157
2006	122		- November	169
2007	154		- December	172
2008	191		2010 - January	174
2009	152		- February	170
			- March	163
			- April	165
			- May	164

Relative Cost of CO₂ Abatement Options

Subsidizing Biofuels Among the Most Expensive GHG Reduction Options



Sources

Abatement technologies: McKinsey & Company, mid-range case.

Offset prices: Average of contract values from CCX (2008-10) and ECX (2008-12).

Subsidy data: Earth Track, Inc.

GREENPEACE Solutions

earth track
www.earthtrack.net

Policy Responses

- (1) Replace fixed 45¢/gallon blender's credit with subsidy varying inversely with price of corn (e.g., at \$3.00/bushel, credit would be 45¢; at \$3.45, it would be zero).
- (2) Phase-out 54¢/gallon tariff on imported ethanol.
- (3) Impose 5 year moratorium on mandates, fix at 2010 level.

Policy Responses (cont.)

- (4) Introduce conservation-inducing “negative pollution taxes” and credits (e.g., rising taxes on horsepower, hybrid vehicle rebates, fees on housing spaces greater than 3,500 square feet).
- (5) Shift subsidies from cellulose plants to cellulosic R&D.