

Ethanol plants feel pinch

UNTIL now, ethanol has been a booming business in the corn states. Yet high corn prices are making it tough on ethanol plants — those up and running, as well as those still on the drawing board.

In 2006, there was a big jump in the number of ethanol plants being built. In 2008, there are announcements that

Key Points

- Record-high corn prices are causing ethanol industry to readjust its growth.
- Ethanol plants have had profit margins erode and disappear.
- Construction of some plants has been put on hold until profit picture improves.

some of those plants won't be built, and some that have been built won't open right away. They've been put on hold until the ethanol profit picture is better.

As record corn prices cause growth in the ethanol industry to slow, many of those who've invested in ethanol plants wonder what the future holds for the corn-based fuel. Iowa State University ag

He said it

"This is a tough time for the ethanol industry because we are having high grain prices due to a variety of factors such as weather, strong global demand and the buildup of a bioeconomy."



Chad Hart,
ISU economist

economist Chad Hart says it isn't time to panic, but it is time to readjust.

"The ethanol industry isn't over-built," says Hart. "The industry is still growing even through this financial stress. It's just growing at a slower pace than it has in the past."

Driven by increased demand, ethanol prices have improved this year as oil prices continue to climb. Even so, soaring corn prices have tightened down the profit margins to slim for some plants, and to none for others.

Corn price hampers ethanol

Hart says the current financial stress is having an impact on ethanol manufacturers and people who invested in Midwest plants — many of them farmers. The ethanol industry provides jobs in communities, too. The plants simply aren't making the money they were two years ago.

One newly built ethanol plant did begin operation in Iowa in July, however. The 55-million-gallon-per-year facility at Superior in northwest Iowa is owned by Green Plains Energy of Omaha. Green Plains opened another plant a year ago at Shenandoah in southwest Iowa.

Green Plains' decision to go ahead and open its Superior plant comes after VeraSun Energy of Brookings, S.D., announced it has delayed opening plants at Hartley, Iowa, and Welcome, Minn., as high corn prices have erased most of the profitability. Verasun has plants operating in Iowa at Albert City, Charles City, Fort Dodge and Dyersville.

In mid-July, Gold-Eagle Co-op and CORN-LP at Goldfield in north-central Iowa dropped plans to build an ethanol plant at Wesley, near Algona.

Access to its own corn

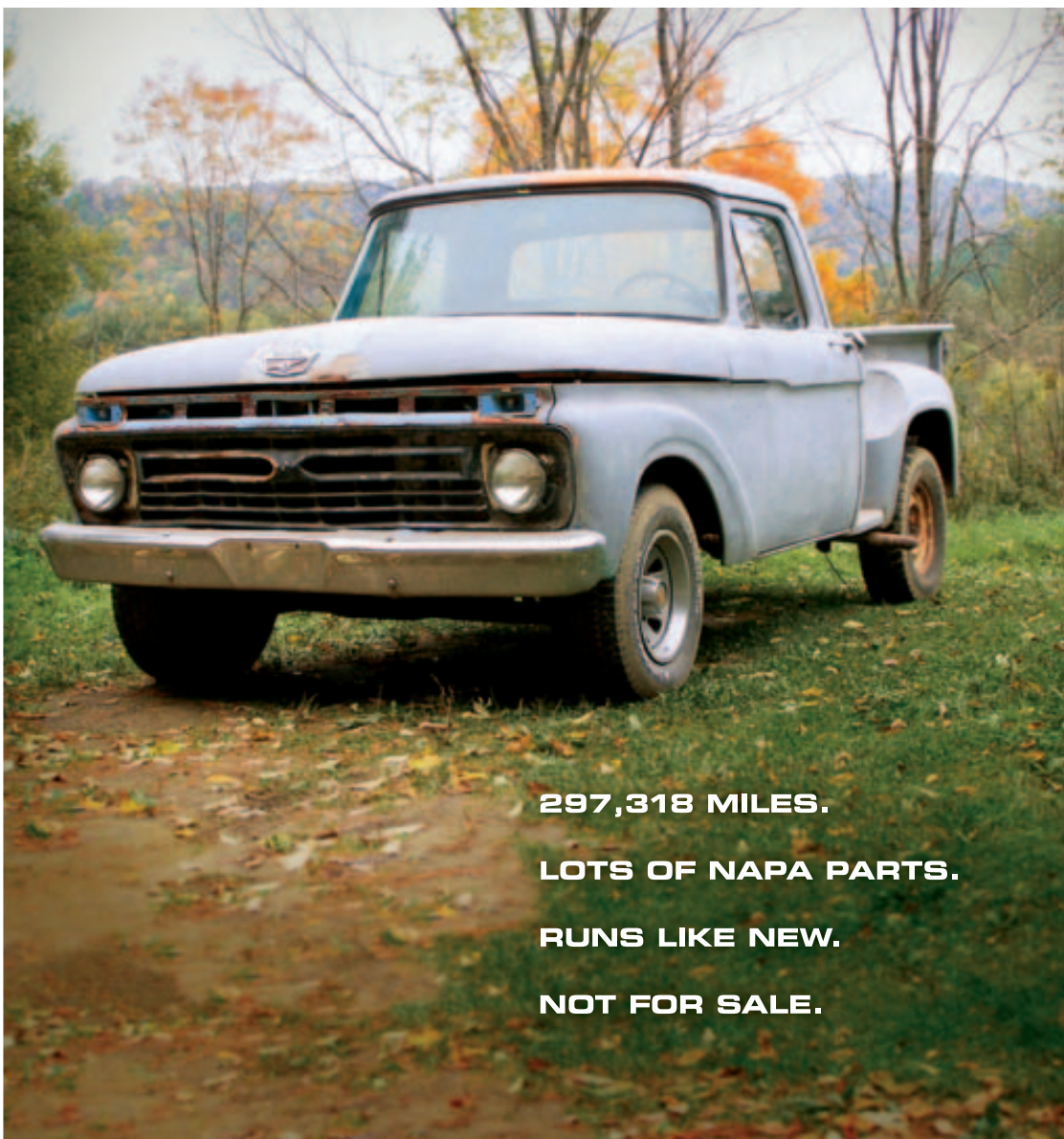
Scott Poor, director of investor relations for Green Plains, says his firm has an advantage in corn markets because of its recent purchase of Great Lakes Cooperative. Great Lakes owned seven grain elevators near the Superior ethanol plant; that's why Green Plains bought Great Lakes Co-op. Since it now owns those grain elevators, Green Plains has the ability to originate corn from farmers — a vertical integration advantage many ethanol producers lack.

"We're a different type of company," says Poor. "We can originate our own corn and have a price advantage."

Ethanol plants have seen profit margins erode or disappear this spring and summer as corn topped \$7 a bushel by mid-2008. Ethanol prices have stabilized around \$2.85 per gallon in Iowa and around \$3 per gallon nationwide.

Investors are also concerned about proposals to reduce the federal mandate for ethanol use and to allow Brazilian ethanol to enter the U.S. tax-free.

Source: ISU and Iowa Renewable Fuels Association



297,318 MILES.

LOTS OF NAPA PARTS.

RUNS LIKE NEW.

NOT FOR SALE.

At NAPA, we have over 310,000 parts. Parts that are built to stand up to the tough demands of your business. From heavy-duty batteries to tools to filters to fluids, if it carries the NAPA name, you know it not only meets the manufacturer's specs, it often exceeds them. It's no wonder people who count on their parts count on NAPA.

800-LET-NAPA / www.NAPAonline.com



Get The Good Stuff.®