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WHEN CHANGE BECOMES A THREAT

On January 3rd, the National Petrochemical and Refiners Association sued USEPA over its ruling to allow 15% ethanol in gasoline for later model automobiles. This is not a surprise as the battle for market share and the consumer's wallet goes on. What began as a nice idea to blunt the oil embargoes of the 1970's is now a real and present danger to fossil fuel interests. This latest action and counteraction are merely steps in this ongoing war over who is going to control the energy mix in America.

The current round began with the Energy Security Act of 2007. That law requires by 2022 that 36 billion gallons of renewable fuels be used in U.S. motor fuel each year. That's roughly 25% of the gasoline sold in America. This constitutes a serious loss of market share for fossil fuel interests. The genesis of this act and the public policy before is a legitimate concern for our energy security interests. Since 1990 all of America's wars have been fought in the oil rich Middle East. Without American oil revenues our enemies, especially Al-Qaeda, would not have the means to attack us or disrupt global peace. Former CIA Director James Woolsey said it best when he stated, "The Global War on Terror is the second war in history where the U.S. has funded both sides - the first being the Civil War." Importing 60% of our oil needs means we will continue to fund both sides for some time.

EPA's ruling is not without fault. It applies only to 2007 and newer automobiles. They will consider 15% blends for 2001-2006 models this year and older models sometime after that. This trifurcation of the marketplace makes the current ruling a moot point for now. It's not likely consumers will see an E10 unleaded for older cars and an E15 premium unleaded for newer cars at the gas pump any time soon. One needs only to look at the slow rollout of E85 for flexible-fueled vehicles to understand how difficult it is to bring a new, separate fuel to the pump island in this country especially when that pump island is owned by a fossil fuel producer. So why is NPRA fighting? Because EPA will eventually approve E15 in all vehicles and another 5% share will be lost. Because of strong fossil fuel interests this has become a battle of attrition. After 30 years America is now using E10 in conventional vehicles and E85 in flexible-fueled vehicles. By contrast Brazil, with a much more acute fossil fuel supply problem, switched decades ago to E25 in conventional vehicles and E100 in flexible-fueled vehicles. Now Brazil consumes more home grown ethanol than petroleum in their motor fuel.

Much is being made about corn-based ethanol. Food vs. fuel, etc., etc. For fossil fuel interests, that threat has come and gone. Under current law the standard for corn ethanol is capped at 15 billion gallons per year. Today we make about 14 billion gallons annually so with a couple of new plants and expansions we are essentially done. The new threat comes from advanced biofuels: cellulose, algae, switch grass, municipal waste, trees, etc. That threat is a staggering 21 billion gallons per year or 1.4 times larger than the corn ethanol market. Exxon in their TV ads talks about producing new biofuels from algae "someday". Because of the foundation laid by the current ethanol industry, that "someday" will be much sooner

than fossil fuel interests would like. And don't count corn ethanol out either. With gene technology rapidly growing corn yields per acre and advanced production methods reducing cost and carbon footprint, this sector will continue to constitute a competitive threat for fossil fuels.

So the next time you hear about the ethanol debate remember that it is really all about market share and the consumer's buck. Who will get it, Middle America or the Middle East? You decide, if you get the chance.

This is the second in a continuing series of articles on biofuels and biotechnology by Ron Miller. Miller is Managing Director and co-founder of Prisma Advisors, LLC, a management advisory firm specializing in biofuels and biotechnology. Prior to forming Prisma, Miller was President and CEO of Aventine Renewable Energy Holdings, Inc., a major producer of biofuels and food products from agricultural feedstocks.