

## Blend Wall Crisis Is Developing

Corn contributes in a large way to a country-wide solution to U.S. dependence on foreign oil since the vast majority of ethanol is produced from corn. By the end of 2008, the U.S. will have the capacity to produce more than 10.8 billion gallons of ethanol, displacing more than 7% of total annual domestic gasoline use.

This summer, the U.S. Departments of Agriculture and Energy estimated that ethanol production has lowered gas prices between 20 and 35 cents per gallon<sup>1</sup>, saving taxpayers \$6 billion due to strong commodity prices. Ethanol is a domestic manufacturing success that has begun the process of weaning the U.S. off its dependence on foreign oil and is helping to revitalize rural America.

With the current 10% blending limit in the U.S. gasoline supply, ethanol as a positive economic engine is under siege. If this limit stands, continued growth of the ethanol industry will stop and increased efficiencies in corn production will falter. We could witness a collapse of ethanol and corn prices.

Over the next 12-18 months, the current ethanol industry could hit production capacity at 13.7 billion gallons. This volume of production will exceed 10% blending capabilities within the U.S. by as much as 1 billion<sup>2</sup> gallons. The average size of an ethanol plant at that projected production capacity would be 67 million gallons per year<sup>3</sup>. Thus, 15 ethanol plants could be without sufficient infrastructure to sell into the U.S. market.

The repercussions of this imbalance would be felt across a wide economic swath. First and foremost will be the shift in corn demand. Corn production has been more than 10 billion bushels since 2003 with the 2007 crop exceeding 13 billion bushels. This supply has allowed the ethanol industry to grow and become a major consumer of grain in the U.S.

A one billion gallon loss to the ethanol industry would reduce demand for corn by more than 7% within the industry and, potentially, launch carry out close to 2 billion bushel mark, a point where corn prices have historically seen lows in the \$2.00 range. This shift in demand could cause the total value of the U.S. corn crop to drop by 50% from its \$54 billion high in 2007<sup>4</sup> – a potential 25 billion dollar loss to the U.S. economy, hitting rural communities hardest.

Financial losses would not stop there, according to a study by John Urbanchuk<sup>5</sup> that analyzes the economic benefits of ethanol plants on the rural economy. The potential loss of 1 billion gallons by this infrastructure blend wall could:

- Reduce the economic base of the local economies by 2.7 billion dollars
- Cause a loss of \$490 million in household income
- Result in 17,000 job losses throughout the entire U.S. economy
- Cause a \$30 million loss in state and local tax revenues

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1 -- June 11 letter by the USDA and U.S. DOE to Sen. Jeff Bingaman

2 -- FAPRI 10% blending capacity estimates based on DOE EIA gas consumption, 2008

3 -- Renewable Fuels Assn. website ([www.ethanolrfa.org](http://www.ethanolrfa.org)) 10/30/2008

4 -- USDA NASS, Total crop x seasonally adjusted price average

5 -- ETHANOL AND THE LOCAL COMMUNITY, 6/02