

BIOFUELS AND THE EXISTING FUEL STREAM

ISSUE BACKGROUND

PMAA members own or supply fuel to more than 100,000 retail gasoline locations in the United States. In recent years, Congress and the President have taken major steps to secure our nation's energy security by fostering the development of home-grown, alternative fuels. The Energy Policy Act of 2005 contained several provisions designed to spur the development and production of these alternative fuels, most notable of which is the 7.5 billion gallon renewable fuel standard (RFS).

Biofuels like ethanol and biodiesel have a myriad of positive impacts on both the economy and the environment. Increased biofuel production will help create thousands of jobs, particularly in rural communities and will help reduce our dependence on foreign sources of energy.

PMAA supports the further development and usage of alternative fuels, however there are several significant obstacles that face the biofuels industry which must be addressed in order to protect consumers from high prices.

CHALLENGES POSED BY BIOFUELS

- 1) **Mandates:** Biofuel usage mandates distort marketplace fundamentals and do not account for complications due to unforeseen production and supply shortages. Federal mandates tend to create product shortages, particularly in areas far removed from biofuel production facilities. These shortages place upward pressure on prices, hitting consumers the hardest.

Individual states have also begun to implement their own biofuel usage mandates. Transportation fuels are not state-line products. Particularly in border areas, retailers and marketers in states without biofuels mandates have a significant competitive advantage over their counterparts in bordering states. Many fuel marketers market products across state lines and it is both costly and inefficient to store, market and transport two different fuels to stations that may only be a few miles apart. PMAA encourages Congress to prevent states from implementing their own alternative fuel mandates.

As Congress considers the many proposals for increased biofuel use (such as the "20 in 10" standard) PMAA asks that legislators pursue *production* rather than usage targets. Production targets will protect consumers from volatile prices caused by lack of infrastructure or supply.

- 2) **Availability:** Because ethanol is hydrophilic, it cannot be shipped via existing pipelines. There are only a limited number of available tank trucks and rail cars to ship ethanol, therefore areas not near ethanol production facilities are more susceptible to price and supply problems.
- 3) **Quality:** PMAA is concerned that some of the biodiesel produced in the United States does not meet ASTM specifications. Off-specification biodiesel leads to poor engine performance, higher emissions, difficulty starting engines in cold weather, and clogged fuel filters and injection nozzles, among other problems. There must be a reliable system in place to ensure uniform fuel quality for biodiesel.

We must also continue to pursue alternative feedstocks for the production of biofuels. Corn ethanol alone will not be able to make a significant dent in our nation's need for foreign imports.

- 4) **Lack of Infrastructure:** If the federal government continues to push E-85 use, there must be adequate protections for marketers and retailers against losses attributed to the installation of E-85 infrastructure and/or losses due to lack of demand for the product. E-85 equipment can cost tens of thousands of dollars to install depending on the circumstances at a particular retail location; a significant investment to carry a product with unproven demand. A separate hurdle is that it is unlikely that Underwriters Laboratories (UL) will approve a dispenser for E-85 before the end of 2007.
- 5) **Price and Demand:** In order for biofuels usage to continue to grow, they must be priced competitively. For example, E-85 must be priced significantly below gasoline for it to compete in the marketplace. Because E-85 has only about 70% of the BTU content that gasoline has, consumers will notice a significant drop in gas mileage. If the price of E-85 is equal to, or even slightly below the price of gasoline, demand for the product will simply not be there; a responsibility that rests solely with ethanol producers.
- 6) **Tax:** Tax collection on the sale of biodiesel presents another problem. Under current regulations, the IRS has no effective way of monitoring how much biodiesel is being blended with on-road diesel. We believe that IRS regulations must be improved to avoid current and future Highway Fund revenue loss.

PMAA asks that these factors be taken into account as Congress considers new energy legislation this session.

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