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Ethanol, Just Recently a Savior, Is Struggling

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Mark Hirsch for The New York Times

A VeraSun Energy plant in Dyersville, Iowa, opened in early September 2008 and closed two months later. Now it is for sale.

By CLIFFORD KRAUSS Published: February 11, 2009

Barely a year after Congress enacted an energy law meant to foster a huge national enterprise capable of converting plants and agricultural wastes into automotive fuel, the goals lawmakers set for the ethanol industry are in serious jeopardy.

As recently as last summer, plants that make ethanol from corn were sprouting across the Midwest. But now, with motorists driving less in the economic downturn, the industry is burdened with excess capacity, and plants are shutting down virtually every week.

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every week.

In the meantime, plans are lagging for a new generation of factories that were supposed to produce ethanol from substances like wood chips and crop waste, overcoming the drawbacks of corn ethanol. That nascent branch of the industry concedes it has virtually no chance of meeting Congressional production mandates that kick in next year.

The decline in fortunes has been extreme for both kinds of ethanol since last summer,

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when \$145-a-barrel oil appeared to shift fuel economics in their favor.

Only months ago, refiners in some regions were buying up as much corn ethanol as they could to blend with expensive gasoline, effectively keeping pump prices down slightly. Meanwhile, investors seemed willing to finance plants to produce next-generation [biofuels](#).

But since the summer, oil and gasoline prices have plunged, while the price of corn, from which virtually all commercial ethanol in this country is made, has remained relatively high. Refiners are limiting their ethanol purchases to a level required to meet federal blending mandates — a level far below the industry’s capacity.

“The ethanol industry is on its back despite the billions of dollars they have gotten in taxpayer assistance, and a guaranteed market,” said Amy Myers Jaffe, an energy analyst at [Rice University](#).

The government’s Energy Information Administration recently projected that the industry would fall short of the targets for expanded use of ethanol and other biofuels that Congress set in a 2007 energy law. “It’s possible we may have to look at the targets again,” said Senator [Jeff Bingaman](#) of New Mexico, the chairman of the Senate Energy and Natural Resources Committee.

VeraSun Energy, one of the nation’s largest ethanol producers, has suspended production at 12 of its 16 plants and is planning to sell production facilities. In recent days Renew Energy, Cascade Grain Products and Northeast Biofuels have filed for bankruptcy protection. [Pacific Ethanol](#) said it would suspend operations at its Madera, Calif. plant.

Bob Dinneen, president of the Renewable Fuels Association, a trade group, estimated that of the country’s 150 ethanol companies and 180 plants, 10 or more companies have shut down 24 plants over the last three months. That has idled about 2 billion gallons out of 12.5 billion gallons of annual production capacity. Mr. Dinneen estimated that a dozen more companies were in distress.

Ronald H. Miller, the president and chief executive of Aventine Renewable Energy, said, “The economics right now are very poor.” Aventine has suspended construction of one Nebraska plant and delayed completion of a second in Indiana.

This is not how it was supposed to be when Congress mandated in 2007 that refiners blend increasing amounts of ethanol into the country’s transportation fuel supply. The law came at a time when the country’s thirst for gasoline seemed unquenchable, and oil prices seemed only to go up.

In an effort to reduce the country’s dependence on foreign oil and to lower the greenhouse gas emissions that contribute to [global warming](#), Congress mandated a doubling of corn ethanol use, to 15 billion gallons a year by 2015. Congress also mandated, by 2022, the use of an additional 21 billion gallons of ethanol and other biofuels produced from materials collectively known as biomass. The potential materials include corn stubble, wood chips and straw.

Congress hoped that advanced biofuels would overcome the longstanding controversies associated with corn ethanol, including the contention that its production raises [food prices](#). Congress started small, decreeing that industry produce 100 million gallons of advanced biofuels next year and 250 million gallons in 2011. But it is becoming clear that even these modest targets will not be met.

Producing the advanced fuels entails breaking down a tough material, cellulose, that is

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abundant in corn cobs, wood chips and other biological waste, then converting it to liquid fuel. While scientists have proven it can be done, the cost is still high, and little if any cellulosic ethanol is being produced at commercial scale.

Carlos A. Riva, president and chief executive of [Verenium](#), a company working to produce ethanol from sugar cane waste, said that solving the technological hurdles for this type of fuel was “not a slam dunk.” But he and other executives say they are optimistic the challenges can be overcome, and the 2011 and 2012 targets may be met a few years late.

Small, mostly private companies that go by names like Range Fuels, Poet and BlueFire Ethanol have built pilot plants and hope to move into commercial production. But private investment in advanced biofuels has plummeted since the economy went sour late last year, and it is unclear if the industry can scale up. “Cellulosic ethanol is something that is always five years away and five years later you get to the point where it’s still five years away,” said Aaron Brady, an energy expert at Cambridge Energy Research Associates, a consulting firm.

With gasoline consumption declining even as federal mandates for ethanol are increasing, demand for cellulosic ethanol may be insufficient anyway.

Energy experts project that national gasoline consumption in 2009 and 2010 will be 6 percent or more below the 2007 level, and future ethanol production targets could represent more than 10 percent of gasoline production. Since regulations set a 10 percent blend limit for ethanol in most gasoline, there would be no place for ethanol production to go.

“Without moving the blend wall, there is no future for cellulosic ethanol,” said Jeff Broin, president and chief executive of Poet, a company with interests in corn and cellulosic ethanol.

Automobile manufacturers say most of their cars are not designed to run on higher ethanol concentrations. But the [Environmental Protection Agency](#) and the Department of Energy are conducting studies to see if the 10 percent limit could be raised.

Senator Bingaman said he expected those tests to be completed over the next year or so, and he would like to see higher blend levels for ethanol.

“There’s no doubt when we wrote that bill, we did not anticipate the recession we are currently sinking into,” he said. “Exactly what that requires us to do as far as changing the law, I am not clear on yet.”

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