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Expanding E15 Sales: Proactive Energy Policy, or Reactive Political Move?

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For many, spring is a time for elation, as long-awaited beams of sunshine slice through the smothering blanket of clouds. The grave silence of winter is disrupted by the chorus of birds, and bleak, frost-covered landscapes explode into a dazzling collage of vibrant colors. For millions of farmers across the United States, however, spring is a time of solemn calculation and meticulous statistical analysis. It is time to make a crucial choice: soybeans or corn.

Both crops are planted during the same season (April through June) and are grown in exactly the same environment. As such, they are perfect substitutes—for every acre that is devoted to corn, it means one less acre devoted to soybeans. Thus, come April, farmers must choose which crop to plant. Relying on statistical projections, farmers do their best to determine which crop will bring higher revenues. In recent years, American farmers have increasingly favored soybeans. A drought in Argentina has drastically cut the global supply of soybeans, pushing prices upward. Seeking to capitalize on the rising prices, American farmers have dedicated more and more land to soybean cultivation. The growing reliance on soybeans, however, has made farmers particularly vulnerable to China's latest tariffs.

In the escalating U.S.-China trade war, Beijing has levied a 25% tariff on U.S. soybeans. For many farmers, this raises serious financial concerns. Roughly one third of all U.S. soybeans are exported to China. The tariffs will make U.S. soybeans more expensive for Chinese consumers; as a result, China is expected to reduce its annual imports by several million bushels. The tariff is highly strategic—China has tailored its tariffs to disproportionately impact President Trump's voter base. Rather than trying to undermine U.S. economic stability, China is leveraging its tariffs to undermine Trump's political stability. China is selectively targeting those sectors of the economy upon which Trump relies for electoral support. Against this backdrop, Trump's recent decision to expand the sale of E15 fuel seems highly reactive—a desperate effort to rekindle political favor among the farmers who have been detrimentally impacted by his trade war.

E15 is a special type of fuel with a higher ethanol content—15% ethanol, compared to a nationwide mean of roughly 10%. E15 sales are currently prohibited from June through September, because the higher ethanol content makes E15 a particularly strong pollutant during hot weather. Trump has ordered the EPA to lift this summertime ban, thereby allowing sales of

E15 year-round. Of course, ethanol is derived from corn. By lifting the ban on E15, Trump will increase the demand for ethanol, which in turn, will increase the demand for corn. Presumably, Trump expects this to serve as a life-line for struggling farmers—rather than despairing at the mercy of China's tariffs, farmers can opt to produce corn instead of soybeans, thereby availing themselves of the newly expanded E15 market. In effect, Trump is hoping to stimulate corn-demand, in order to offset the reduction in Chinese demand for American soybeans. In fact, USDA Secretary Sonny Perdue practically said as much in a recent statement, declaring that "year-round sale of E15 will increase demand for corn, which is obviously good for growers…[this] is another victory for our farm and rural economies".

While it may be a victory for American farmers, the expansion of E15 sales will hurt the oil industry. If cars become increasingly reliant on corn-based biofuels like ethanol, they become proportionately less reliant on fossil fuels. Realizing this, the oil industry has already threatened legal action if the EPA chooses to expand E15 sales. President Trump is thus forced between a rock and a hard place. China's tariffs have forced him to make corn more profitable, in order to offset the loss in soybean demand; simultaneously, by appeasing corn farmers, Trump has ignited the rage of the oil industry. Both the agricultural voting bloc and the oil lobby are crucial players in American electoral politics; it seems that Trump will be forced to gain favor with one at the expense of the other, thus rendering him politically vulnerable.