

# Bring on the Right Biofuels

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Fads come fast and furious in our viral age, and the reactions to them can be equally ferocious. That's what we're seeing right now with biofuels, which everyone loved until everyone decided they were the worst thing since the Black Death.

Where fuel distilled from plant matter was once hailed as an answer to everything from global warming to the geo-strategic power shift favoring repressive one-pipeline oil states, its now a "scam" and "part of the problem," according to Time magazine. Ethanol has turned awful.

The supposed crimes of biofuels are manifold. They're behind soaring global commodity prices, the destruction of the Amazon rain forest, increased rather than diminished greenhouse gases, food riots in Haiti, Indonesian deforestation and, no doubt, your mother-in-law's toothache. Most of this, to borrow a farm image, is hogwash and bilge.

I'll grant that the fashion for biofuels led to excess, and that some farm-to-fuel-plant conversion, particularly in subsidized U.S. and European markets, makes no economic or environmental sense. But biofuels remain very much part of the solution. It just depends which biofuels.

Before I get to that, some myths need dispelling. If Asian rice prices are soaring, along with the global prices of wheat and maize, it's not principally because John Doe in Iowa or Jean Dupont in Picardy has decided to turn yummy corn and beet into un-yummy ethanol feedstock.

Much larger trends are at work. They dwarf the still tiny biofuel industry (roughly a \$40 billion annual business, or the equivalent of Exxon Mobil's \$40.6 billion profits in 2007). I refer to the rise of more than one-third of humanity in China and India, the disintegrating dollar and soaring oil prices.

Hundreds of millions of people have moved from poverty into the global economy over the past decade in Asia. They're eating twice a day, instead of once, and propelling rapid urbanization. Their demand for food staples and once unthinkable luxuries like meat is pushing up prices.

At the same time, the rising price of commodities over the past year has largely tracked the declining parity of the beleaguered dollar. Rice prices have shot up in dollar terms, far less against the euro. Countries like China are offloading depreciating dollar reserves to hoard stores of value like commodities.

Food price increases are also tied to oil being nearly \$120 a barrel. Fossil fuels are an important input in everything from fertilizer to diesel for tractors.

Another myth that needs nuking is that the Amazon rain forest is being destroyed to make way for

Brazilian sugar-cane ethanol. Almost all viable cane-growing areas lie hundreds of miles from the rain forest. Brazil has enough savannah to multiply its 3.5 million hectares of cane-for-ethanol production by ten without going near the Amazon ecosystem.

Brazilian rain forest is burning, as it long has, for a complex mix of economic reasons. Brazil's successful ethanol industry 80 percent of new cars run on ethanol or gasoline and all gasoline comprises 25 percent biofuel is not one of them.

The danger in all this anti-biofuel hysteria is that we'll throw out the baby with the bath water. Those hundreds of millions of Chinese and Indians now eating more will be driving cars within the next quarter-century. What that will do to oil prices is anybody's guess, but what's clear is that ethanol presents the only technically and economically viable alternative for large-scale substitution of petroleum fuels for transport in the next 15 to 20 years. It's not a panacea, but it's a necessary bridge to the next technological breakthrough.

The question is: which ethanol?

Right now, the biofuel market is being grossly distorted by subsidies and trade barriers in the United States and the European Union. These make it rewarding to produce ethanol from corn or grains that are far less productive than sugarcane ethanol, divert land from food production (unlike sugarcane), and have dubious environmental credentials.

What sense does it make to have a surplus of environmentally friendly Brazilian sugar-based ethanol with a yield eight times higher than U.S. corn ethanol and zero impact on food prices being kept from an American market by a tariff of 54 cents on a gallon while Iowan corn ethanol gets a subsidy?

"It would make a lot more sense to drop the tariff, drop the subsidy, and allow Brazilian ethanol into the United States," said Philippe Reichstul, the chief executive of a biofuel company in São Paulo. "Pressure on U.S. land will be slashed."

The United States and Europe should maintain their biofuel targets. Pressure to scrap a European plan for renewable fuels to supply a tenth of all vehicle fuel by 2020 must be resisted while rethinking the policies that favor the wrong biofuels.

The real scam lies in developed world protectionism and skewed subsidies, not the biofuel idea.