

## **Biodiesel industry hangs on**

By Jim T. Ryan

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Central Pennsylvania's biodiesel industry has a faint pulse, but it's still alive.

Producers of the alternative fuel said they've found ways to hang on for several more months in hopes that prices for raw materials will continue to drop and the state Legislature will approve subsidy bills to help the industry stay afloat until it becomes profitable.

Last month, some producers said they were in dire straits and might be forced to close their doors without some kind of assistance from the state.

Cumberland County-based Keystone Biofuels Inc. has led the charge to create a more favorable market in Pennsylvania for biodiesel, but its president has also said producers can't continue losing money on their operations.

"Keystone has a heartbeat, and I think we can keep going until July 1," said Ben Wootton of Keystone Biofuels.

Keystone has reorganized its debt and is looking at new ways to reduce overhead, including offering waste-grease collection to local restaurants. Future partnerships with those businesses might be an option to make the company more viable, he said.

Keystone stopped producing biodiesel last month and laid off about 75 percent of its staff. The company had 16 employees and is now down to four, Wootton said.

The industry is at a crossroads, Wootton said. It's fighting three battles to be profitable. First, feedstock - the raw materials to make biodiesel, such as soybean oil - costs more than what producers can sell biodiesel for, he said. Second, people want to buy the product, but the infrastructure and avenues to the market are few and far between. Lastly, producers would like to see incentives to help build the industry, its infrastructure and make it a sustainable part of Pennsylvania's economy, Wootton said.

"As bleak as it looks, I'm still very bullish about biodiesel in Pennsylvania," he said.

Wootton was joined by Pennsylvania Farm Bureau President Carl Shaffer April 2 at the state Capitol to make a renewed call for legislation that would help biodiesel producers and farmers (see "Biodiesel subsidies stalled," page 7).

Shaffer said losing biodiesel producers would cost the state more later.

"You've heard the biodiesel industry is on life support?" he said. "Once you lose part of that infrastructure, it takes so much more time to get it back."

The Farm Bureau, which represents more than 42,000 farms in the state, is pushing the biodiesel legislation because a vibrant biodiesel industry will give farmers new markets for excess oil-bearing crops, such as soybeans.

Until that help arrives, producers said they would diversify their operations and look for ways to streamline production.

"We're kind of in a holding pattern right now," said Glenn Shirey, president of CQ Inc., based in Blairsville, Indiana County.

CQ owns the Middletown Biofuels plant in Middletown, Dauphin County. The plant makes biodiesel from soybean oil, but that will change, Shirey said. Upgrades are being made to the plant so they can also manufacture biodiesel from less expensive animal fats and waste grease. (see "Soybean-oil and yellow-grease prices," page 6)

Although CQ has shut down its biodiesel operation, the company is not in any danger of going under, Shirey said. CQ is a diversified company with operations in clean-coal technology, alternative fuels, electricity production and wood finishing.

Shirey, like Wootton, doesn't have a problem selling or making biodiesel, he said. The price differences between raw material and finished product is what hurts Middletown Biofuels and other producers.

United Biofuels, based in York County, is in the same boat as the others when it comes to feedstock prices.

"It's been a catch 22 in the whole industry because everyone wants to use biodiesel, but the demand for feedstocks has gone up," said Arnie Nelson, United's president.

That means the price goes up, making it harder for producers to compete in a market where petroleum products dominate.

Biodiesel legislation will help, Nelson said. But there's a thin, oily line to what biodiesel producers are doing right now. It's one thing to ask the government for some help, but they don't want to give customers the impression that biodiesel won't be there tomorrow, he said.

Wootton and Shirey agree with that. They just want to be realistic about the economics at the same time. No company can continue to produce while racking up losses. A business - even a green one - has to be profitable.

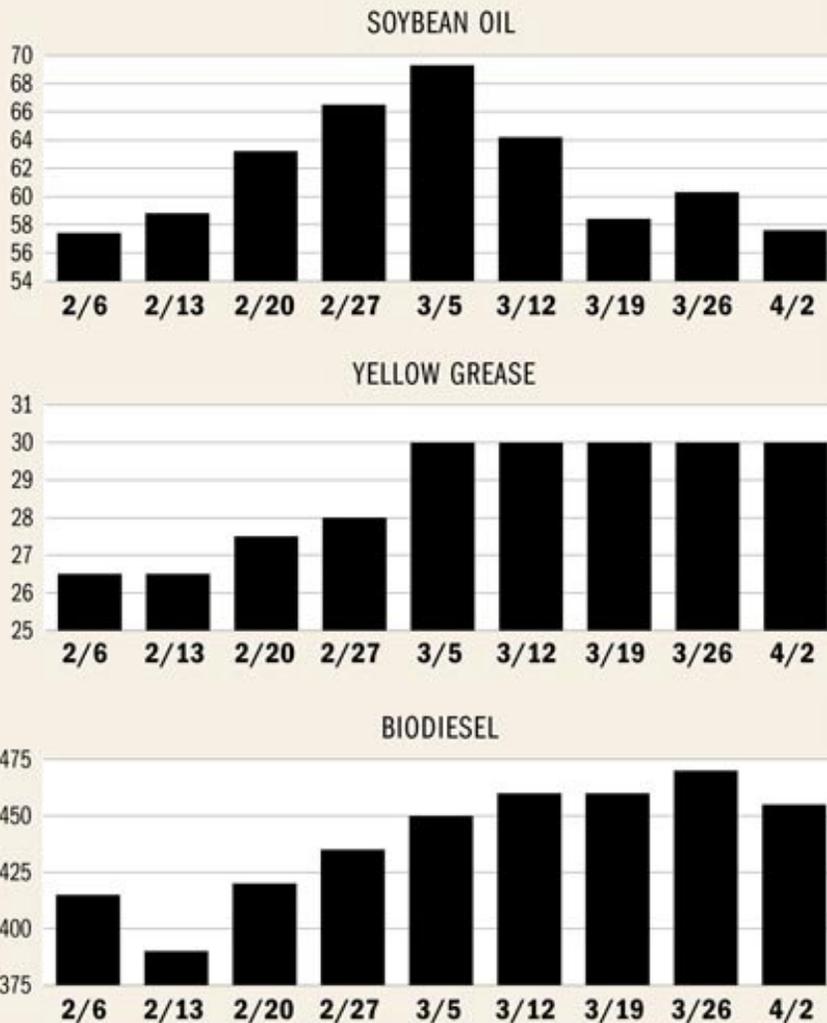
"If we can't do it here, then we'll move to a place with more favorable incentives," Shirey said. "We don't want to do that. We have resources here, including farmers to buy soybeans from and people to sell to."

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**-- See Chart on next page. --**

## Soybean-oil and yellow-grease prices

Prices have risen for soybean oil, which is a staple raw material of the biodiesel industry. Some producers are turning more to the cheaper yellow grease, which is waste grease from restaurant fryers. Here are comparative prices for the raw materials and for biodiesel. Weekly prices are in cents per gallon.



SOURCE: WWW.THEJACOBSEN.COM

### Biodiesel subsidies stalled

Despite biodiesel's popularity on both sides of the aisle in Harrisburg, it's unclear when a bill to help the biodiesel industry could pass both state houses and be signed by Gov. Ed Rendell. Rendell, a Democrat, has pushed renewable energy sources, such as biofuels, in his \$850 million energy package. The Legislature passed separate bills giving additional subsidies to biodiesel producers. The Senate is controlled by Republicans and the House by Democrats.

The only problem is that they still haven't passed a compromise bill. Some in the biodiesel industry say it's due to the usual politicking.

Originally, a 25-cent impasse in the subsidy bills divided the Democrats and Republicans; the House offered a \$1-per-gallon subsidy, and the Senate offered 75 cents.

That changed in recent weeks, said Rep. David Kessler (D-Berks). He wrote the subsidy bill in the House. He confirmed the bill would be changed to offer 75 cents per gallon. The thinking is that the state would be able to offer the subsidy on more gallons produced, he said.

The change doesn't mean the bill will speed through the Legislature, Kessler said. Other compromises with the Senate could push a final vote to the end of June, he said.

Sen. Michael Brubaker (R-Lancaster), a proponent of the subsidy bill in the Senate, said April 2 that action could come in the next several weeks.

The biodiesel industry has been pushing for the subsidy for more than 18 months, said Ben Wootton, president of Keystone Biofuels Inc.

He and others worry biodiesel legislation might get held up as the Senate and House hash out the details of the entire energy package and state budget.

The deadline to finalize a budget for the 2008-09 fiscal year is July 1.

-Jim T. Ryan