Analysis: Why the U.S. ethanol mandate is drought-resistant

Rising corn prices have livestock lobbyists campaigning for a reprieve on the Renewable Fuels Standard, Reuters reports. Beef, poultry and hog producers fear the demand for ethanol created by the mandate will further raise prices on the corn they need to feed their animals.

However, before the reprieve will be granted it must be proven that the mandate itself is causing economic hardship, not just the drought:

"Severe economic damage is a very high bar," said Mark McMinimy, a senior policy analyst at Guggenheim Washington Research Group, part of a financial services company.

Texas Governor Rick Perry discovered that for himself in 2008 when drought boosted grain prices and the meat industries pushed him to petition the EPA to waive the mandate. The agency turned him down, emphasizing that future petitions would have to demonstrate implementation of the mandate itself was causing the economic harm, not just contributing to it.

Lobbyists also sponsored research released July 12 by agricultural economist Thomas Elam. The study says the ethanol mandate is raising the price of food without lowering the price of gasoline. But so far, the response from politicians has been lackluster.

And there’s no guarantee removing the mandate would lower the price of corn:

Because output ran far above last year’s mandate, oil companies can use more than 2.5 billion of 2011’s renewable fuel credits known as Renewable Identification Numbers, or RINS, to meet this or next year’s quota in lieu of buying ethanol.

Furthermore, the ethanol industry has already slowed production of its own accord, temporarily closing some plants as demand on their product has decreased.
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