



ETHANOL INDUSTRY BRIGHT SPOT IN CLOUDY ECONOMIC PICTURE

President Bush delivered his final State of the Union address on Monday night. The speech focused in part on the economic condition of the nation. The president also focused on ways the country can achieve greenhouse gas reductions



while ensuring economic growth. Renewable fuels like ethanol are already achieving both.

In an overall environment

of slowing economic growth, the U.S. ethanol industry stands out in sharp contrast. According to a report set to be released in late February from economist John Urbanchuk of LECG, LLC, the American ethanol industry is a job creating engine.

The increased economic activity resulting from ongoing production and construction of new ethanol capacity supported the creation of 238,541 jobs in all sectors of the economy during 2007. These include more than 46,000 additional jobs in America's manufacturing sector American jobs making ethanol from grain produced by American farmers.

“The emerging ethanol industry in the country is turning environmental stewardship into economic opportunity at a time when our economy desperately needs a shot in the arm,” said Renewable Fuels Association President Bob Dinneen.

See SOTU, page 2

CELLULOSIC ETHANOL PRODUCTION TAKES ANOTHER STEP FORWARD

Government, Private Partnerships Leading Evolution of US Ethanol Industry

The Department of Energy recently announced the investment of more than \$84 million in three small scale cellulosic ethanol projects designed to be the proving grounds for full scale, commercial production of ethanol from cellulose. The four projects each will produce around 2.5 million gallons of ethanol from cellulosic material annually.

“This kind of partnership between the government and private industry is critical to accelerating the commercialization of cellulosic ethanol technology and ensuring the promise of the recently passed energy bill is realized,” said Renewable Fuels Association President Bob Dinneen. “Without ethanol production from a host of feedstocks including grain and cellulose, our nation cannot meet the energy and environmental challenges it faces. The work that will be done at these facilities will yield commercially produced ethanol from cellulosic material much sooner than naysayers and conventional wisdom suggest.”

The three ethanol projects receiving funding include:

· **ICM Incorporated of Colwich, Kansas; DOE will provide up to \$30 million**

The proposed plant will be located in St. Joseph, Missouri, and will utilize diverse and relevant feedstocks including agricultural residues, such as corn fiber, corn stover, switchgrass and thermochemical processing and demonstrate energy recycling within the same facility.

See Cellulosic, page 2

SOTU, cont'd.

“By investing our resources in developing domestic, renewable alternatives to foreign oil, we can begin reducing this nation’s global warming footprint and create jobs and economic activity at home rather than transferring our nation’s wealth to oil-rich countries around the globe. Renewable fuels like ethanol are demonstrating that when it comes to the environment and the economy, it is possible to have it both ways.”

In order to provide more economic stability in the future, diversifying away from a monopolistic reliance on oil cannot happen soon enough. In a January 11 story in the *Washington Post*, economic professors William Nordhaus and Kenneth Rogoff, of Yale and Harvard respectively, detailed the economic impact of oil rising to \$100 a barrel.

Specifically, Mr. Rogoff noted, **“The price of oil rising even from \$80 to \$100 a barrel is like adding \$150 billion in taxes. It’s quite a wallop.”** [“Stimulus Unlikely to Counter Rise in Oil Prices,” *Washington Post*, 1.11.08]

Milton Copulos, President of the National Defense Council Foundation, concludes in a report released in January 2007:

“It is clear that America’s continuing reliance on imported crude oil and refined petroleum products is imposing an enormous financial burden on the nation’s economy –a burden that is a threat to the nation’s economic and military security.” [“The Hidden Cost of Oil: An Update,” National Defense Council Foundation, January 8, 2007. www.ndfc.org.]

Based on oil prices at the time, Copulos estimates that America’s oil addiction is costing the economy more than \$500 billion of economic opportunity and depriving the country of more than 2.2 million potential jobs. With global oil prices significantly higher today than they were a year ago, the negative impacts on the nation’s economy are far greater.

A complete copy of the president’s speech can be found at www.whitehouse.gov.

Cellulosic cont'd.



· **Lignol Innovations Inc., of Berwyn, Pennsylvania; DOE will provide up to \$30 million**

The proposed plant, collocated with a petroleum refinery, will be located in Commerce City, Colorado, and using biochemorganisolve, will convert hard and soft wood residues into ethanol and commercial products, collocated with a petroleum refinery.



· **Pacific Ethanol Inc., of Sacramento, California; DOE will provide up to \$24.3 million**

Pacific Ethanol, Inc.

The proposed plant will be located in Boardman,

Oregon, and will convert agricultural and forest product residues to ethanol using BioGasol's proprietary conversion process.

(Source: Department of Energy press release, January 29, 2008)

The Energy Independence and Security Act of 2007, signed into law in December, requires the use of 36 billion gallons of renewable fuels annually by 2022. Of the 36 billion gallon goal, 16 billion gallons must come from ethanol produced from cellulosic material. The research being done at these facilities will accelerate the commercial production of ethanol from cellulose and ensure that the U.S. ethanol industry will meet and exceed the goals put before it.

NOVEMBER 2007: ETHANOL PRODUCTION AND DEMAND

November 2007 Statistics

(mg = million gallons; b/d = barrels per day)

Fuel Ethanol Production	603.0 mg	479,000 b/d
Fuel Ethanol Use	625.9 mg	497,000 b/d
Fuel Ethanol Stocks	470.1 mg	22.5 days of reserve
Fuel Ethanol Exports	0.0mg [^]	n/a
Fuel Ethanol Imports	13.4 mg*	

*Source: U.S. International Trade Commission

[^] Jim Jordan and Associates

WHITE HOUSE ANNOUNCES BUDGET

White House Unveils 2009 Budget, Leaves Ethanol Secondary Tariff Alone

After much confusion set off by comments made by Secretary of Energy Samuel Bodman last week, the 2009 budget release by the Bush Administration did nothing to address the tax incentive or the credit offset on imported ethanol.

In off-the-cuff remarks following an event at the U.S. Chamber of Commerce, Secretary Bodman hinted that the budget the White House was about to reveal would alter the credit offset on imported ethanol. When revealed, the budget simply assumed no revenue from the offset next year as the offset is set to expire January 1, 2009. The great build up turned out to be nothing more than a budgetary scoring rule.

Ultimately, it would take an act of Congress to repeal, modify or extend the offset. Longtime believer in America's ethanol industry, Iowa Senator Charles Grassley, responded to Bodman's comments by saying:

"By lifting the ethanol tariff, we'd end up subsidizing Brazilian ethanol. I can't figure out why Secretary Bodman would want the United States to risk becoming dependent on Brazilian ethanol when we're already dependent on Middle East oil. His comments really do a disservice to President Bush who has been the most pro-ethanol president we've ever had."

Nebraska Senator Ben Nelson went a step further, telling the congressional newspaper *The Hill* that the offset would be repealed "over my dead body."

The president's budget did call for an increase in spending on cellulosic ethanol research to \$225 million for 2009.



RFA's Director of Technical Services Kristy Moore and crew at the 2nd Week of the Coordinating Research Council E-85 Program in Yakima, OR. (Above)

In the last week of January, Kristy Moore volunteered for the CRC Volatility program taking place in Yakima WA. The program is designed to evaluate E85 fuel volatility with more than 20 late model flex fuel vehicles in cold weather conditions.

CELLULOSIC ETHANOL PLANT OPEN IN WYOMING

KL Process Design Group (KL) has announced that its first cellulosic ethanol plant is now in production. The small-scale facility uses waste wood and is located near Upton, Wyoming.



"It is now possible to economically convert discarded wood into a clean burning, sustainable

alternate motor fuel. We're proud of what this small company has accomplished, and believe that our design will be a cornerstone from which we can build our country's renewable fuel infrastructure providing a better source of motor fuel, starting today." –Randy Kramer, President, KL Process Design Group

See Wyoming, page 4

Wyoming cont'd.

The plant was engineered, constructed and is operated by KL and uses the company's proprietary technologies and newly developed enzymes. The current production facility is utilizing soft woods, but successful test runs have occurred making use of waste materials such as cardboard and paper.

IOWA ETHANOL SALES REACH NEARLY 74 PERCENT OF GASOLINE MARKET IN 2007

Attractive Prices Pushed Ethanol Sales To Near Record Levels

The Iowa Renewable Fuels Association (IRFA) announced that Iowans chose E10 (10-percent ethanol, 90-percent gasoline) nearly 74 percent of the time in 2007. This is up from 69 percent in 2006 and just below the all-time record of 75 percent set in 2005.

"Iowa's ethanol sales were strong in 2007 as E10 was often 10 to 13 cents per gallon cheaper than gasoline without ethanol," said Monte Shaw, IRFA Executive Director. "Our neighbors to the north and south (Minnesota and Missouri) use ethanol in every gallon of gasoline, so we've still got work to do.



Iowa Renewable Fuels Association

But strong growth in E85 sales and implementation of the 25-percent Iowa renewable fuels standard should move us in the right direction."

Iowa is *the* leader in renewable fuels production. Iowa has 28 ethanol refineries with the capacity to produce nearly 2.1 billion gallons annually. There are 16 ethanol refineries under construction or expansion that will add over 1.5 billion gallons of annual capacity. In addition, Iowa has 14 biodiesel refineries with a combined annual capacity of over 315 million gallons in operation. Two biodiesel refineries under construction will add 35 million gallons of capacity. Many additional renewable fuels projects are under development.

The Iowa Renewable Fuels Association was formed in 2002 to represent the state's ethanol and biodiesel producers. The trade group fosters the development

Continued →

and growth of the renewable fuels industry in Iowa through education, promotion, legislation and infrastructure development.



Week of February 4, 2008

RACE TO THE FUTURE

Super Tuesday is a day to think about what sort of future we want for America -- and every presidential candidate still in the race agrees in principle that we need a cleaner, more secure energy supply.

Luckily, the writing is on the wall: A new study by Cambridge Energy Research Associates concludes that the current push into renewable energy sources will be a lasting trend, not a short-term phenomenon as was the case after the oil price shocks of the 1970s.

But as the New York Times reports today, there is also a race on between clean renewables and dirty, unconventional energy sources such as oil sands and oil shale, which threaten to undo the environmental gains that renewables offer.

The recently passed Energy Security Act of 2007 represented a bold move in the right direction. Let's not undo those gains.

Sources:

"Study Suggests That, Unlike in the '70s, Energy Lessons Will Last," by Clifford Krauss, New York Times, February 5, 2008.

www.nytimes.com/2008/02/05/business/05energy.html

"Risky Oil Shale Is Not America's Energy Answer," Natural Resources Defense Council, June 2007.

www.nrdc.org/energy/drivinghome/oilshale.pdf

"Strip Mining for Oil in Endangered Forests," Natural Resources Defense Council, June 2007.

www.nrdc.org/media/docs/060607a.pdf

To subscribe to Fuel for Thought, send a blank e-mail to: Fuel-Facts-SUBSCRIBE-REQUEST@LISTS.RENEWABLEFUELSNOW.ORG