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ETHANOL - BOOM OR BUST

Nebraskan's are in the midst of an ethanol plant boom driven by high oil prices. The fact that Methyl Tertiary-Butyl Ether (MTBE) is not being used anymore as an oxygenate in gasoline, has increased ethanol demand. Because ethanol increases octane (usually a good thing for your engine), and ethanol comes from renewable resources (not from the Middle East), that is a win situation for rural areas in Nebraska.

The challenge is the long term economic viability of the ethanol plants and some people in rural communities are starting to question the future. The future demand of ethanol, the impact of higher corn prices and concerns whether the current boom will turn bust, have many people wandering.

A University of Nebraska-Lincoln Department of Agricultural Economics study looked at the future economic viability of ethanol plants to answer these questions and assist local government officials and economic developers.

The analysis looked at two hypothetical scenarios for two types of ethanol plants most prevalent in Nebraska - a 40 million gallon per year plant built in 2002 and a 100 million gallon per year plant built in 2005.

The models are not forecasts of what will happen but rather projections of what could happen if certain economic assumptions and policies remain in place. The study comes at the forefront of debates in Congress that could lead to increased government standards of biofuels available to the public. Some want to double the annual consumption of ethanol to 15 billion gallons by 2015. The current requirement is 7.5 billion gallons.

The study found that a combination of higher corn prices, rising energy costs, lower prices for ethanol in coming years and expiring government tax credits in 2011 could cause a 40 million gallon plant to become unprofitable in 2011 and lose \$1.4 million in 2013 if the current requirements for ethanol consumption aren't increased. The study concluded that by 2013, 100 million gallon plants might only break even.

Doubling the standard to 15 billion gallons will allow smaller plants to break even, rather than going bust. For the 100 million gallon plants, the 15 billion gallon expansion will keep the plants profitable for many years.

Although ethanol production does promote rural development by providing good jobs and increased farm income, rural communities should not have a "Gold Rush" mentality based on only a few years of record-high profits.

The full study, *Understanding Ethanol Plant Economics: Will Boom Turn Bust?*, can be accessed online at <http://agecon.unl.edu/peters/pubs.html>.



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