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Biofuel backlash: High prices, pollution worries hit consumers

By [Ángel González](#)

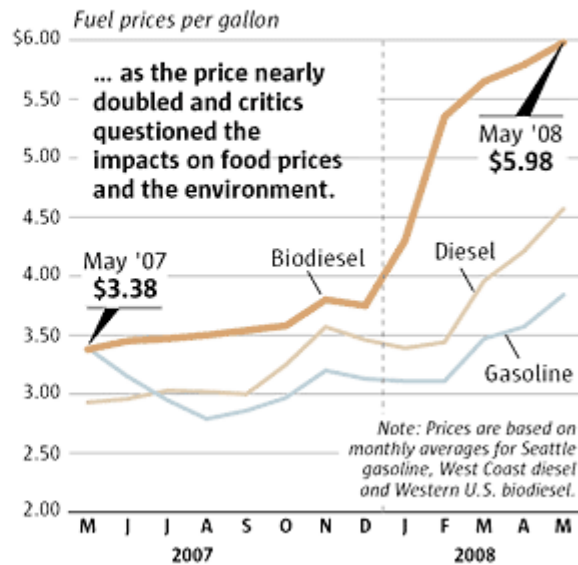
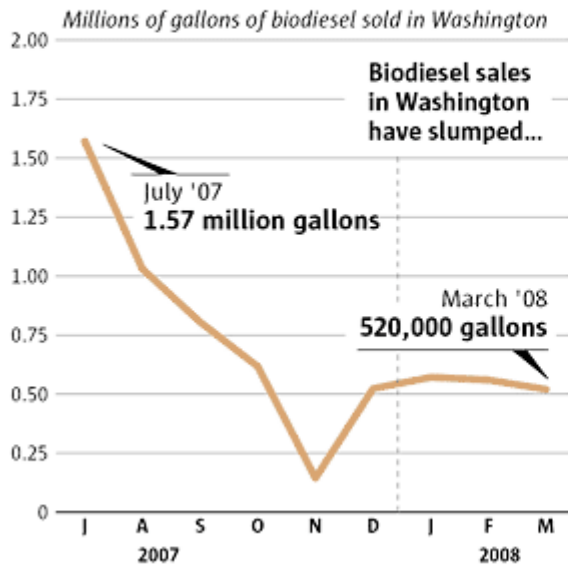
Seattle Times business reporter



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Biodiesel pioneer Dan Freeman, shown at his Dr. Dan's Alternative Fuelwerks in Ballard, says he's thinking about selling part of the operation to stay afloat. Rising prices and growing anti-biofuel sentiment are taking a big bite out of alternative fuel dealers' business.

Backing away from biodiesel



Sources: State Department of Licensing, Energy Information Administration, Bloomberg

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Imperium Renewables' Sid Watts, far right, gives a tour of the company's biodiesel plant in Grays Harbor,

one of the largest biodiesel plants in the United States. Imperium is trying to ride out the downturn in biodiesel by exporting most of its biodiesel and seeking nonfood sources of vegetable oil.



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Scott Redford, of Ballard, says he'll keep refueling his VW Golf with biodiesel: "The price is disheartening, but we get over 40 miles a gallon."

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When King County Metro Transit signed a one-year contract last June to buy 2 million gallons of biodiesel made by Seattle-based Imperium Renewables, the agency didn't mind paying a few extra cents a gallon for the privilege of being green.

By running all its buses on a blend with 20 percent biodiesel, Metro Transit would radically cut its greenhouse-gas emissions and help lessen U.S. dependence on foreign oil.

But in the last year, the promise of renewable fuels has lost a lot of its luster. Prices of biodiesel have almost doubled to about \$6 per gallon, and many experts blame biofuel production for driving up food prices worldwide. Prominent scientists have questioned whether growing crops for biofuels produces more greenhouse gases than it prevents.

Now Metro Transit, the region's largest consumer of biodiesel, is "taking an indefinite pause" in buying the renewable fuel, said general manager Kevin Desmond.

"We're taking a hard look at it in terms of both its price and the science," he said.

Local biodiesel retailers are also feeling the pinch as soaring costs and slowing demand wipe out their profits. "Business is down at least by half," said Ballard biodiesel pioneer Dan Freeman, of Dr. Dan's Alternative Fuelwerks. He said he's thinking about selling part of the business to stay afloat.

Statewide, according to Department of Licensing figures, monthly sales of biodiesel fell by almost two-thirds from July to March, to about 520,000 gallons.

Customers are having second thoughts.

Scott Redford, a Ballard landscape architect and Dr. Dan's customer, said he considers the jury still out on biodiesel's environmental impact. "Are we really doing the right thing? It's going to take a while to figure it out."

In the meantime, he'll keep refueling his VW Golf with biodiesel, he said. "The price is disheartening, but we get over 40 miles a gallon."

Biodiesel: \$6; diesel: \$4.80

Biodiesel, which can be used in most existing diesel engines without major modifications, is made from the oils in soybeans and other crops. Another biofuel, corn-based ethanol, has become a widely used gasoline additive, now present in millions of U.S. vehicles.

The rush to produce biodiesel was a gamble, assuming that skyrocketing petroleum prices would soon make veggie fuels reasonably cheap by comparison.

And as oil prices soared past \$100 per barrel in recent months — and a new closing record of \$138.54 on Friday — the region's biodiesel industry should have been awash in cash.

But to the surprise of the industry and its supporters, the cost of making biodiesel has outpaced the rise in fossil-fuel prices.

Soybean oil, the main raw material for U.S. biodiesel, nearly doubled in price — partly because the consumption of soy has risen globally, and partly because U.S. farmers have been switching land to more profitable corn crops, from which ethanol is made. Demand from biodiesel producers has also lifted prices, and other biodiesel crops such as canola and palm oil have quickly caught up in cost.

It now costs about \$4.66 to buy enough soybean oil to make a gallon of the renewable fuel. After adding manufacturing expenses and subtracting a \$1-per-gallon tax credit, a gallon of nearly pure biodiesel retails at local stations for close to \$6.

Conventional diesel, meanwhile, currently sells for about \$4.80 per gallon.

As a result, many biodiesel plants around the country "are running at partial capacity or not running at all," said Pavel Molchanov, a Houston-based analyst with investment bank Raymond James.

The shifting environment dashed the lofty plans of Seattle-based Imperium Renewables, which operates one of the nation's largest biodiesel refineries in Grays Harbor. In January it abandoned efforts to raise \$345 million in a stock offering that would have financed huge facilities on the East Coast and in Hawaii and Argentina.

Now the company is trying to ride out the crisis by exporting most of its biodiesel and seeking nonfood sources of vegetable oil, like jatropha, an oily seed that grows in barren places, said Chief Executive John Plaza.

"We still feel there are substantial opportunities for large-scale expansion," he said. But "companies have to change with market economics ... We may not end up even pursuing that strategy."

Some green-minded customers didn't mind paying an extra 75 cents per gallon for biodiesel when a gallon of regular diesel cost \$2, said Rob Elam, president and founder of Seattle-based Propel Biofuels, which has five local stations. But when prices top \$5 per gallon, "it seems like people's tolerance to pay for alternative fuel" drops, he said.

Reports linking biofuels to rising food prices and environmental damage also have dampened demand from biodiesel users who embraced the fuel because "they want to do something good for the environment and the world," Freeman said.

Freeman disagrees with the attacks on biofuels, saying, "Misinformation is rampant everywhere."

The anti-biofuels sentiment mainly targets the ethanol industry, which soaks up a major portion of the U.S. corn crop and produced a whopping 6.5 billion gallons in 2007. Though ethanol, mixed with conventional gasoline, now accounts for about 5 percent of national gas consumption, the industry is in a profit squeeze. For instance, shares of California-based Pacific Ethanol traded at a peak of \$42 in 2006, but closed at \$3.13 on Friday.

Tough times, new strategies

Most of the U.S. biodiesel industry has gone into hibernation. While the country has a capacity of 1.85 billion gallons of annual production, it produced less than 500 million gallons last year, according to a report by Iowa State University.

An estimated 300 million gallons of that went to Europe, where higher prices more than offset the transportation costs for U.S. biodiesel makers like Imperium Renewables.

According to the Department of Licensing, some 20 million gallons of Washington biodiesel were exported to Europe and Canada in the second half of 2007 — about four times the amount that was sold locally.

Retailers are also devising new strategies to ride out the hard times. Propel Biofuels, which sold nearly pure biodiesel when it launched its fueling stations in October with great fanfare, now sells a mix of 80 percent petroleum diesel and 20 percent biofuel at most of its locations. The blend — known as B20 — is cheaper than B99. The company is also looking to obtain biodiesel made from waste oil, which is cheaper than soy or canola-based diesel.

And the firm plans to build most of its future stations in California, which provides funding to construct alternative-fuel projects, Elam said. Likewise, Oregon gave the company tax breaks and Portland provided grants to open a station there.

"It's just night and day," Elam said. "Washington has fallen dramatically behind in offering those incentives."

Federal and state biofuel mandates could help shore up demand for biodiesel makers — if they're not

repealed. The most recent federal renewable-fuels mandate calls for the U.S. to consume 600 million gallons of diesel from renewable sources in 2009, more than twice the amount used nationally in 2006. That quantity is scheduled to grow year by year, as the Environmental Protection Agency begins requiring fuel refiners and importers to blend more biodiesel into their petroleum diesel stocks.

But it's still just a drop in the bucket. In Washington state alone, more than 1 billion gallons of regular diesel were used last year.

Washington requires that at least 2 percent of diesel sales in the state be biodiesel starting in December. But such mandates have come under fire in recent months. In April, Texas Gov. Rick Perry asked the EPA to waive half of the ethanol requirements, in order to protect the state's cattle ranchers from soaring feed prices.

Some U.S. lawmakers have also called for a change to the rules. But federal Agriculture Secretary Ed Schafer said recently that existing biofuel policy had no major impact on food prices.

Cars running on ... algae?

Venture-capital investing in traditional biofuels has plummeted. But investors are looking intently at the potential of so-called second-generation biofuels — made from waste or nonfood products — that are sustainable and could one day replace oil.

Seattle biotech entrepreneur Tom Todaro, who seeks to make biofuels more economical by improving the yield of energy crops, says his 10-year-old firm, Targeted Growth, attracted \$33 million from venture capitalists in the past two years even as they became disenchanted with more traditional players.

"We became almost overnight the belle of the ball," Todaro said.

Bionavitas, a Redmond firm, is developing a method to grow algae, which founder Michael Weaver says could one day produce 4,000 gallons of vegetable oil annually per acre, up from the 80 to 100 gallons extracted from soy.

Inventure, a company that's experimenting with methods to convert plant matter into cellulosic ethanol and biodiesel for fuel, operates out of Imperium Renewables' old facility in South Seattle. "I think we're pretty close" to turning waste material into good fuel, said Inventure founder Mark Tegen.

Weaver said it will take his company three to five years to have a pilot plant producing a significant amount of algae oil. He hopes society will muster enough willpower to allow biofuels to eventually succeed, despite the current backlash.

"We're talking nothing short of survival," he said.

Ángel González: 206-515-5644 or agonzalez@seattletimes.com

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