

Grain prices stifle ethanol building plans

By JOSH FLINT

THE ethanol industry has endured its share of black eyes in recent months.

Now, with corn prices over \$7 per bushel, it's becoming increasingly tough to turn a profit on corn-based ethanol. However, Hal Reed, president for The

Key Points

- Even with \$7 corn, ethanol can be a profitable industry.
- Blenders save tremendously with each gallon of ethanol they substitute.
- Ethanol construction has all but stopped in many areas.

Andersons' grain and ethanol group, says it's still possible to make money on ethanol in this atmosphere. It depends on the price of ethanol compared to crude oil.

Reed says ethanol prices saw steady increases during June. In early July, ethanol was around \$2.90 per gallon. However, the correlation between

ethanol and corn prices is a mere coincidence, Reed adds. The two don't necessarily follow each other.

He notes that a reduction in the renewable fuels standard is a possibility with this year's change in administration. "We as a company are not in favor of overgovernment," Reed adds. "We like to have the economic playing field speak for itself."

Even with a reduction, Reed says there is money to be made in ethanol. In early July, gas prices were at \$4.05 per gallon. With ethanol at \$2.85 per gallon, blenders save \$1.20 for each gallon of ethanol they blend into gasoline. With the 51-cent blender's credit, the profit margin moves to \$1.71 per gallon of ethanol substituted for gasoline.

Without these economics in place, Reed says consumers would be paying even more at the pump. "The single biggest beneficiary of the blender's credit is the person buying gas at the pump," he notes.

While corn prices have cast more attention on the ethanol industry's impact, Reed welcomes the extra attention. He says it will help consumers ascertain what ethanol is really responsible for.

Seven plants cancelled

Despite the profitability of ethanol, Reed says corn prices have many companies thinking twice before firing up another plant. "Nobody in the business is rushing to build plants right now, and we are no different," he adds.

The Andersons, based in Maumee, Ohio, is part owner in three operating ethanol plants with a combined capacity of 275 million gallons per year.

Walker Filbert, Heartland Ethanol president, says runaway corn prices are just one reason the company cancelled seven Illinois ethanol plants. The company had planned to build in Griggsville, Royal, Vandalia, Gridley, Waverly, Ransom and Mendota.

"The main reason is the credit crisis in the banking industry," Filbert notes. "There is no appetite anywhere to finance green field ethanol projects."

Filbert adds that Heartland Ethanol's investors, who are from the Knoxville, Tenn., area, were banking on nine to 10 months for the credit markets to clear up. When the latest estimates indicated another year to 18 months of waiting, they decided to abandon the project.

"You throw on top of that runaway prices in commodities, and it was going to be difficult," Filbert adds.

In the early stages, Heartland Ethanol's lender required an independent feasibility study. Filbert remembers the study priced corn at \$3.50 per bushel. When futures streaked past \$7 per bushel, the bank and the independent analysts were stunned, Filbert says. Various projections put the break-even price for corn around \$6, he adds.

Even though Heartland Ethanol is packing up and heading home, Filbert says their misfortune does not characterize the future of the industry.

"Ethanol is here to stay; it's not going away," Filbert concludes. "It just hit a big speed bump."

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