

Editorial

Laws of Supply and Demand

We read with interest stories in local newspapers on the proposed ethanol plant at the Cumberland Valley Business Park at Letterkenny Army Depot in Franklin County. Most of the discussion revolves around the environmental concerns relating to the project.

We wonder if first, the \$80 million in capital will be raised, and second, if the plant will succeed from an economic standpoint. Ethanol is a commodity, subject to the laws of supply and demand. And based on what we read in the Wall Street Journal and reports from the Renewable Energy Association, the ethanol lobbying group, it looks as though a lot of new capacity is coming on stream.

It might be a repeat of another investment fad that left Hagerstown with an empty paper recycling plant called First Urban Fiber. Driven by tax incentives and promises of increased federal government use of recycled paper, a number of Wall Street firms convinced investors to back new paper recycling plants in the mid-1990s. The price of paper tanked and the plants remain idle.

The situation with ethanol plants is not much different, with promoters organizing farmers to finance plants in hopes of throwing off returns of 20% to 25% a year from turning corn into ethanol. In the case of Penn-Mar Ethanol, it appears that an investment firm and Sempra Energy are the driving forces behind the project, not just local farmers and agri-business folks.

While ethanol prices have already come off their highs, despite \$2 a gallon gasoline, 25 new plants are projected to come on stream, boosting capacity from 2 billion gallons in 2002 to over 4 billion gallons by the end of 2005. And many more plants are on the drawing board.

As all hog farmers know, the price of corn is a fluctuating commodity, and so is the price of oil. The Renewable Energy Association is lobbying Congress to mandate more ethanol in fuel, as well as to expand tax incentives to boost consumption.

That's a full plate of federal government intervention to drive ethanol demand to the point where it matches new capacity coming on stream.

We wish the Penn-Mar Ethanol folks good luck. No one wants an empty, 120-foot corn silo at the Cumberland Valley Business Park.

← end