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Producers sing the biodiesel blues

Industry falters for lack of interest, credit problems

By JOHN MILLER
Associated Press

NEW PLYMOUTH, Idaho—The railroad siding at Blue Sky Biodiesel hasn't seen an oil train for six months. A dozen 25,000-gallon storage silos in this 104-year-old Payette River farming town sit empty.

Owner Rob Black began his \$4 million facility in 2005 amid high hopes: Prices for the soybean and canola oil to produce fuel for diesel vehicles were low and diesel prices were rising. French fry plants nearby promised a steady supply of used grease.

Meanwhile, everyone from country singer Willie Nelson, with a biodiesel-burning tour bus, to rock festival Lollapalooza, which ran its amps off biodiesel, was singing the fuel's praises.

Despite the green hype, a complicated brew of factors have forced Black and at least a third of America's biodiesel refiners to cease operation. Commodity prices skyrocketed, diesel fell. The credit crisis turned off the cash spigot. Concerns arose about biofuels' impact on South American forests. And the European Union has played a role, too, enacting tariffs in March aimed at stopping U.S. subsidized biofuel exports.

Black, whose plant was delayed four months in 2006 by an explosion that killed his 25-year-old son, Blaise, is unflinching when asked what went wrong.

"Don't you mean, 'Why was I so stupid?' he told The Associated Press.

The numbers say it all: Last week, the price of West Coast canola-based biodiesel was about \$3.42 per gallon, before taxes; conventional diesel went for under \$2. Even with a \$1 per gallon federal credit for blenders, biodiesel costs 20 percent more.

Charley Jones, president of Idaho's 40-outlet Stinker Stores service station chain that contracted with Blue Sky, had hoped to be blending up to 3 million gallons of biodiesel annually into the conventional diesel he sells. He does just a fraction of that — with biodiesel from the Midwest.

"I originally counted on Blue Sky being successful," Jones said. "But the economics went south on them."

Misery loves company.

In Hoquiam, Wash., Imperium Renewables Inc. has shuttered its \$88 million plant. Two Tennessee biodiesel plants that opened in 2007 laid off most of their workers in May.

And a Delaware plant that, like many others, was erected with federal and state subsidies as the promise of biodiesel was still promising, was sold at auction in January for \$1.35 million — well shy of the \$10 million invested.

Of some 176 U.S. biodiesel re-

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At least 12 U.S. senators, including Tom Harkin, D-Iowa, and Chuck Grassley, R-Iowa, argue the EPA provisions will "stifle the investment that is so essential to our national renewable fuels strategy."

Environmental groups are wary, saying politicians wading into science makes for bad policy — even if the goal is to boost domestic fuel production and cut dependence on foreign oil.

"There's a scientific integrity principle," said Jeremy Martin, a senior scientist at the Union of Concerned Scientists in Washington, D.C. "The answer is not just to jump in and do a legislative override, just because it's inconvenient."

After packed EPA hearings this week in Washington, D.C., it remains unclear just when a final EPA rule will be released — and what it will look like. The agency's top brass is now discussing alternatives, including reducing greenhouse gas reduction requirements and letting producers mix soy oil with used animal fats to meet the standard.

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finers, more than 60 have been shuttered, the National Biodiesel Board estimates.

Production this year could fall to half 2008 levels of 690 million gallons.

"There's a volatility in commodity markets, and with the current economic crisis, there's a severe crunch on lack of capital," said Michael Frohlich, spokesman for the Jefferson City, Mo.-based industry group. "And the biggest problem we have right now is the holding pattern with the renewable fuels standard."

In 2007, Congress required 1 billion gallons of biodiesel be used as part of the nation's transportation fuels mix by 2012, raising optimism it was to be a hot commodity. But lawmakers also required biofuels achieve specific greenhouse gas reductions, compared to the gasoline and diesel being displaced.

In May, the Environmental Protection Agency dropped a bombshell: Biodiesel made from virgin soybean oil wouldn't qualify toward reaching the 2012 renewable fuels standard of 1 billion gallons, according to a draft rule. That's because as the United States refines more soybean oil into biodiesel, EPA regulators predict countries like Brazil will plow up their own carbon-reducing forests and grasslands to produce soy for food or fuel to take up the slack.

Not surprisingly, biodiesel companies argue such calculations are based on flawed science.

"It's ironic we have policy makers talking about how we should clean and green, but yet, when it comes to supporting those ideals economically, there's a complete failure," said Imperium Chief Executive Officer John Plaza, who has laid off 90 of his 120 workers in western Washington.