

THIRD WAY TAKE *Published October 8, 2014 · Updated October 8, 2014 · 4
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The Future of Advanced Biofuels

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The population of Emmetsburg, Iowa surged for a single afternoon in September 2014. Visitors converging on this quiet farming town two hours outside of Sioux City included CEOs, reporters, politicians, and the King of the Netherlands. Yes, really. Drawing this high-powered crowd was a celebration for the grand opening of Project Liberty, a facility that will turn crop wastes into 25 million gallons of cellulosic ethanol each year.

The federal government had some particularly good reasons to celebrate this cellulosic ethanol plant, as well as the two similar facilities that are expected to open later this year. Running a vehicle on cellulosic ethanol instead of gasoline cuts greenhouse gas emissions by at least 86%—which would go a long way toward meeting the President’s climate goals. The ability to generate biofuels from agricultural waste or lesser-grown energy crops creates entirely new markets for farmers and could generate significant economic development in rural America. And a new source of domestic fuel production could make the U.S. even less dependent on foreign oil.

Between the Departments of Agriculture and Energy, the federal government has provided loans, grants, and research assistance in partnership with the private sector to reap the rewards of cellulosic ethanol. So perhaps there was some pride of ownership as representatives from each of these federal agencies took the podium to address the crowd in Emmetsburg—as though Project Liberty were the symbol of a much larger investment on the cusp of finally paying off.

One agency, however, was notably absent from the speaking program. In most farming communities, the Environmental Protection Agency (EPA) is about as popular as a case of shingles. But if ever there was a situation in which their presence could be tolerated or even appreciated, it should be this one. EPA is responsible for implementing the Renewable Fuel Standard (RFS), the crown jewel of federal biofuels policy. By guaranteeing a buyer for advanced and cellulosic fuels, the RFS has lowered the risk associated with these projects and driven hundreds of millions of dollars in private investment toward facilities like Project Liberty. Without EPA, there would have been no reason to celebrate in Emmetsburg.

But EPA’s recent proposal to drastically change the way it implements the RFS has made the agency less of a “guest of honor” and more like a skunk at the garden party. While the rule EPA proposed in November 2013 is complicated, its result would be simple: the market certainty that drew investors to cellulosic ethanol facilities like Project Liberty will be decimated.

Up until this rule, EPA has required the blending of an increasing number of gallons of biofuels each year, generally in line with the levels set by Congress when it created the RFS. Legislators intended for this to encourage oil companies, refiners, and others in the industry to install equipment that would allow them to sell fuel with a higher concentration

of ethanol than the 10% blend that makes up the vast majority of U.S. gasoline. But now EPA has decided that the RFS will not push the oil and gas industry past this 10% mark. Instead, it will set RFS requirements so as to keep the U.S. fuel supply at or below this ethanol “blend wall”, which the U.S. is already bumping up against.

The details are complex and have raised a number of questions—including whether or not EPA even has the authority to make this kind of change. But the implications for investors are crystal clear. If the RFS is pegged to the blend wall as EPA intends, there is no place for additional gallons of cellulosic ethanol to go. And without a market for the product, all the federal loans and tax credits in the world aren’t going to make new cellulosic plants an attractive investment.

In his remarks in Emmetsburg, Deputy Under Secretary of Energy Dr. Michael Knotek explained the importance of having federal policy that creates “a stable investment environment.” For the better part of a decade, the RFS has done more to provide that stability and drive investment toward cellulosic biofuels production than any other federal policy. And Project Liberty is proof of just how effective it has been. So if EPA and the rest of the federal government want to keep celebrating new cellulosic ethanol facilities, the path is clear. They just need to stay on it.
