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Driving Revival Fuels Profits for Beleaguered Ethanol Industry

- Robust fuel demand and cheap corn lift production, blending
- Biofuel consumption to stay high in months ahead, says ADM CEO

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An E85 ethanol and gasoline mix fuel pump at a gas station in Birmingham, Michigan. *Photographer: Daniel Acker/Bloomberg*

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Producers of ethanol, the biofuel made from corn, are finally catching a break as the summer US travel season is bringing an unexpected windfall to an industry that's been saddled with weak consumption since the pandemic.

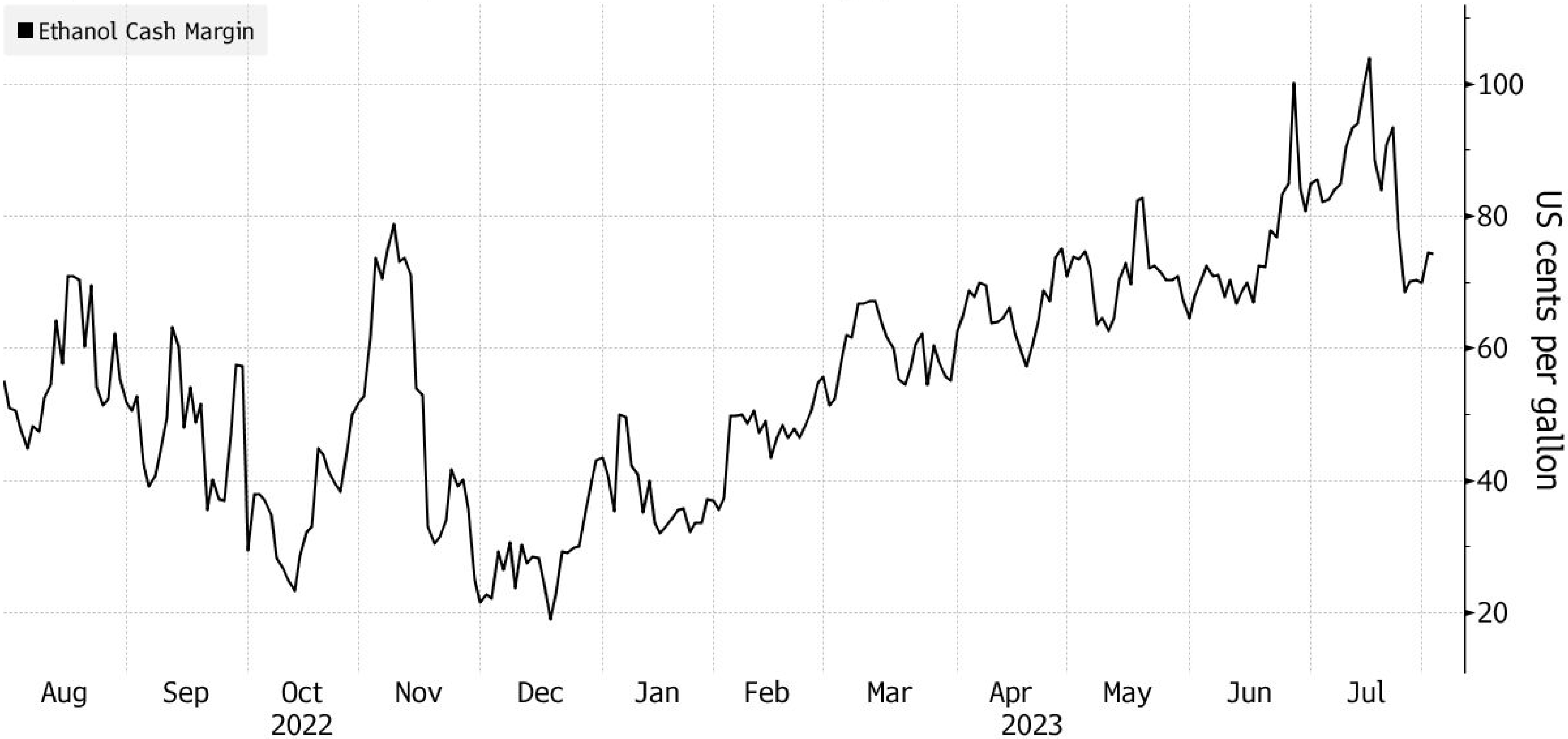
Rebounding fuel demand and cheaper grain have lifted the profits of turning corn into ethanol by 70% this year to roughly 80 cents per gallon, according to Bloomberg Intelligence data. Last month, buoyed by a blockbuster July 4th holiday for road travel, ethanol margins touched the highest level since late 2021.

That's a badly needed turnaround for ethanol makers such as Andersons Inc. and Archer-Daniels-Midland Co. The industry has struggled under the weight of sluggish consumption and skyrocketing corn prices following Moscow's invasion of Ukraine. Things had gotten so bad that companies including Green Plains Inc. had idled capacity to help erase a glut.

Now, a rebound in driving demand, particularly for vacation travel, has lifted gasoline consumption and ethanol blending, said Pat Bowe, chief executive officer of Andersons, one of largest US grain handlers. US law requires most of the gasoline sold in the country to contain at least 10% ethanol. Throw in solid export demand for the biofuel, and “margins have been firmer all year and higher than people anticipated early on,” Bowe said in an interview.

US Ethanol Margins Have Surged 70% This Year

Drop in corn prices helps boost biofuel-making profits



Source: Bloomberg Intelligence

Bloomberg

Ethanol producers are likely to see margins stay elevated with rising oil prices and softer corn, a combination that makes gasoline more expensive and ethanol cheaper. A record US corn harvest this year is expected to make the raw material even more affordable for ethanol makers in the months ahead. The gasoline-to-ethanol spread is currently sitting at minus 62 cents, a level that incentivizes higher blending.

Improving margins have already prompted producers to raise output by 26% so far this year, government data show. Ethanol margins are higher than normal because of the lower production earlier this year, according to

Jordan Fife, president of BioUrja Trading in Texas. “There is an increase in production right now because producers want to make money,” Fife said.

Archer-Daniels-Midland and Andersons are among ethanol makers that have reported strong second-quarter earnings in their ethanol business, supported by rising margins. Others missed out. Green Plains had to take one of its largest and most profitable plants in Wood River, Nebraska, offline for weeks after an explosion. This and other unplanned outages led the ethanol powerhouse to miss its earnings target.

Longer-term challenges remain for the industry. The Biden administration pulled back blending mandates for 2024 and 2025, and gasoline demand, though better than last year, is no where near 2019 highs and will likely never return to pre-pandemic levels. Further out, the administration’s crack down on vehicle pollution all but guarantees a bleak future for internal combustion engines and the liquid fuels that power them.

Still, ADM’s CEO, Juan Luciano, said he expects biofuels demand to remain strong in the months ahead.

“Through the first half of the year, we saw robust margins from biodiesel, strong demand for ethanol, and an increasing demand for vegetable oil from renewable green diesel,” he said in a recent earnings call. “We expect these trends to continue in the second half.”
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