JIM LANE, Editor & Publisher, Biofuels Digest

By JIM LANE, Editor & Publisher, Biofuels Digest



In Michigan, U.S. Senator Debbie Stabenow <u>expanded her "Grow it Here, Make it Here" initiative</u> [1] into a \$5 billion proposal designed to dramatically expand bio-based manufacturing and job creation, funded through what she described as reductions in subsidization of the oil industry.

Among provisions in her proposal:

- 1. A 30 percent tax credit for manufacturers that install equipment to produce bio-based products.
- 2. Increasing the labeling opportunities for bio-based products.
- 3. An expansion in access to the USDA Biorefinery Loan Guarantee program to include companies focused on bio-based products.
- 4. Added focus on bio-based product commercialization in the U.S. government's biomass research and development (R&D) efforts.

In describing her funding offset, designed to ensure that the provisions are deficit neutral, Stabenow said the time had come to transfer supports given to the oil industry to newer job-creating industries.

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"I think we've spent almost 100 years subsidizing oil companies," Stabenow told MLive.com. "They're doing well, it's a mature industry, and I think re-prioritizing to move funding over to a program that will create jobs for us is the type of decision we need to make."

The \$1.25 Trillion Bio-Based Economy

In 2011, Stabenow took over the chairmanship of the Senate Agriculture Committee, and convened a committee hearing that highlighted [2] the use of biobased materials in car parts, cleaning products, soaps, insulation, plastics, foam goods and fabrics, highlighting what the Senator described as a \$1.25 trillion biobased economy that leveraged the U.S. technology advantage in agriculture to revive U.S. manufacturing, stimulate U.S. job creation, and reduce trade deficits and dependence on imported oil.

Stabenow observed at the time that bio-based products represent 4 percent of the market for the plastic and chemical industries, and highlighted USDA research that put the potential market share of bio-based plastic and chemical products in excess of 20 percent by 2025 with adequate federal policy support, resulting in 100,000 additional U.S. jobs.

"Farm Bill energy initiatives promote innovation by entrepreneurs and businesses small and large [3]," Senator Stabenow said. "Secretary Vilsack and I got a chance to see this first-hand last August at the Pure Michigan 400 NASCAR race, where all of the cars are powered using American-made biofuels. But the energy title isn't just about the next generation of biofuels. The most popular initiative is the Rural Energy for America Program, which helps producers reduce their energy costs through renewable or efficiency measures. This has saved businesses money, and created or saved more than 14,000 rural jobs."

U.S. Department of Agriculture Secretary Tom Vilsack also spoke to the strengths of the economic potential of farm energy programs and their impact on rural communities.

"The U.S. has the potential to produce more than a billion dry tons of biomass each year for the energy industry by mid-century, without impacting other farm and forestry products," Secretary Vilsack said. "That would be enough to displace approximately 30 percent of our country's present petroleum consumption ... Because biofuels, biomass, wind and solar rely primarily on farm, ranch and forest lands, the potential for renewable energy development resides predominantly in our nation's rural regions. Certainly, renewable energy is an important source of jobs and economic growth in rural communities across the country."

Industry Reaction

BIO President & CEO Jim Greenwood said, "Building a bio-based economy in the United States will generate good jobs in manufacturing, agricultural production, and forestry, transportation and distribution, and construction. Bio-manufacturing opportunities can help revitalize traditional manufacturing regions, such as

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Michigan, and rural areas, creating a healthy, sustainable bio-based economy. The bio-based product industry already employs more than 50,000 people in the United States and can generate tens of thousands more in the next five years.

"Renewed economic growth and security depends on producing affordable domestic alternatives to all of the products that come from foreign oil. Senator Stabenow's "Grow It Here, Make It Here" initiative will help bio-based manufacturers access vital capital, strengthen market opportunities for bio-based products, and spur commercialization of agricultural and industrial biotech innovations. Technology-neutral support for all bio-based products, renewable chemicals and biofuels, such as this initiative, will help build a robust bio-based economy."

Agriculture Secretary Vilsack: Streamlining & Flexibility



In an appearance before the Agriculture

Committee, Secretary Vilsack observed:

"Agriculture is a critical driver of our economy, [4]helping support one in 12 American jobs. Last year, exports of American agricultural goods reached a new record, helping drive record farm income and supporting more than 1 million jobs. Despite this job growth, rural communities are still facing significant challenges, including outmigration, lower incomes, higher poverty rates and access to capital.

"In addition to renewable energy, the production of bio-products — using agricultural materials to create polymers, chemicals and consumer products — is a growing opportunity for rural economies. A bio-products sector marries two of the most important economic engines for rural America: agriculture and manufacturing. Today, there are more than 3,100 companies across the country producing more than 25,000 bio-based products.

"As you consider the next farm bill, I would like to suggest you consider two key themes: streamlining and flexibility. Over the course of many years, this committee and Congress have provided the USDA with more than 40 programs in rural development, many of which have overlapping authorities and goals. Together, I hope we can look at streamlining USDA's grant and loan authority to reduce the number of programs.

"In particular, I would like to suggest more flexibility to support regional

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development. While we have looked to our current authorities for every opportunity to partner with communities that are working regionally, more could be done. In the budget released [recently], we repeated our call to target resources for projects or communities that are part of a regional strategy."

Biofuels Digest's Take

Stabenow is right, and Vilsack, too. Biorefineries and other manufacturers can create a massive range of domestically manufactured products, and are already doing so, and acceleration of the transition from fossil-based to bio-based is in the national interest and is deserving of federal support.

Of course, these are opportunities that are important to all countries, especially those that are highly dependent on imported oil, and we encourage the Congress and administration to consider the role that the Foreign Agriculture Service can play in fostering the transfer of U.S. technology to U.S. allies and friendly developing nations — good for U.S. technologies, good for nations rich in bio-based feedstocks, and good to those who are committed to democracy and stability around the world.

Stability through Flexibility

But Secretary Vilsack's theme of flexibility is vitally important in the financial side of fostering new industries. Providing fixed subsidies are costly, inefficient and unpopular — and unneeded in good times. Loan guarantees are a valuable tool, but they open the government and bio-based industry to harsh criticism when markets turn upside down and projects fail.

In the case of Solyndra, the loan guarantee failed because the company failed, and the company failed because its economics turned upside down when the costs of materials soared and the market prices for solar technologies plunged, simultaneously. It is not dissimilar to the 2008 to 2009 crisis in first-generation ethanol, when feedstock prices for corn reached \$8 per bushel, and then fuel prices collapsed.

In the oil industry, it is called the crack spread — the differential between the price of feedstock and the market price of the products produced. In bio-based industry, it is called the crush spread — the differential between the price of the underlying feedstock crop and the price of the bio-based products in the marketplace.

The issue, in the transition from fossil-based to bio-based, is the differential between the crack spread and the crush spread. When oil margins are high and bio margins are low, bio-based products get crushed in the marketplace. It goes the other way, too. For instance, in 2005 to 2007, ethanol production was wildly profitable because corn was cheap and fuel prices remained high.

Please tune into the Chemical Equipment Daily for part two of this two-part series. Copyright 2012; Biofuels Digest [5]

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