

Iowa, Nebraska ethanol output cut amid drought

DAVID PITT - Associated Press - Associated Press

Ethanol plants are voluntarily slowing production as corn prices climb and supplies tighten amid a widespread drought that has generated discussion about whether more of the crop should be devoted to food production.

Ethanol production nationally has dropped by 20 percent since the beginning of the year and is at a two-year low, said Bob Dinneen, CEO of the Renewable Fuels Association, a national trade group.

The production drop-off is similar in Iowa, which produces about a third of the nation's ethanol, and in Nebraska, the No. 2 ethanol producer, it's down by about 30 percent, industry officials said.

Ethanol plants in some states have temporarily halted production, including three of the 24 in Nebraska. The plants had planned to shut down for a week routine maintenance but extended that for a month, said Todd Sneller, administrator at the Nebraska Ethanol Board, a state agency responsible for developing the ethanol industry. Also, a plant in Aurora, Neb., that was supposed to start up in June has postponed its opening.

All of Iowa's 41 plants remain in operation, although they are producing less.

Some environmental and livestock groups have lobbied Congress to pressure the Environmental Protection Agency to relax its Renewable Fuel Standard, which requires the fuel industry to use about 12 billion gallons of ethanol a year. Critics say the requirement diverts too much corn from food to fuel production, increasing food prices.

The ethanol industry says cutting production would have a minimal impact on food prices but would make fuel significantly more expensive, hurting most families.

"The fact of the matter is this horrible drought has very painful supply and price implications for everybody," said Monte Shaw, executive director of the Iowa Renewable Fuels Association, a trade group for the ethanol and biodiesel industries. "Our role is to pull back first and the fastest. We're already at a two-year low and where the economics take you is that the ethanol industry will bear the brunt of the rationing of available corn."

The federal government has estimated food prices could increase 3 percent to 4 percent next year. Much of the increase will be in meat and dairy products because the drought has resulted in less corn and hay available for feed.

The nation's ethanol plants were expected at the beginning of the year to make about 13.7 billion gallons this year but that could slip to 12.5 billion gallons if the

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industry continues to run at last week's level, Dinneen said.

The biodiesel industry, which mainly uses soybeans, remains strong. The industry made 1.1 billion gallons of the diesel fuel additive for the first time in 2011.

In Iowa, one of the nation's leading producers, 10 plants are on track to make a record 200 million gallons this year if the current pace continues.

"The watch word on biodiesel is so far, so good this year, but there certainly could be some challenges ahead," Shaw said. "We're still waiting to see what kind of soybean crop we're going to have. Rain in the next few weeks will make or break the soybean crop."

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