Oil Companies Fined for Not Buying Nonexistent Cellulosic Ethanol

There's just one problem: "Outside a handful of laboratories and workshops," the *New York Times* reports, cellulosic ethanol "does not exist."

This has not, however, prevented the Environmental Protection Agency from levying penalties on petroleum companies for failing to purchase this nonexistent fuel. The EPA engages in verbal sleight of hand. Instead of being fined for failing to make the agency's pipe dreams come true, "refiners are required to purchase 'credits' from the EPA," explains Brian McGraw of the Competitive Enterprise Institute. "Essentially, the EPA is requiring them to send them money in lieu of meeting the cellulosic ethanol mandate. The product they are required to use does not exist, and rather than giving them a pass, the EPA requires that they pay for phantom credits, despite not getting anything out of it."

These fines — er, credit purchases — are, of course, passed on to consumers in the form of higher gas prices; and when gas prices go up, so do the prices of most other products.

The *Times* argues that the EPA "is being lenient by the standards of the law," and there is some truth to that. The agency has vastly reduced the original ethanol targets; the 2011 target was dropped to just 6.6 million gallons, and for 2012, it is 8.65 million. As "lenient" as this may appear, critics say it is still too harsh in light of the fact that, as McGraw writes, "no companies have to this date been able to produce cellulosic ethanol that qualifies by EPA's definition." "Yet, presumably to save face," he adds, "the EPA has not lowered the cellulosic ethanol 'mandate' to zero gallons."

In fact, EPA spokeswoman Cathy Milbourn told the *Times* that the 2012 cellulosic ethanol quota is "reasonably attainable." The paper continues: "By setting a quota, she added, 'we avoid a situation where real cellulosic biofuel production exceeds the mandated volume,' which would weaken demand."

Milbourn need not worry that production will exceed the EPA's quota for many years to come. There are simply too many barriers to overcome.

First is that cellulosic ethanol production is so difficult and expensive that no one in the private sector is willing to invest in it without hefty government subsidies. Thus far the feds have poured at least $1.5 billion into ethanol startups, with more subsidies on the way. Not surprisingly, "the half-dozen or so companies that received the first round of subsidies never got off the ground," the *Wall Street Journal* noted in a December editorial. Georgia's Range Fuels, for example, received $162 million in federal and state subsidies to produce ethanol from pine chips; last week *The New American* reported that Range had folded a year ago, an utter failure. The *Journal* cited Alabama-based Cello Energy, whose ethanol production was supposed to account for some 70 percent of the 2010 cellulosic ethanol mandate. The company went bankrupt in October of that year, having achieved nothing except bilking taxpayers.

"Incredibly," the *Journal* remarked, "those projections [of Cello's production] were made before Cello had built its plant to produce the fuel and before the technology was proven to work." Similarly grandiose claims for upcoming ethanol plants are thus to be taken with several grains of salt.

No matter how much Congress and the EPA will it, the technology to produce cellulosic ethanol in mass quantities just doesn't exist — and won't exist for a long time. According to a recent article from the *Oil & Gas Journal*:

> In October, the National Research Council published findings of a study on biofuels concluding that in the absence of "major technological innovation or policy changes" the US won't meet EISA's ambitious target for cellulosic biofuel — 16 billion ethanol-equivalent gal by 2022. The required processing technology isn't developing fast enough, despite strong federal help. And the economic challenges are daunting, despite subsidies.

Another barrier to cellulosic ethanol production, the article observes, is cost. "Only in an economic environment characterized by high oil prices, technological breakthroughs, and a high implicit or actual carbon price would biofuels be cost-competitive with petroleum-based fuels," it quotes the National Research Council study's executive summary.

Then there is the matter of just who is going to use all this mandated ethanol. Continues the *Oil & Gas Journal*:

> A more-immediate constraint looms: the blend wall, the maximum amount of ethanol the gasoline market can absorb under regulatory and practical blending limits. EPA has deferred the problem by raising the ethanol cap in gasoline for many vehicles to 15% from 10% — but only, according to the study, until about 2014. After that, surmounting the blend wall depends on surges in the sales of fuel containing 85% ethanol and vehicles able to burn it. The surges would require greatly expanded subsidies and other forms of federal expenditure at a time of historic fiscal austerity.

Despite all these obstacles to producing cost-competitive cellulosic ethanol at the mandated volume, there are those who insist that the mandate must not be repealed. Retired Vice Admiral Dennis V. McGinn of the American Council on Renewable Energy told the *Times*, "I am absolutely convinced from a national security perspective and an economic perspective that the renewable fuel standard, writ large, is the right thing to do."

McGinn and others of his ilk seem to believe that if Congress passes an edict demanding that cellulosic ethanol be produced, the technology to do so will magically appear. But as the *Wall Street Journal* observed, "That same leap of faith has driven subsidies to alternative energy for 40 years," and there is no reason to expect things to turn out any differently this time.

Meanwhile, tapped-out taxpayers are forced to subsidize unproven technologies, and oil companies are penalized for not purchasing ethanol that does not exist. Critics say it's about time that "historic fiscal austerity" kicked in and put paid to this expensive, unconstitutional folly.