

“An Historical Perspective of Biofuels . . .

Lessons Learned for Biodiesel”

First, a little personal disclaimer----although I've spent a majority of my 32 years in Washington, D.C. working on Agriculture, Energy, and Spending issues, I cannot claim to be an expert in any of those fields. As a process guy, my job was typically to figure out how to get things done. My job was to find the proper place to stick a necessary legislative provision when making a law. Often times I was the deal-maker behind the scenes.

So with that as personal background, let's go back in history and briefly look at where ethanol began and how ethanol has developed to what most people would undoubtedly say currently is the biofuel king.

The first ethanol tax credit was put into place in 1980 as part of the Windfall Profits Tax Act. At that time, energy costs were at historically high levels. Energy had been declared the “moral equivalent of war” and was arguably the premier political issue of the day. With regards to the Agriculture community, it was a difficult time for them because of a) high fuel costs, b) high commodity supports, and c) ongoing, relentless fights with the environmental community. Congress was controlled by the same party as the White House, and States were becoming more willing to step up to help through a

variety of financial incentives. Politically speaking, the “stars aligned” for the approval of this tax credit. Just as important, the relatively small group of ethanol supporters had been doing their homework and were ready to “strike” when those stars aligned. I would remind you though, that this was just for a blenders tax credit---not at all where the complex biofuels industry is today.

Fast forward to today. First, while energy costs are again at historically high levels, in my opinion this issue is not really on Congress’ or the Administration’s front burner, as it was in 1980. Instead, energy issues right now seem to get their fair share of “lip service” from government but not real, aggressive action. Next, the agricultural community will always be in some difficulty somewhere. Even though some markets are up and some price supports are down, fuel prices are growing and not all farmers are happy. Third, although much progress has been made to improve relations, the agricultural and the environmental communities continue an uneasy relationship. It’s still a potential roadblock area for biofuel growth. Fourth, Congress and the White House seem to be heading towards same party control, although nothing is of course certain at this point. Fifth, many more states have stepped up in support of biofuels generally.

While there clearly are many similarities with the circumstances of 28 years ago, there are certainly also many key differences. Because of these differences, I don’t believe things are quite “ripe” yet for major legislative changes that would benefit biofuels generally.

However, in my view, not all of the stars need to be aligned exactly as they did for ethanol. To reach a major action such as 25x25' group proposal, the key ingredient is for Congress and the Administration to be in agreement for major program changes to occur. This means that the voters, with perhaps some "help" from the media, must believe that our energy problem requires a major change in policy.

So, what must be done in the meantime to push biodiesel in particular? What the ethanol people did may be an excellent guide for us. First, build support and interest with meetings and groups just like this. Second, enhance efforts to bond with the environmental community. Issues such as conservation, putting set-aside lands into production and water needs must be talked through and dealt with. The environmental lobby, like the agriculture lobby, is pretty tough. It helps to have them "on your side".

Third, continue pushing for better tax treatment, and certainly not less than "status quo" on the tax credit side. The current political climate on biodiesel and other transportation tax credits is to maintain "neutrality," as put by the Ways and Means Committee, without bringing new players out onto the field. Until many other tax related issues get resolved, particularly the PAY-GO question as it relates to an AMT fix, and the subsequent issue of "who pays" – I would remind you that the oil and gas sector still have powerful friends too – the status quo may be all you can expect.

Fourth, there must be enhanced efforts to achieve “real,” not just “lip service” support from members of Congress. Therefore, it is necessary to develop real grass roots support and “pressure” in home districts. In this regard, it may be necessary to make this a “make or break” issue in the voting booth. Single issue voting is perhaps unhealthy, but nevertheless can be very effective. Next you must work to bring in more allies but also work equally as diligent not to stir up “enemies.” In this vein, try and develop new friends with mutual interests. This will require thinking outside the box. For example, have we thought about forging new relationships with the various oceans groups and institutions? Much of the research they are doing could someday very well pay-off for this industry.

Finally, it is necessary to work with other groups in other parts of the country, developing a better comprehensive “plan” of your R&D needs and then coordinate your efforts to gain Congressional support for the appropriations for those R&D needs. State and local research institutions should be an integral part of this effort. The point of all this is of course that this particular work needs to be done at the local, state, and Federal level, regardless of the other positive things happening in support of biodiesel. This is the groundwork, or the building blocks, that will get you ready to strike when the “stars align,” which they absolutely will. In effect, your efforts, just like those pushing ethanol before, will cause those stars to align.

Moving off script for just a moment, my personal view is that Biodiesel has perhaps a brighter future ahead in the transportation and small power arena than many other alternative Biofuel sources. One of these days, the American public is going to wake up to what is happening to the transportation markets in Europe and elsewhere with regard to high efficiency, low emission diesel powered vehicles. Coupled with the benefits of such vehicles as to climate change, which is unquestionably of considerable growing concern in Congress on a bipartisan basis, it won't be long before the marketplace will decide that diesel is the right choice.

The challenge is for you to be ready when it does.