

Study shows subsidy impact on ethanol industry

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While federal subsidies drove the emergence of the U.S. biofuel industry, state incentives impacted the location of ethanol plants, according to a recent study by a University of Wisconsin Oshkosh economist.

“States that offer a per-gallon ethanol subsidy really show a dramatic impact on plant location,” said Chad Cotti, a UW Oshkosh assistant professor of economics. “States that offer subsidies also have seen more growth in ethanol production, even after taking into account other factors.”

Cotti teamed with Mark Skidmore, an agriculture, resource and food economist at Michigan State University, to evaluate the development of ethanol production?primarily from corn grain?in the United States from 1980 to 2007.

The researchers’ study was published in the 2010 issue of the Southern Economic Journal.

Ethanol production, which was virtually nonexistent in the U.S. in 1980, grew to 6.5 billion gallons per year by 2007, fueled by federal subsidies and mandates requiring ethanol to be mixed with gasoline.

The current federal subsidy is 45 cents per gallon for ethanol/gasoline; the rate was 51 cents per gallon prior to 2009, when Cotti and Skidmore conducted their study. Many states offer additional subsidies or tax credits to encourage ethanol production or consumption. Wisconsin, for example, offers a 20-cent-per-gallon subsidy, up to 15 million gallons.

That’s equivalent to \$71,400 per worker for an average-sized plant in Wisconsin, Cotti explained.

“That is a costly subsidy, if the state’s goal is job creation,” he said. “However, state policymakers may want to support subsidies, if the goal is to build the infrastructure to become a leader in ethanol production in the future.”

The study also showed that even with large subsidies, states that lack good growing conditions for corn are unlikely to become major ethanol producers, Cotti said.

- Read more about [Cotti](#).