



## Can Ethanol Cut Foreign Oil Imports?

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Stimulus monies and loan guarantees have different meanings to different people. Some think of economic possibilities and others think of Solyndra, the failed solar chip maker. Advanced bio-fuel centers, which can take landfill waste and wood chips to make cellulosic ethanol, are also part of that universe and are attracting enthusiasts and naysayers alike.

Among ethanol's proponents are both major presidential candidates, who are supporting the so-called [Renewable Fuel](#) Standard that mandates increasing amounts of ethanol-blended gasoline. Its cynics are arguing, however, that its existence is contingent on those federal rules and taxpayer-funded allocations that are giving it a higher place in the market — one that is used as a fuel additive in the hopes of displacing petroleum usage.

But much of the cynicism is centered on corn-based ethanol that some consider not just an inefficient fuel source but also one that also creates food shortages, driving up the cost of feed for livestock producers. By most standards, the hope that is such first-generation fuel additives are supplanted by next-generation ones, or those produced from cellulose. Worth it?

Such fibers are abundant and could supply 130 million gallons a year of ethanol that would replace gasoline, although it is still expensive when compared to corn-based ethanol and some early trials have ended in disappointment. The goal of those in the business of making such a fuel additive real is to increase scale and bring down the cost to about \$2 a gallon — a tough proposition in current market conditions.

But with a federal hand, its supporters say it is possible. A deal just announced this week will lend about \$4 million to a North Carolina-based cellulosic manufacturer called Chemtex. The money will come from the U.S. Department of Agriculture. It will help construct a refinery to convert 600,000 tons of energy grasses per year into an estimated 20 million gallons of cellulosic ethanol.

This “announcement supports the [Obama Administration's](#) ‘all-of-the-above’ energy strategy to embrace alternative American-produced feedstocks that support our nation’s energy independence and provide jobs in rural areas,” says Tom Vilsack, agricultural secretary.

The U.S. Department of [Energy](#) is taking the lead, and has awarded \$385 million to a handful of cellulosic ethanol projects. BlueFire Ethanol is one of the benefactors, which was given \$40 million. That company creates ethanol from landfill trash that, in turn, reduces methane emissions that contribute to global warming.

The background: [The Energy Act of 2007](#) laid out a plan to grow ethanol use from a base of 6.5 billion gallons. In 2008, the federal mandate for ethanol production was 9 billion gallons. By 2015, the directive will be 15 billion gallons and by 2022, it will be 36 billion gallons.

Is the mandate good public policy? Advocates of it say that it is. That is, ethanol-blended gasoline is reducing the nation's dependence on foreign oil. Moreover those advanced cellulosic ethanol blends will get commercialized. Oil giant [BP](#), meantime, says that those [bio-fuels could provide up to 23 percent](#) of the global demand for transportation fuels by 2030.

"The more ethanol we produce, the less of our dollars will go overseas," says Arnold Klann, chief executive of [BlueFire Ethanol](#) in Irvine, Calif. "Energy security is a big issue and long term, ethanol will play an important role."

Klann, who spoke previously with this writer, goes on to say that the aggressive ethanol goals set by lawmakers are doable. The capital markets have added faith in industries in which they know have guaranteed buyers that are necessary to build scale, he says.

Still, regulators are considering tapering the ethanol aims. Two reasons: this year's summer drought that is affecting corn crops as well as the tougher times that have impacted advanced cellulosic ethanol projects.

Others are far less sanguine about ethanol's prospects, concerned that they could belly-flop like Solyndra. Like other technologies, ethanol makers have struggled to get financing, resulting in the stoppage of some proposed plants. Developers, furthermore, have said that construction costs are on the rise.

Consider Colorado-based Range Fuels, which received a \$76 million grant through the Bush administration in 2007: The cellulosic facility never reached its potential and just recently, it was forced to close its doors. Then there's Iogen, which received some U.S. funds and which has been teaming with [Royal Dutch Shell](#) to build advanced ethanol facilities in both the United and Canada. But the enterprise has postponed all future plans.

"Ethanol would likely disappear from the market place absent federal subsidies and mandates," says [Sterling Burnett](#), senior fellow at the [National Center for Policy Analysis](#), in a telephone interview. "Like so much of the federal pork bestowed upon special interests, ethanol is bad for the economy, bad for consumers and bad for the environment."

Both political parties are kowtowing to the farm vote, which means that it is unlikely that the Renewable Fuel Standard will get eliminated. But the distinction between first-and-second-generation ethanol is important and one that may eventually give wider credence to the ethanol cause.