

Ethanol Almost Ruined A *High Noon* Moment

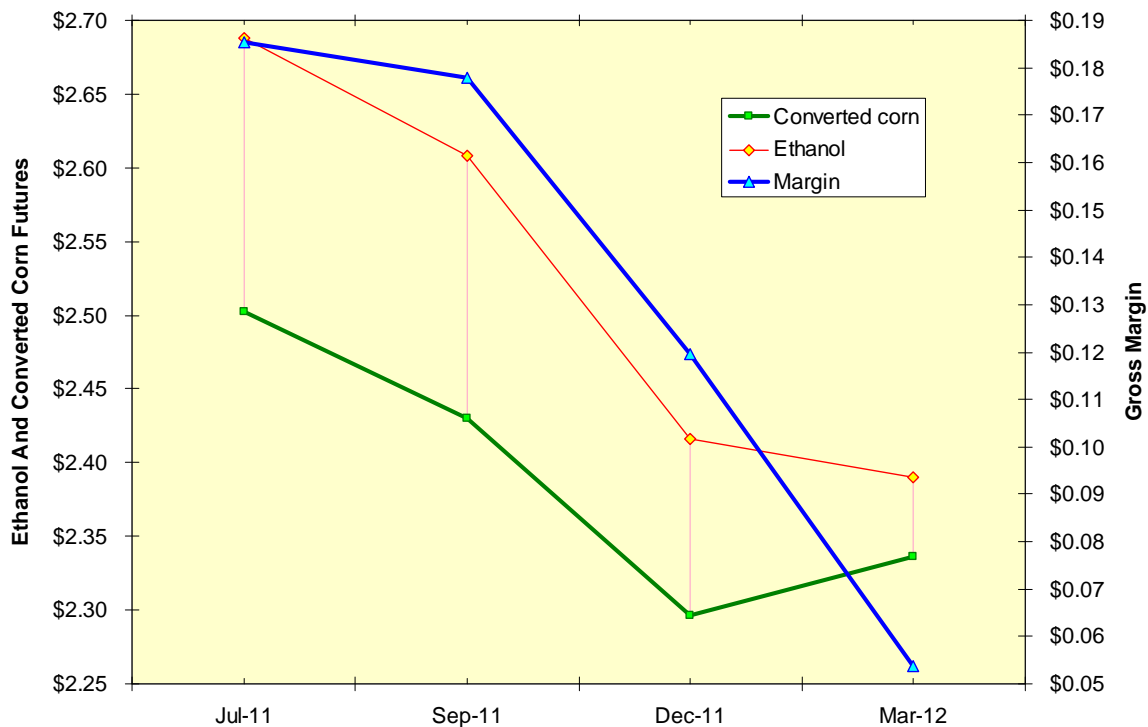
One of the defining scenes in cinematic history was Gary Cooper's take-on-the-world-by-myself shootout at the end of *High Noon*. It says it all: There are but a handful of moments in any person's life, any company's life or in any country's life that matter; it is what you do when failure is not an option that says who and what you are. The Senate came very close to flubbing the whole moment last week when first they declined to end the various subsidies for ethanol, but in a classic John Kerry moment of voting against it before they voted for it, turned around and passed the Webb amendment to eliminate the ethanol excise tax credit and the import duty on ethanol.

Finally. I have railed ceaselessly against ethanol for years, most recently in [October 2010](#). The Senate is finally learning what every trader learns: You have to take your losses, the sooner the better. Nothing starts out as a big loss, and trading by hope is unproductive as well. If anyone thinks Greece, Portugal, Ireland, Illinois and other basket cases will grow their way out of their debts, see me immediately.

It Kept Getting Worse

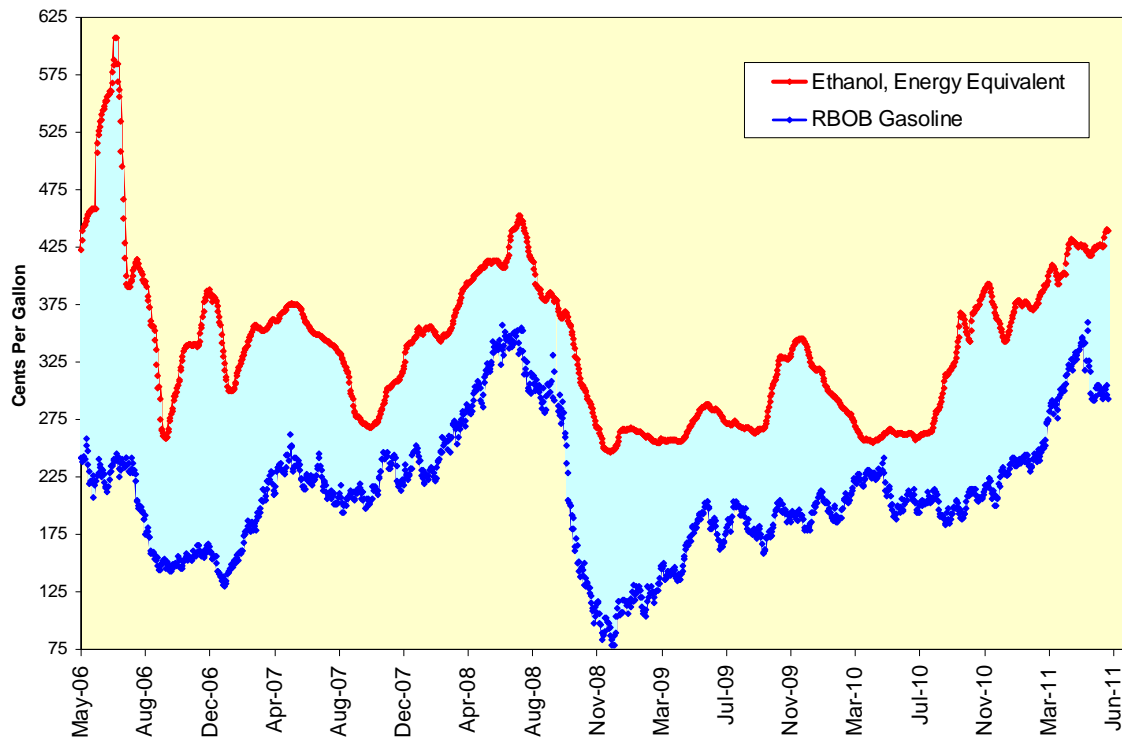
The gross board distillation margin for ethanol had declined toward uneconomic levels for the new crop, which is interesting considering how the spread between old and new crop corn is inverted; note the decline between July and December corn. This suggests an extreme vulnerability to adverse weather during the growing season. If new crop corn prices move higher, distillation margins easily could turn negative.

Ethanol Distillation Margins Uneconomic



Ethanol's adherents often wave the bloody shirt in terms of national security. Even though the largest foreign supplier of crude oil to the U.S. is Canada, we know that is not who they mean, but I digress. Has ethanol put downward pressure on the price of gasoline? Hardly; the national rack price of ethanol far exceeds that of gasoline on an energy-equivalent basis. Of course, gasoline is taxed heavily and unlike ethanol, no one mandates its use. But if there is one thing we should remember from international economics, it is you increase your national welfare by focusing on your competitive advantages and buy something from abroad when it is cheaper than a domestic alternative.

Ethanol More Expensive Than Gasoline On Energy-Equivalent Basis



Yet despite all of this, the Senate came dangerously close to ducking an opportunity to taking a stand against a policy that had resulted in 40% of our corn crop going to feed yeast to make a more expensive low-grade motor fuel. Yes, while the distillers' dried grains sold back by ethanol plants can be used as a livestock feed, only an imbecile should not understand DDG's have a lower food content than the original corn, and that is before we have to account for the processing and transportation losses.

The U.S. never should have embarked on this nonsense before the financial crisis and the explosion of public debt. It was a loss then; now it is a loss we cannot afford. Let's hope the broad public interest wins, just once, over this ill-conceived effort and the Webb amendment finds its way into the law of the land.