

Noble: Subsidy needed for biodiesel industry

By MICHAEL NOBLE
Contributing writer

President Abraham Lincoln wanted to tie the nation together with a railroad of the same gauge, stretching from coast to coast. So he subsidized the railroads by giving them federal land upon which to lay their tracks and build towns.

This subsidy helped everyone -- the railroads, of course, but also the farmers who could get their produce to market and the families who could conveniently travel great distances to visit loved ones.

In our time, President Barack Obama wanted to save the Detroit auto industry to keep this important manufacturing asset in the United States. So he arranged for the American people, through their government, to buy General Motors.

As a people, we make value judgments all the time. We subsidize desirable social objectives and we tax some undesirable social objectives.

For example, we know from experience that children must be educated in order to become productive citizens. So school districts are empowered to tax everyone who owns land in order to raise the money to educate our children, whether or not the landowners have children in the school system.

Conversely, the state heavily taxes alcohol and tobacco because their use is often harmful.

And so it is with America's energy. We have come to realize that we are very dependent on foreign countries for oil and that most of them don't like us. Saudi Arabia and Venezuela come to mind.

There is also a consensus that the carbon emissions in the atmosphere are causing the warming of our planet with unknown, but probably negative, results.

Nationwide, we are trying to diversify our sources of energy, wind, solar and biodiesel. But these new industries face daunting challenges that do not affect mature industries. In the case of the biodiesel industry, biodiesel is much preferred as a fuel over petrodiesel. The reasons are that it can be made from a variety of fatty acids that come from plants and animals, thus they can be grown again and again each season. They are renewable.

Moreover, they don't contain as much carbon, so there are fewer harmful particles emitted into the air we breathe. Thus there is a public policy favoring supplementing petrodiesel with biodiesel so we can use less foreign carbon-based fuel.

About 92 percent of the cost of biodiesel is the cost of the feedstock, the raw material out of which it is made. In recent years, the feedstock prices have varied dramatically. For example, soy bean oil was \$5.65 per gallon in 2008. Today, the price is \$3.04 per gallon.

At the other end of the process, the biodiesel has to be price competitive with petrodiesel, otherwise truckers and home heaters won't buy it. The market price of petrodiesel was \$5 per gallon in June 2008. Today it is \$2.86 per gallon.

Because of this wide fluctuation in the prices of the feedstock and petrodiesel, very few businessmen would invest in such an unstable market. Nevertheless, as citizens, we want them to do so. For example, in 2009, Pennsylvania passed a law requiring that 2 percent of all vehicle fuel sold in Pennsylvania by May 1, 2010, must contain biodiesel. But where are we going to get the 25 to 40 million gallons of biodiesel to meet this mandate, if no one will make it because of the volatile pricing of the raw materials and end product?

We all have to work together to achieve energy independence. The investor has to put in the capital to buy the land, buildings, machinery and equipment, raw materials and railroad cars to manufacture the biodiesel and get it to market.

The employees have to contribute their skill and effort to transform the feedstock into usable fuel. The government has to help by "smoothing out" the market fluctuations until the industry stabilizes and no longer faces such chilling uncertainties.

Congress recognized its role in helping the biodiesel industry in 2004 when it subsidized the cost of a gallon of biodiesel with a \$1 per gallon credit that is passed on to the customer in the form of a lower price. That subsidy enabled investors to estimate that they might make a profit by supplying a renewable fuel.

So they built 173 plants around the United States. That subsidy expired at the end of 2009. About half of the plants closed and 29,000 jobs were lost. This year, another 23,000 may be lost because of the economic downturn, the uncertainties of demand for biodiesel and the lack of a subsidy from the federal government, according to economic analyst John M. Urbanchuk.

So what should Hero BX do? It has a modern plant, fully paid for by Pat Black; customers who want to buy its product, provided they can pay prices comparable to petrodiesel and trained expert employees who are willing to work.

All it needs now is a renewal of the subsidy to help stabilize the biodiesel market. And that is what it is asking Congress to do.

MICHAEL NOBLE is president of Hero BX, formerly Lake Erie Biofuels on the former International Paper Co. site off East Lake Road.

Editor's note: The U.S. Senate on March 10 passed the Tax Extenders Act, which includes a tax credit to incentivize the use of biodiesel and renewable energy. U.S. Sen. Arlen Specter, R-Pa., is also co-sponsor of a Senate bill that would extend the tax credit through 2014.