

FOR IMMEDIATE RELEASE

February 25, 2010

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Advanced Biofuels USA Suggests Sustainable Funding Source for Advanced Biofuels Research and Deployment: USDOT Highway Trust Fund

Contemplating the continued inability of the US to meet the biofuels and advanced biofuels production and sales expectations codified in the Renewable Fuels Standard, at its annual meeting in Frederick, Maryland, the Advanced Biofuels USA board passed a resolution to introduce some new thinking about federal interests and potential funding sources.

Advanced Biofuels USA support(s) the concept of sustainable funding sources for advanced biofuels research and development as part of maintaining the nation's transportation infrastructure through the Highway Trust fund and (that) this funding would come from an increase in the transportation fuel user fee.

Posted today on its website (<http://advancedbiofuelsusa.info/put-transportation-biofuel-commercial-deployment-where-it-belongs-usdot>), the organization presents a summary analysis of the causes of the failure to surmount technical challenges, to obtain adequate financing, and to assure demand for biofuels consistent with the expectations expressed in the RFS followed by suggestions to reverse this state of affairs in keeping with traditional interests of the federal government; specifically, those of the US Departments of Transportation, Agriculture and Energy.

The analysis rounds out with brief notes about the history of the highway user fee (gas tax), biofuels and the Highway Trust Fund.

Current Reality: The US Biofuel Infrastructure Development Model is Not Working

1. The entrepreneurial/venture capital model that was so successful in the "tech" and pharmaceutical arenas is not able to provide sufficient funding to move promising biofuel technologies through the "valley-of-death" of prototype development to commercial deployment.

2. The entrepreneurial/venture capital model is not suited to the biofuel industry since it is a commodity based industry. Profit margins, the difference between biomass and conversion costs and biofuel prices, are relatively thin in comparison to pharmaceutical pricing.
3. Additional national security and environmental benefits of advanced biofuels are not monetized in the current economic system. Hence, these very real benefits are negligible incentives for private investment.
4. No long-term, dedicated source of funding for biofuel development exists in either the US government or the private sector.
5. Current US Federal investment for biofuel development and deployment is uneven and falls far short of investment needs. DOE/USDA appropriations are based on the ability of interest groups to muster political donations and on “flavor of the month” technology fads. Technology selection is flawed because of these two conditions as well as a grant funding process focused on maintaining agency agendas rather than exploring alternative approaches.

Put Transportation Biofuel Commercial Deployment Where It Belongs: USDOT

1. A dedicated funding source for only advanced biofuel (meeting RFS and beyond) commercial deployment should be established as part of the Transportation Trust Fund. It should be funded by a \$.01/gallon user fee (between \$850 million and \$1billion/year) and a similar fee on electricity used for plug-in vehicles.
2. Biofuel commercial deployment should be removed from DOE/USDA and placed in DOT. This is logical because biofuels are transportation fuels and DOT administers the nation’s transportation system.
3. Transportation Trust Fund (TTF) biofuel projects would include:
 - Demonstration projects for advanced biofuel production and distribution technologies.
 - Demonstration and deployment of “flexible” (E-10-E-85) ethanol dispensing systems.
 - Development and demonstration of high-mileage alcohol and gasoline “flex-fuel” engines based on eco-boost and other technologies.
4. By focusing TTF on commercial deployment of transportation biofuels, limited DOE and USDA funds can be better used for basic biomass and biofuel research.
5. Authority for use of TTF funds for advanced biofuels already exists through CMAQ (Congestion Mitigation and Air Quality) provisions of surface transportation legislation. CMAQ funds may be used for projects that reduce EPA criteria pollutants. EPA is currently promulgating regulations to make CO₂ a criteria pollutant.

6. Transportation research funding with Highway Trust Fund money already exists. SAFETEA-LU (Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users) authorized a total of \$2.271 billion for Title V research programs. State land-grant universities would be able to test and deploy their advanced biofuel research with biofuel TTF funding.

7. SAFETEA-LU and previous surface transportation bills have established a number of innovative public-private funding programs that would provide the long-term financing needed for advanced biofuel projects. These funding mechanisms include: Private Activity Bonds, State Infrastructure Banks, and loan guarantees established by the Transportation Infrastructure Finance and Innovation Act (TIFIA).

8. With this system the US government retains the economic value of the national security and environmental benefits of a economically and environmentally sustainable advanced biofuel industry through:

- 1) Reduced petroleum imports and increased technology exports,
- 2) Reduced national security costs,
- 3) Improved domestic incomes and jobs,
- 4) Reduced climate change mitigation costs, and
- 5) Reduced external loan costs needed for biofuel development.

Biofuels, “Gasoline Taxes,” and the Highway Trust Fund

The current transportation fuel user fee (“gas tax”) **rate was last revised in 1993**. For gasoline and alcohol fuels the **current rate is \$.184/gallon**. For diesel fuel it is \$.244/gallon.

Gasoline Fuel Prices from DOE/EIS Data

Year	Retail Gasoline Price/Gallon	Gas Tax/Gallon	Percent/Gallon
1993	\$1.11	\$.184	16.6%
2010	\$2.66	\$.184	6.9%

If the 16.6%/gallon tax rate of 1993 was indexed to 2010 fuel prices, the current gasoline/alcohol fuel tax rate would be: \$.442/gallon.

- In 1979, \$.025/gallon of the fuel tax on gasohol (E-10) was directed to the Federal General Fund instead of the Highway Trust Fund (HTF).
- In 1990, the remainder of the fuel tax from gasohol (E-10) was sent to the Federal General Fund instead of the Highway Trust Fund (HTF).
- The Surface Transportation Extension Act of 2004, Part V (STEPA 04-V) redirected the gasohol tax to the Highway Trust Fund. This redirection was effective for the period October 1, 2003 through September 30, 2004. (FHWA website)
- The American Jobs Creation Act of 2004 (AJCA 04) made the STEPA 04-V redirection permanent. It also eliminated gasohol's partial exemption (\$.025/gallon) from the gasoline tax, enacted as an incentive to alternatives to petroleum fuels in 1979, providing instead a credit to be paid from the General Fund. (FHWA website)

Advanced Biofuels USA is a 501(c)3 nonprofit organization. Its purpose is to promote public understanding, acceptance, and use of advanced biofuels; to promote research, development and improvement of production, marketing and delivery of advanced biofuels; and to improve advanced biofuels crops and products.