

Cutting Ethanol Production Would Increase Gasoline Prices from \$3.65 to \$4.79 per Gallon

Blending More Ethanol Keeps Gas Prices Down, According to Experts

In testimony before Congress, the Renewable Fuels Association (RFA) today identified the growth of ethanol production as a major factor in keeping gasoline prices lower than they otherwise would be.

In testimony before the Subcommittee on Energy and Air Quality of the Committee on Energy and Commerce, RFA President Bob Dinneen noted the positive impact ethanol is having on prices at the pump and pointed out that:

“Removing 4.5 billion gallons of ethanol from the market, as envisioned by [Texas] Governor Perry’s [Renewable Fuels Standard] waiver request, would increase gasoline prices in the short term (up to one year) by up to 31 percent. This means that the current average retail price of \$3.65 per gallon would increase to \$4.79 per gallon! Such an increase in gasoline prices across the country would be devastating to all Americans. The longer-term response would be smaller, approximately 13 percent, but still a crippling impact on the U.S. economy.”

Economist John Urbanchuk echoed Dinneen’s comments. In an interview with Reuters, Urbanchuk calculated, “It would add a bit over \$1.10 a gallon to gasoline in the short term because you’ve got to go out and replace that 4.5 billion gallons of ethanol.”

In his testimony, Dinneen said that one solution helping keep oil and gas prices lower than they otherwise would be is the increasing use of ethanol and other biofuels. Iowa State University estimates American drivers are saving between 30-40 cents thanks to the use of ethanol. Merrill Lynch analyst Francisco Blanch told Business Week:

“For one, the billions of gallons of ethanol are moderating oil prices by ‘easing energy bottlenecks,’ says Francisco Blanch, head of global commodity research at Merrill Lynch. Blanch figures that oil prices would be at least 15% higher than they are, if not for today’s output of ethanol.”

Crude and Food Connection

Representatives of the oil, big food and integrated livestock and meat processing industries have been vocal critics of ethanol, suggesting it is the largest factor behind rising food prices domestically as well as internationally. This smokescreen deliberately diverts attention from the main culprit behind rising consumer prices -- record high oil and gasoline prices and an ever-tightening world oil market.

A recent study from Texas A&M University requested by Texas Governor Rick Perry clearly identified the crude and food connection that the governor chose to ignore: “The underlying force driving changes in the agricultural industry, along with the economy as a whole, is overall higher energy costs, evidenced by \$100 per barrel oil.”

Likewise, the Federal Reserve Bank of Kansas City observes that, “...a 10 percent gain in energy prices could contribute 5.2 percent to retail food prices.” Since January, the price of oil is up more than 30 percent.

And just last week, the White House calculated that, “Without increased ethanol production, food price inflation in the United States would have been 4.25 percent over the past 12 months rather than 4.5 percent.” Additionally, the White House noted that, “Increased production of corn-based biofuels is estimated to account for only three percent of the 43 percent increase in global food prices.”