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# BiofuelsDigest

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## [EPA slashes biofuels targets for 2014, 2015, 2016 under Renewable Fuel Standard](#)

May 29, 2015 | [Jim Lane](#)

**“EPA continues to assert authority under the general waiver provision to reduce biofuel volumes based on available infrastructure,” says BIO. “This is a point that will have to be litigated. It goes against Congressional intent.”**

In Washington, the EPA released its proposed standards for 2014, 2015, and 2016 and volumes for renewable fuels. The volumes, as widely expected, include substantial reductions from the statutory standards in the original 2007 Energy Independence & Security Act. The EPA also released a 2017 proposed standard for biomass-based diesel.

Yet, while attracting significant industry criticism on volumes, the EPA won some cautious praise for cautiously advancing renewable fuels targets for 2014-16.

In today’s Digest, we have a complete coverage of the volumes, round-up of industry reaction, plus a look at the EPA’s rationale, the infrastructure dilemma, the options to change EPA’s proposal in the comment period, and the industry’s short-term and long-term options should the rule be finalized as proposed.

### *At a glance: 2014, 2015, 2016 volumes*

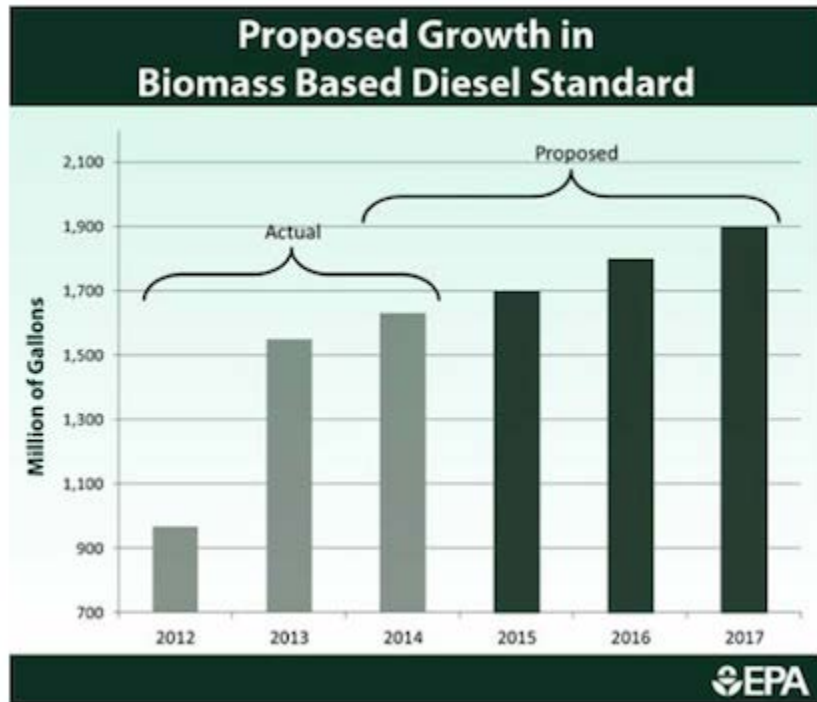
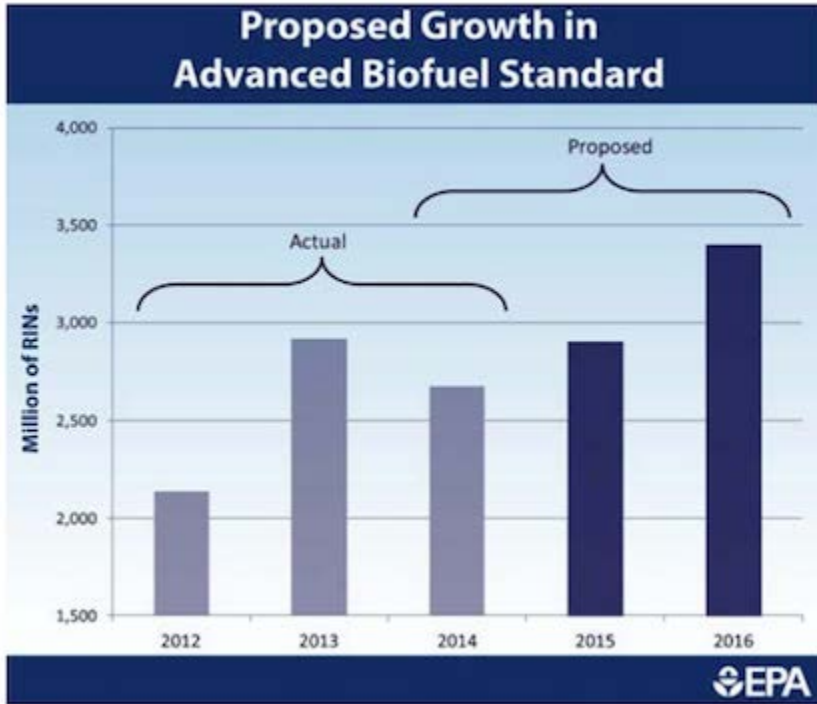
	2014	2015	2016	2017
<b>Cellulosic biofuel</b>	0.033	0.106	0.206	n/a
<b>Biomass-based diesel</b>	1.630	1.700	1.800	1.900
<b>Advanced biofuel</b>	2.680	2.900	3.400	n/a
<b>Total renewable fuels</b>	15.930	16.300	17.400	n/a
<b>Implied corn ethanol</b>	13.250	13.400	14.000	n/a

*The proposed volumes are in billions of US gallons*

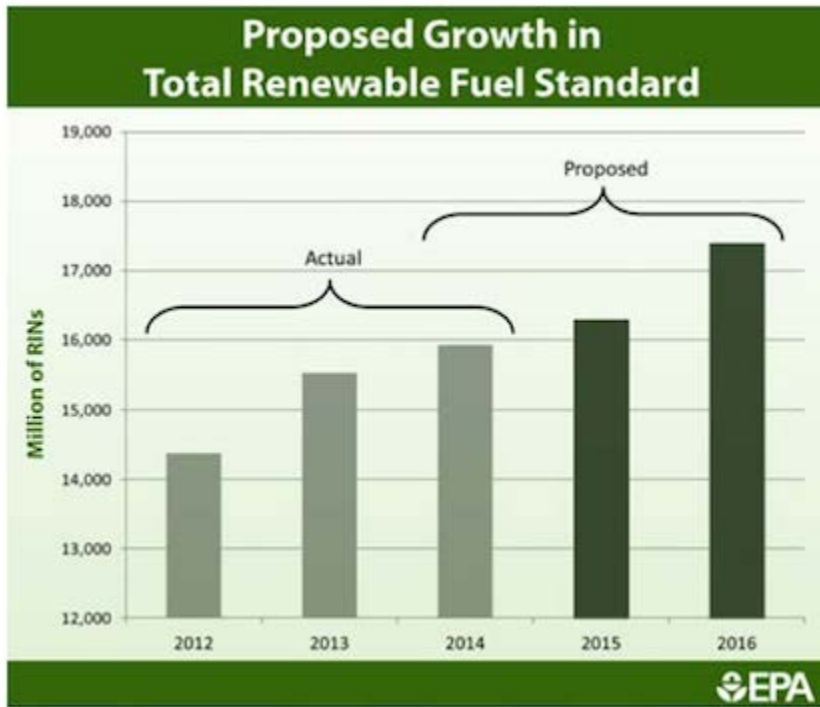
*\* The EISA Act did not set volumes past 2012 and 1.0 billion gallons for biomass-based diesel, but required EPA to set a volume based on market conditions each year.*

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Detail: Growing levels of renewable fuels



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**Detail: The proposed rule for 2015**

The proposed volumes are (in billions of US gallons):

	Proposed	Statutory volume for 2015
Cellulosic	0.106	3.000
Biomass-based diesel	1.700	1.000
Advanced biofuel	2.900	5.500
Renewable Fuel	16.300	20.500

\* The EISA Act did not set volumes past 2012 and 1.0 billion gallons for biomass-based diesel, but required EPA to set a volume based on market conditions each year.



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The effective corn-ethanol mandate is (*in billions of US gallons*):

Corn ethanol	13.400	15.000
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***Detail: The proposed rule for 2016***

The proposed volumes are (*in billions of US gallons*):

	Proposed	Statutory volume for 2016
Cellulosic	0.206	4.250
Biomass-based diesel	1.800	1.000
Advanced biofuel	3.400	7.250
Renewable Fuel	17.400	22.250

*\* The EISA Act did not set volumes past 2012 and 1.0 billion gallons for biomass-based diesel, but required EPA to set a volume based on market conditions each year.*

The effective corn-ethanol mandate is (*in billions of US gallons*):

Corn ethanol	14.000	15.000
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***Detail: The proposed rule for 2014***

The proposed volumes are (*in billions of US gallons*):

	Proposed	Statutory volume for 2014
Cellulosic	0.033	1.750
Biomass-based diesel	1.630	1.000



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Advanced biofuel	2.680	3.750
Renewable Fuel	15.930	18.15

*\* The EISA Act did not set volumes past 2012 and 1.0 billion gallons for biomass-based diesel, but required EPA to set a volume based on market conditions each year.*

The effective corn-ethanol mandate is (*in billions of US gallons*):

Corn ethanol	13.250	14.400
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***The EPA says:***

EPA writes: “EPA has evaluated the availability of qualifying renewable fuels and factors that in some cases constrain the supply of those fuels to the vehicles that can consume them. EPA has also considered the ability of the market to respond to the applicable standards by producing changes in production, infrastructure, and relative pricing to boost the use of renewable fuels.

“Based on these and other considerations, EPA is proposing volumes which, while be low the volumes originally set by Congress, would increase renewable fuel use in the U.S. above historical levels and provide for steady growth over time. In particular, the proposed volumes would ensure continued growth in advanced biofuels, which have a lower greenhouse gas emissions profile than conventional biofuels. EPA is also proposing to increase the required volume of biomass-based diesel in 2015, 2016, and 2017 while maintaining the opportunity for growth in other advanced biofuels that is needed over the long term.

“Due to constraints in the fuel market to accommodate increasing volumes of ethanol, along with limits on the availability of non-ethanol renewable fuels, the volume targets specified by Congress in the Clean Air Act for 2014, 2015 and 2016 cannot be achieved. However, EPA recognizes that the statutory volume targets were intended to be ambitious; Congress set targets that envisioned growth at a pace that far exceeded historical growth rates. Congress clearly intended the RFS program to incentivize changes that would be unlikely to occur absent the RFS program. Thus while EPA is proposing to use the tools provided by Congress to waive the annual volumes below the statutory levels, we are proposing standards that are directionally consistent with Congress’ clear goal of increasing renewable fuel production and use over time. The proposed volumes would require significant growth in renewable fuel production and use over historical levels. EPA believes the proposed standards to be ambitious but within reach of a responsive marketplace.”

***The new EPA view, summarized***

The EPA’s line of thinking is essentially this: they are considering that supply exists where that supply can find a market given existing infrastructure. So, if the market can only tolerate, say, 14 billion gallons

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of E10 ethanol, they do not consider capacity or production as “supply” rather, they look to alternative fuels (such as drop-ins) and, in that case, don’t see the production.

The practical goal for the EPA is not to use the RFS2 renewable fuels schedules as a driver to produce investment in capacity-building or infrastructure for distribution. Rather, the EPA opts for a more passive role of providing a market for those capacities that are built based on incremental, if any, changes in infrastructure.

### ***Beyond the blendwall, the hidden issues***

EPA wrote in 2013: “Although the production of renewable fuels has been increasing, overall gasoline consumption in the United States is less than anticipated when Congress established the program by law in 2007.”

In its own way, the EPA is signaling that it believes that the original mandates were set, as volumetric rather than percentage standards, at a time when it was believed that the overall gasoline market would be much larger. Lower gasoline volumes — which in their own way reduce emissions – in the EPA’s view bring on issues such as blend walls faster and more intensively, and require regulatory relief.

### ***Options in the courts: Suing to enforce the 2015 statutory numbers***

It’s going to be tough for the biofuels industry to sue to enforce the overall statutory volumes, given the shortfall in cellulosic biofuels — even though the EPA is wading into regions of doubtful legislative intent in using blendwall issues as a reason to cut the corn ethanol target. The authority of EPA to waive down cellulosic mandates is unquestioned, in the absence of production capacity — but their authority to waive down renewable fuel standard obligations in the absence of infrastructure being deployed is bound to suggest to incumbents that the best way to prevent renewable fuels is to ensure that there is no investment in distribution.

### ***Why not balance less corn ethanol with more advanced biofuels?***

The fear — rightly or wrongly — is that the advanced pool will be drowned in low-cost, imported ethanol that qualifies for the advanced biofuels pool — and exacerbates the blendwall issue that it sees in the marketplace. So, they have increased the advanced pool, but kept it quite close to the biobased diesel volumes.

At the end of the day, there’s not much production out there, outside of the biomass-based diesel capacity (representing renewable diesel and biodiesel) and the cellulosic fuels capacity. At scale, there are some providers such as Aemetis that can produce qualifying advanced ethanol at scale using the milo-biogas pathway, and there’s sugarcane ethanol.

### ***Why is industry deeply disappointed?***

RFS2 is based in production targeting, but it is ultimately about requiring distribution. The renewable fuels industry is taking the view that the E10 blendwall issue was well understood, at a technical level, by



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Congress when they passed the EISA Act — and that the law places the onus on the conventional fuel industry to develop distribution solutions, so long as the production is there.

Well, the production is there. The conventional fuels industry did not develop the distribution solutions, and the EPA is waiving the obligation. To the renewable fuels industry, it looks like rewarding the oil industry for doing nothing. And stranding renewable fuels capacity that was built in reliance on Congress and RFS2 to provide a market.

So, it's a distribution war. Renewable fuels distributors haven't built much to speak of — a few thousand outlets feature options for consumers to purchase high-blend renewable fuels. Congress gave every indication that they would expect rising RIN prices would compel obligated parties to find distribution solutions.

When RIN costs rose, the oil industry correctly foresaw that by waving the flag of "exploding prices at the pump," they could count on the White House and Congress to cave in.

#### *Expert reaction*

**Jason Bordoff, former energy advisor to President Barack Obama and a professor and founding director of the Center on Global Energy Policy at Columbia University**

"EPA's announcement of biofuel level requirements for 2014 through 2016 reflects an effort to acknowledge the limited ability of the current U.S. fuel system to accommodate gasoline that contains more than 10 percent ethanol, while pursuing the biofuel mandate's original intention of cutting the US carbon footprint and its oil imports.

"The proposed rule is likely to leave many sides in this debate unhappy. It exceeds the so-called E10 "blend wall" while also invoking EPA's waiver authority to lower the statutorily required levels in light of current blend wall constraints. Critically, the future path of the RFS beyond 2016 still remains uncertain, and this uncertainty risks raising the cost of compliance and deterring investment in next generation biofuels that are key to achieving the longer term policy objective of lowering greenhouse gas emissions.

"EPA's action is yet another reminder that the Renewable Fuel Standard law needs to be reformed by Congress to reflect how the energy landscape has changed since it was enacted in 2007."

#### *Industry reaction*

**Brent Erickson, executive vice president of BIO's Industrial & Environmental Section**

EPA has proven they still don't understand the advanced biofuel industry's need for policy stability. The RFS was designed by Congress to tear down the so-called blendwall by providing a market floor for biofuels that would enable us to attract capital for construction of new biorefineries and commercialization of advanced technologies. Instead, EPA is helping the oil industry build the blendwall to keep advanced biofuels out of the market.



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Just as advanced biofuel companies began to successfully commercialize new technologies, EPA proposed to turn the RFS methodology upside down. That policy instability is responsible for chilling as much as \$13.7 billion in investments that the advanced biofuel industry needed to build capacity to meet the RFS goals. Now EPA and the Obama administration claim to be scratching their heads as to why our industry hasn't built more capacity.

And while the President took time on Thursday to warn that climate change will worsen storms in the future, EPA's actions on the RFS have already resulted in 21 million metric tons of additional CO2 emissions — equal to putting 4.4 million more cars on the road or opening 5 new coal-fired power plants, which will only increase with today's proposal.

EPA continues to assert authority under the general waiver provision to reduce biofuel volumes based on available infrastructure. This is a point that will have to be litigated. It goes against Congressional intent.

EPA has proposed higher volumes for advanced biofuels, still below the statutory volumes, but maintained a methodology that discourages investment in the industry. That will likely undercut future production, requiring additional cuts to volumes in future.

**Michael McAdams, president, Advanced Biofuels Association**

"The Advanced Biofuels Association looks forward to reviewing the complex, multi-year proposal unveiled today in detail and submitting our official comments on this important regulation. We are grateful for the EPA's good-faith efforts to support this industry, today's proposal is a step in the right direction and gives more growth potential to advanced and cellulosic biofuels relative to the original proposal. However, we continue to believe that the cellulosic waiver credit and other areas require legislative reform. We look forward to continuing to work with Congress and the Administration to reform and strengthen the RFS so it can deliver on the promise of next-generation renewable fuels."

**Bob Dinneen, president and CEO of the Renewable Fuels Association**

"EPA has to be given some credit for attempting to get the RFS back on track by increasing the renewable volume obligations (RVOs) over time. But the frustrating fact is the Agency continues to misunderstand the clear intent of the statute — to drive innovation in both ethanol production and ethanol marketing. The Agency has eviscerated the program's ability to incentivize investments in infrastructure that would break through the blend wall and encourage the commercialization of new technologies. By adopting the oil company narrative regarding the ability of the market to effectively distribute increasing volumes of renewable fuels, rather than putting the RFS back on track, the Agency has created its own slower, more costly, and ultimately diminished track for renewable fuels in this country.

"Today's announcement represents a step backward for the RFS. EPA successfully enforced a 13.8 billion gallon RVO in 2013. The industry produced 14.3 billion gallons of ethanol last year. There is no reason to promulgate an RVO rule that takes us backward. All it will do is result in an ever-increasing supply of renewable fuel credits (RINs) that will further discourage private sector investment in infrastructure and technology. This doesn't make sense.





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“The EPA plan fundamentally places the potential growth in renewable fuels in the hands of the oil companies — empowering the incumbent industry to continue to thwart consumer choice at the pump with no fear of consequence for their bad behavior. That is not what the statute intended. And that is not what’s in the best interests of consumers — who will be denied greater access to the lowest cost liquid transportation fuel and octane source on the planet.”

### **Joe Jobe, CEO, National Biodiesel Board**

“It is not perfect, but it will get the U.S. biodiesel industry growing again and put people back to work. I want to thank Administrator McCarthy and Secretary Vilsack for restoring growth to the program and for their commitment to renewable fuels.”

“Biodiesel has proven that Advanced Biofuels can do just what we said they would, which is create jobs and strengthen our energy security while significantly cutting harmful pollution from petroleum,” Jobe said. “Biodiesel has displaced more than 8 billion gallons of petroleum diesel in the U.S. over the last decade. That is an incredible achievement, and we will build on that success under the proposal the EPA released today.”

“However, more can be done, and we particularly look forward to working with the administration on strengthening biodiesel volumes for 2016 and 2017 during the comment period in the coming weeks.”

### **Matt Carr, executive director, Algae Biomass Organization**

“The ambitious but achievable advanced biofuel volumes outlined in today’s proposal are an important step toward restoring the investment climate for advanced biofuels, and to providing market confidence for algae-based and other advanced biofuels in the years to come. EPA’s November 2013 RFS proposal to dramatically lower advanced biofuel volumes was a mistake that, combined with ongoing delays in approving new fuel pathways, crippled investment in advanced biofuels over the past 18 months. The advanced biofuel volumes proposed today are a signal to advanced biofuel investors that they can begin again to invest boldly in these vital technologies.

“To achieve the full energy security, economic development and greenhouse gas potential of advanced biofuels, however, EPA must leave no doubt in its final rule for 2015 and 2016 and in future year rules that advanced biofuel developers will have a market for their fuel by setting volumes that take the advanced biofuels industry beyond today’s market constraints – including the so-called “blend wall” – and into a new era of fuel choice for all Americans.

“By converting industrial sources of CO<sub>2</sub> to advanced biofuels, algae and similar carbon-eating micro-organisms offer an unprecedented opportunity to transform CO<sub>2</sub> emissions from environmental challenge to economic opportunity. It’s time that federal policy fully embraced this opportunity. Today’s proposal offers an important step in this direction.”



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**Brian Jennings, Executive Vice President, American Coalition for Ethanol**

“Promises to get the RFS back on track and USDA funding for flex fuel pumps are appreciated, but EPA is yet again proposing to circumvent the RFS by limiting ethanol use to the amount oil companies are willing to blend with the gasoline they refine and not one gallon more. It’s like the NFL saying it’s ok for the New England Patriots to deflate footballs while everyone else must play by the rules.”

As expected, proposed volumes for the 2014 RFS largely reflect actual use. The Agency intends for renewable fuel use to increase from 2014 to 2016. But EPA’s proposed blending targets for 2015 and 2016 fall back on the E10 “blend wall” methodology which has disrupted RFS implementation for more than a year. Earlier this week the U.S. Department of Energy’s National Renewable Energy Laboratory released a report confirming that most retail infrastructure is already compatible with E15. The majority of cars on the road can use E15.

“EPA was forced to withdraw their original 2014 proposal because the law doesn’t allow them to use the blend wall to set levels and doing so undermines the integrity of the program. The good news is that there is still time to get the RFS back on track,” Jennings said. “We will provide ACE members and biofuel supporters a platform to once again blitz EPA with comments before the final rules are issued on November 30.”

**Tom Buis, CEO, Growth Energy**

“Today’s proposals are better than EPA’s initial proposed rule for 2014, but they still need significant improvement. We have sincere concerns that these proposed numbers are not moving forward to the degree that Congress had intended for the RFS.

“It is unfortunate that EPA chose to side with the obligated parties who have deliberately refused to live up to their obligation to provide consumers with a choice of fossil fuels or lower cost, higher performing, homegrown renewable energy at the pump. Everyone in Congress, as well as all parties in the renewables and oil industry, knew when this legislation was debated and passed into law that the only way the RFS goals could be met was by introducing higher blends into the market moving forward. Now the obligated parties, controlled primarily by Big Oil, have refused to live up to their obligation and the initial read on EPA’s proposal is they have simply acquiesced to the demands of Big Oil.

“One thing that everyone should keep in mind is that this a *proposed* rule. We will continue to analyze and review these proposals for 2014, 2015 and 2016. Furthermore, Growth Energy will file exhaustive comments with EPA. Just as we successfully commented on the original 2014 RVO proposal by EPA, which ultimately forced EPA to reconsider their initial flawed rule, we are confident that our forthcoming comments will highlight the changes that are necessary to meet the goals of the RFS.

**Elizabeth Farina, President, UNICA (Brazilian sugar growers association)**

“While UNICA is disappointed that today’s Renewable Fuels Standard proposal from the U.S. EPA significantly reduces target volumes for advanced biofuels below Congressionally mandated levels, we are pleased to see growing requirements for advanced biofuels in 2015 and 2016. This leaves the door



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open for continued American access to sugarcane ethanol, one of the cleanest and most commercially ready advanced biofuels available today.

“EPA identifies Brazilian sugarcane ethanol as an advanced biofuel because it reduces greenhouse gases by more than 60 percent compared to gasoline. This advanced biofuel from an American ally plays a modest but important role supplying the United States with clean renewable fuel. For the past three years, more than one billion gallons of sugarcane biofuel imported from Brazil flowed into American vehicles. During this time, sugarcane ethanol has comprised only 2 percent of all renewable fuel consumed by Americans, but has provided nearly 15 percent of the U.S. advanced biofuel supply.

“Our association looks forward to commenting on this proposal and will continue to play an active role in the RFS rulemaking process, serving as a source of credible information about the efficiency and sustainability of sugarcane ethanol. Likewise, Brazil will continue to be a strong, dependable partner helping America meet its clean energy goals.”

**Jeff Lutt, CEO, POET**

“Today’s proposal by the EPA puts the oil industry’s agenda ahead of farmers and rural America. While the EPA is correct in recognizing the intent of Congress to continue growth in biofuels, the targets announced today fall well short of rural America’s potential to produce low-cost, clean-burning ethanol.

“America’s farmers have answered the call laid out in the Renewable Fuel Standard to help wean our nation off of foreign oil. Agriculture has taken incredible strides in recent years, growing yields through efficient farming practices and technology improvements, and we have all reaped the benefits of that labor through greater availability of high-performance, domestically produced ethanol. Rural America has upheld its end of the deal, and I ask that the EPA uphold Washington’s end.

“Some in Washington do understand what’s at stake and are still committed to rural America. The announcement by Sec. Vilsack today that USDA would provide funds for flex pump infrastructure aims to increase consumer access to clean, high-performance fuel produced here at home. It is an effort obligated parties should have been driving since the RFS became law. We hope Sec. Vilsack’s commitment to clean fuels and rural America rubs off on some of his colleagues in the Administration.

“For the sake of consumer choice, rural jobs and strong markets for farmers, I hope the EPA fixes its mistakes in the proposed rule and recognizes our nation’s capability to power itself with clean, renewable fuel.”

**Monte Shaw, executive director, Iowa Renewable Fuels Association**

“Today’s RFS proposal gives in to Big Oil lies and turns its back on consumers, fuel choice, and the environment. The Obama Administration has no legal authority to reduce the ethanol numbers. For conventional biofuels, this is a path to nowhere. The proposed ethanol level for 2016 is less than what we already produced in 2014. This proposal will not crack the petroleum monopoly and will not allow consumers to benefit from the choice of lower-cost E15 and E85. As we’ve done over the past year, we’ll continue to work with all parties to fix this proposal.”



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“It’s a positive that the proposal does allow for some growth in biodiesel. However, EPA inexplicably fast tracked Argentinian biodiesel imports earlier this year, and today’s proposed rule fails to take those imports into account. As this could actually lead to lower U.S. biodiesel production, we’ll be focused on working to improve the biodiesel targets for 2016 and 2017 during the comment period.”

“Last year Iowans swamped the EPA with negative comments on the previous RFS proposal. While this new proposal is better, it’s a far cry from good enough. We need Iowans to once again step up and tell the EPA to follow the law and to let the RFS crack the oil monopoly as Congress intended.”

**Adam Monroe, President, Novozymes Americas**

“Renewable fuels are a huge opportunity for the United States to achieve President Obama’s climate change goals, capture private investment, create jobs and save drivers money. Today’s proposal undermines all of that.

“We are disappointed that the agency is allowing Big Oil to maintain an artificial impediment like the so-called blend wall. While President Obama is pushing to reduce greenhouse gas emissions in other sectors, he is letting the oil industry attack climate-smart alternative energy.

“The only way the world will use more renewable energy is with bold leadership and bold policy. The EPA’s aspiration should not be a slow buildup in renewable fuel volumes, it should be an economy driven by clean technologies, supporting thousands of new jobs and billions in private investment. That all starts with aggressive goals for the RFS.

“During the comment period, we urge the Administration to rethink its approach and support an existing law that works: the Renewable Fuel Standard. Together, we can get this right. If America does not capitalize on the benefits of home-grown fuel, other countries will. In fact, they already are.”

***DuPont***

“DuPont is disappointed with the EPA’s proposed rule on the 2014, 2015 and 2016 Renewable Volume Obligations under the RFS. Our primary concern continues to be that the EPA is proposing a flawed methodology to fundamentally change how the annual volumes for renewable fuel are calculated causing reductions in annual biofuel volumes.

“Instead of setting biofuels volumes, as required by statute and based on the industry’s ability to supply fuel, EPA has injected infrastructure considerations into the calculation. This approach undermines fundamental principles of the RFS which have been the foundation for the economic, energy security and environmental successes of the renewable fuel sector in the United States. The RFS has made homegrown renewable fuel 10 percent of our nation’s gasoline supply, lowered greenhouse gas emissions by 21 million metric tons, added \$500 billion in value to America’s farmlands, lowered gas prices and created a real choice at the pump.

“The uncertainty over the RFS has already reduced the investment momentum in the advanced and cellulosic sectors in the United States; this will only continue if EPA does not change course in the final



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RVOs for 2014, 2015 and 2016. The renewable fuels industry is global in nature with substantial, long-term business potential. DuPont will continue to vigorously pursue every opportunity to enable the growth of the renewable fuel and renewable materials sectors here and around the world. We remain committed to this industry and to bringing world-class technology and sustainable best practices to market to spur the growth of renewable industries worldwide.”

### **America’s Renewable Future**

“While the EPA’s proposal today is an improvement over its first, disastrous 2014 proposal, it clearly reflects a flawed methodology that rewards the oil industry for failing to live up to its obligations under the RFS. American consumers, rural economies, and domestic energy investors lose out to the oil industry’s demands in this proposal.

“Congress created the RFS to open up market access for a clean, secure, American source of fuel that provides consumers options at the pump. America needs a final rule on the RFS that creates market certainty, gives consumers a choice at the pump, and strengthens America’s security and economy.

“We look forward to hearing Iowans’ comments and the presidential candidates’ views on this proposal from the EPA. In the meantime, we are grateful for the USDA and Sec. Tom Vilsack for the continued leadership on renewable fuels and for launching a \$100 million fund to help increase consumers’ access to higher ethanol blends.”

### **Grant Kimberley, executive director of the Iowa Biodiesel Board**

“As the top biodiesel-producing state, we are enormously relieved the biodiesel industry’s long limbo is almost over. Although the prolonged uncertainty strained our producers, we seem to be headed back on course for the original intent of the RFS.

“EPA’s proposal marks a significant increase for biodiesel volumes from their original proposal in 2013, which would have held the biodiesel standard flat at 1.28 billion gallons through 2015. Although the proposed volumes in later years are lower than the reasonable increases we had requested, and we look forward to opportunities for greater growth, these volumes still represent advancement. We are grateful to EPA for hearing us, and adjusting the volumes to promote steady growth in renewable fuel rather than abruptly reversing course. We also appreciate USDA’s support in this effort. Further, having four years of known volumes is a huge step towards eliminating the disruptive uncertainty that has made business planning and investments difficult in Iowa. We sincerely hope our industry will not have to endure this under the RFS again.”

Biodiesel is a top success story of the RFS, and our producers are eager to move forward with diversifying America’s energy supply, boosting economic development, cleaning the air and reducing dependence on foreign oil.”



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### ***Industry opponent reaction***

#### **Emily Cassidy, Research Analyst, Environmental Working Group**

Using the Environmental Protection Agency's own estimate, we calculate that the corn ethanol mandate has been worse for the climate than projected emissions from the controversial Keystone XL pipeline.

What makes matters worse is that the EPA is about to mandate that more corn ethanol must go into American gas tanks. Today the EPA proposed new minimum volumes of corn ethanol that refiners would be required to blend into gasoline this year and the next. Congress set this policy, called the Renewable Fuel Standard, in the Energy Independence and Security Act of 2007. At the time, lawmakers hoped that using ethanol and other renewable fuels would reduce carbon emissions and American dependence on foreign oil.

Last year, corn ethanol producers churned out 14 billion gallons, about 13.4 billion gallons of which were blended into the 135 billion gallons of gasoline the nation's drivers used.

Extracting tar sands and turning them into oil is more energy-intensive than traditional drilling for petroleum. According to the Natural Resources Defense Council, dirty oil transmitted from Alberta, Canada, to the Gulf Coast by the Keystone Pipeline would emit 24 million tons of carbon per year. But our calculations show that last year's production and use of 14 billion gallons of corn ethanol resulted in 27 million tons more carbon emissions than if Americans had used straight gasoline in their vehicles. That's worse than Keystone's projected emissions. It's the equivalent of emissions from seven coal-fired power plants.

So far the federal corn ethanol mandate has resulted in a massive influx of dirty corn ethanol, which is bad for the climate and bad for consumers. The only interest it benefits is the ethanol industry. As we've said before, it's time for Congress to correct course and reform the broken Renewable Fuels Standard to make way for truly green biofuels.

### ***Comment period***

Once the proposal is published in the Federal Register, it will be open to a 60 day public comment period through July 27.

### ***What can industry do to change these outcomes?***

The industry has two options, in general.

**1. Demonstrate a stronger market** for higher ethanol blends such as E15 or E85. This would contribute to restoring gallons lost in the overall renewable fuels pool — and, essentially, benefit corn ethanol producers.



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**2. Demonstrate a stronger biomass-based diesel production capacity**, which should be a no-brainer, but also convince EPA that production capacity can and would translate into actual production.

***Where can growth occur, outside of RFS2 rules and targets?***

The RFS2 targets should incentivize all parties in renewable fuels to shift strategies more towards driving consumer demand over compliance-driven demand.

This means:

**1. Build the higher-blend ethanol market** based on price and positive community attributes as perceived by the consumer.

**2. Build the biomass-based diesel market** based on corporate demand for B5 blends based on social, and price-hedging opportunities — while limiting the practical impact of any differential in street prices of diesel vs biomass-based diesel by having low-level blends (that is, a \$1.00 per gallon cent cost differential translates into a nickel a gallon at B5 blend levels).

**3. Building markets in diesel and jet fuel** based on overall price parity. That is, building a case that fuel price should include a) the cost of volatility and risk with fossil commodity fuels; b) the social costs, such as disappointing end-use customers who prefer renewable fuels, and c) differential in maintenance costs and engine replacement cycles.

**4. Rely on the EPA to support long-term capacity building** in cellulosic biofuels with appropriate market mandates.

***The bottom line***

Clearly the industry is apoplectic over the the strategic shift at EPA. As BIO's Brent Erickson tipped, "EPA continues to assert authority under the general waiver provision to reduce biofuel volumes based on available infrastructure. This is a point that will have to be litigated. It goes against Congressional intent."

For corn ethanol, there is going to be a strong push back based on hopes that persuading EPA to stick with a tough mandated number will prompt the conventional fuels industry to push through wider adoption of E15, which would be good not only for corn ethanol, but ultimately for advanced ethanol fuels when they are available in higher numbers.

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