Lingering drought impacts ethanol production

SETH SLABAUGH - The Star Press - Associated Press

Skyrocketing corn prices related to this summer's drought have helped to idle an Indiana ethanol plant in Montgomery County, while Cardinal Ethanol at Union City and POET Biorefining in Portland and Alexandria remain at full production.

Valero Energy Corp. idled its plant in Linden, between Lafayette and Crawfordsville, late last month but is keeping its 60 employees on the payroll and intends to re-start production before harvest.

"High corn prices driven by the drought have caused some ethanol plants to temporarily idle or reduce production," Matt Hartwig of the Renewable Fuels Association, an ethanol trade group in Washington, D.C., told The Star Press. "Ethanol prices have not kept pace given the overhang (ethanol surplus) in the market. It's made for some tough margins in the industry of late. The drought conditions will make it tough on all end users of corn and the market will ration supply accordingly."

The impact of the drought on Cardinal Ethanol "is yet to be determined," said Jeff Painter, general manager. "I don't think the impact will happen before harvest. We don't yet know what kind of crop there will be in our draw area, which is a 50- to 75-mile radius." The draw area refers to the territory from which the plant buys corn.

"What if corn goes to $10 a bushel, which is possible given the forecast we have in front of us?" Chris Hurt, an agricultural economist at Purdue University, said in an interview. "If corn goes up, more plants will probably shut down over a series of weeks. Corn is their biggest cost."

Like Painter, Ken Parrent, the commodity manager at the POET plant in Portland, said the drought could have an impact down the road.

"We're still grinding corn harvested last year," Parrent said,. "It's not a problem as of yet, other than the price is more expensive. I would say it's too early to judge how seriously this crop has been impacted."

POET employs 40 people, which Parrent said is the typical employment at East Central Indiana ethanol plants.

The POET facility in Alexandria, which employs 42 people, also remains at full production, and its manager sounds confident. "POET has been in the ethanol business for 25 years under a wide range of market ups and downs," said Dave Hudak. "Optimizing production and risk management are things we do every day, not just when the market gets tough."

POET has a network of 27 plants in seven states with a capacity of more than 1.6 billion gallons of ethanol per year.

Cardinal Ethanol, on the other hand, operates just one plant, with annual production capacity of 100 million gallons.

There are more than 800 million gallons of ethanol in storage nationally. The Energy Independence and Security Act requires refiners to use 13.2 billion gallons of renewable fuel this year.

"POET has lots of ethanol in the Midwest, so if one plant had to shut down, POET could meet its commitments from other POET plants," Hurt said. "When you are the only one doing the job, you have no backup, and it's harder to meet commitments. Central Indiana Ethanol in Marion is a single plant. So is Cardinal Ethanol. A single plant already committed to selling ethanol to blenders can't just shut down. If they do, they have to buy ethanol from somebody else, try to buy on the open market. It's not a pleasant situation."

Hurt added, "For ethanol plants, shutting down means you would lose more by running than by shutting down. It's not a good thing."

Central Indiana Ethanol could not be reached for comment.

Hurt noted that corn in Indiana and Illinois has been harder hit by drought than corn farther west.

"The best case for ethanol plants, and for you and I as consumers, is if the damage could end now and we get rain," Hurt said.

"Even then, we would still have a lot of damage to the corn crop. Our die is cast. There will just be very narrow margins if not negative margins for end users, including livestock."

The drought and high corn prices raise many issues for the ethanol industry, including the likelihood of involvement by the federal government, livestock producers, grocers and political candidates, Hurt said.

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