

NewsWatch

Ethanol hits hard times



AWAITING A BUYER: The Gateway Ethanol plant in Pratt has been shut down for months and is in bankruptcy. Industry supporters say they believe the plant will be sold and will be put in operation.

By P.J. GRIEKSPoor

THERE is no doubt about it. Ethanol has hit tough times.

The woes of the credit markets have all but shut down equity drives. Last summer's historically high corn prices have left many plants with less-than-ideal supply contracts, and some, such as VeraSun, with disastrous hedging losses. Even plants with no debt have been turned down for revolving lines of credit.

In this fall's economic collapse, corn prices came down, but so did oil prices, bringing the age-old problem of gasoline priced cheaper than ethanol. Lack of infrastructure is still holding back demand. And a carefully orchestrated media campaign blaming ethanol for high food prices has hurt.

With all these problems, can this industry be saved?

Hedging issues

Donna Funk, who specializes in biofuel clients with the accounting firm Kennedy and Coe, believes it can.

"A lot of the worst problems are directly related to hedge fund issues," Funk says. "Plants bought contracts fearing the prices would go even higher. They

Farmland facts

- Almost 1 billion acres of the world's usable farmland is lying idle because it is not profitable to farm.

- In most of the Third World, farmland is less productive because farmers do not have access to the best seed and fertilizers.

- Governments in many parts of the world have resisted yield-improving biotechnology because they have no profitable markets for increased production.

- Properly managed, growing crops draw thousands of tons more carbon dioxide from the air than does cropland lying fallow.

Source: Growth Energy

Key Points

- Credit crunch and commodity prices give ethanol problems.
- Industry leaders say problems can be resolved.
- Even in troubled times, projects are slowly moving ahead.

parted from their traditional positions on risk management, and it ultimately turned out not to be a good idea."

She says she doesn't believe plants were mismanaged, just that the volatility in the commodities markets over the past several months has been unprecedented, and the people responsible for buying corn had no idea what the best course of action would be.

Ethanol plants need to keep about 10 days worth of operating supply on hand.

"You don't want to get too short because you don't know what the weather will do. If you have to have grain delivered by truck and there's a snowstorm, you could go days without being able to receive a delivery. And not having grain is not an option if you want to continue operating. That led some people to buying advance contracts at higher prices," Funk explains.

Projects slow but progressing

Larry McCants, president of First National Bank in Goodland, is a leader in the effort to establish an energy park in his town, with an ethanol plant as one component. A coal-biomass electrical generating plant, a biodiesel plant and perhaps someday a wind farm are also parts of the plan.

Developers bought plant equipment for the electrical generator and the ethanol plant from defunct operations in Minnesota.

But McCants says the economic crash has been the latest in a series of problems with getting the project going.

"We've had problems getting everything up and running," he says. "But we haven't abandoned anything. We think it

may be another 90 days for the ethanol plant, but we are still planning to go ahead with the project."

In Hugoton, Abengoa is still on track with at least the cellulosic pilot plant part of a planned project, says local banker Jack Rowden. The company, with North American headquarters in St. Louis, had also announced plans for an expansion of its existing operations in Colwich, but ran into community opposition that has yet to be resolved.

Kansas currently has 12 plants, but one of them, the Gateway Ethanol plant in Pratt, has been troubled for months. It shut down just weeks after opening last winter and is in receivership.

But that is an exception with its own set of issues, McCants says. Most Kansas plants, he says, have struggled with thin margins but are still profitable.

"I really think we will see a buyer for the Pratt plant get it put into operation, and I think other projects will move ahead when the markets settle down," McCants says.

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More blends may boost ethanol use

DAVID Vander Griend, president of DCM Inc. at Colwich, the nation's leading designer of ethanol plants, thinks giving consumers a choice of what they want to buy is a good way to increase demand for ethanol.

The U.S. Environmental Protection Agency approves blends up to 10% for all vehicles. Vander Griend says research shows that higher blends — up to 30% — work in all vehicles.

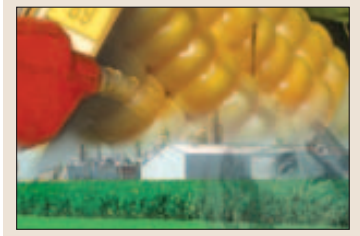
Currently only E10 and E85, a blend of 85% ethanol and 15% gasoline that can be used in flexible-fuel vehicles, are widely available.

As a leader in a new ethanol coalition, Growth Energy, Vander Griend wants to see more blender pumps at retail stations, giving consumers a choice between several blends, adding E20, E30 and E40 to the mix for flexible-fuel vehicle owners.

Growth Energy, which made its debut in November, is also starting a media campaign of its own, questioning popular claims that ethanol is a major driver of corn prices and corn is a major driver of food prices.

Vander Griend also wants to correct any assumptions that ethanol is the sole answer to energy needs.

"We need all the renewables, all working together," he says. "Ethanol is just one section of a bridge to energy independence. But it is a well-established first section. Let's not unhook that section, send it down the river and then start trying to build a new first section. Let's build on what we have and figure out how to hook second and third and fourth sections onto the solid first section we've already built."



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