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Is Ethanol Cronyism on the Ropes?

While then-candidate Donald Trump did participate in the usual campaign ritual of bending knee to Iowa farmers with a promise to protect the Renewable Fuel Standard, there was reason to hope his pledge to drain the swamp would extend to ending or reforming the beleaguered mandate that requires most gasoline to be blended with ethanol. After all, the once seemingly unstoppable political clout of Iowa's agricultural interests was notably weakened when Ted Cruz defied convention by openly opposing the renewable fuel standard and won the Republican Iowa caucuses anyway.

Perhaps Hawkeye State voters are no longer as into cronyism as the cronies and their representatives, which fuels hope that Trump may yet push for RFS reform.

Congress created the requirement to blend plant-based ethanol into the nation's fuel supply supposedly out of concern for greenhouse gas emissions, as well as out of a fear that consumers would become increasingly reliant on foreign fuels just as global oil prices seemed to be skyrocketing.

It was wrong on both counts. The Government Accountability Office consistently projects that the RFS won't meet its goal to reduce greenhouse gas emissions. In stark contrast, a 2016 University of Minnesota study finds that an unintended consequence of the biofuel mandate is that it actually increases net greenhouse gas emissions.

As the authors explain, the RFS creates a "market rebound effect" whereby the mandated expansion of biofuel production increases the overall fuel supply. This in turn lowers fuel prices, which encourages greater consumption. The lower emissions from biofuel use, based on Environmental Protection Agency figures, aren't enough to offset the overall increase in fuel consumption. And this analysis doesn't even get into the debate over the full life-cycle impact of ethanol production.

Likewise, seeing as politicians hold no special insight into future market developments, it should come as little surprise that their worries about dependence on foreign oil were negated by the U.S. shale oil and fracking boom and the subsequent drop in global oil prices.

But mere failure to accomplish legislative goals isn't why the RFS is under scrutiny today. Most government programs share that inglorious distinction. What has the RFS under the microscope is its destructive impact on independent oil refineries.

Many refineries can't economically meet the increasingly burdensome RFS mandate. As the requirements continue to expand well beyond both the capabilities of existing vehicles and the consumption habits of drivers, the strains on the sector will only get worse.

The program does allow refineries that can't produce their own biofuel to purchase credits, known as Renewable Identification Numbers, from those who can meet the targets. This escape valve worked modestly well for a time, but the price of RINs has exploded, and many refineries can no longer afford them, either. When the largest East Coast refinery, Philadelphia Energy Solutions, filed for bankruptcy protection earlier this year, it cited the “soaring costs” of the renewable fuel credits as a primary reason.

President Trump, for his part, appears to be wobbling on the issue. He indicated a willingness to confront RFS cronyism and was presented a slate of options by EPA chief Scott Pruitt but is reportedly backing off after facing pressure from the corn lobby.

One proposed solution involves capping the price of RINs. That could provide immediate relief to refineries currently being squeezed. However, it wouldn’t address the fundamental faults in the program and would need to be followed up with serious legislative reforms.

In a similar vein, the EPA under Pruitt is increasing its granting of waivers from the mandate to refineries for “disproportionate economic hardship.” Though beneficial for the refineries that receive them, waivers are a short-term Band-Aid at best and risk empowering the government to pick winners and losers.

The RFS program has failed to achieve its stated policy objectives of improving the environment and promoting energy independence. Rather, it primarily exists today as a handout for corn farmers. This is made clear by the fact that reform proposals are evaluated primarily by their impact on farmers and that the most strident defenders of the status quo in Congress come from agricultural states. A president who is serious about draining the swamp wouldn’t succumb to their demands but would instead push for the permanent reforms needed to reverse an ill-conceived market intervention.

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