Biodiesel plants idled by industry head winds

A possible cut to the Renewable Fuel Standard leaves many Iowa companies sitting still or reducing production while politicians fight over the mandate

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Shut down: Western Dubuque Biodiesel: Western Dubuque Biodiesel plant manager Troy Gibbs talks about the shutdown of their plant and the company's hopes for a re-start of production.

By **Donnelle Eller**

Both renewable fuel proponents and opponents are heavily lobbying the U.S. Environmental Protection Agency on the amount of ethanol and biodiesel that must be blended in the nation's fuel supply. The EPA stops taking public comments Tuesday.

Gov. Terry Branstad and other state leaders are holding a public hearing today, beginning at 8:30 a.m., at the World Food Prize Hall of Laureates.

Biodiesel, depending on what products are used to make it, has 50 to 85 percent fewer greenhouse emissions than petroleum diesel, said Tom Brooks, general manager at Western Dubuque Biodiesel. Iowa leads the nation in biodiesel production, with 12 plants that produced a record 230 million gallons

in 2013. The industry contributed $400 million to Iowa's gross domestic product in 2012, based on industry estimates of the economic impact, and supports 5,000 jobs. That number includes direct and indirect jobs. Nationally, there are 150 biodiesel plants.

The biodiesel industry also helps boost the value of Iowa soybeans, soybean oil and livestock such as cattle and hogs, a source of animal fat used in some plants, said Monte Shaw, executive director of the Iowa Renewable Fuels Association. Iowa's plants also use industrial corn oil, a byproduct that comes from the state's ethanol plant.

About the time the national recession was hitting, general manager Tom Brooks walked into Western Dubuque Biodiesel for the first time and found 400 applications for the eastern Iowa plant's 31 jobs. Brooks interviewed all the candidates. He believed he owed that to Farley, a community of 1,537 residents. After all, organizers raised $19 million in one day from investors to build the plant — the town's first new company in 15 years.

"The impact of this plant running and not running is significant," Brooks said. The plant, for example, pays workers $1.5 million annually and spends $100 million on goods. That money ripples through town, with taxes supporting schools and parks, and paychecks buying lunch at Greenwood's Grocery and bowling at Cobra Lanes.

Today, though, production at the plant has stopped while Brooks and others wait for the biodiesel market to improve. Other plants also have idled production or cut output. Their fates depend in part on a federal proposal to scale back the amount of renewable fuels that must be blended into the U.S. fuel supply.

The Environmental Protection Agency proposes freezing the amount of biodiesel that must be blended into the nation's fuel supply this year to the 2013 level of 1.28 billion gallons. The problem is that the industry produced a total of 1.7 billion gallons last year. And at the end of the year, it was producing at an annualized rate of 2 billion gallons.

The oil industry has expressed concern that requiring higher biodiesel levels has significantly increased the industry's cost of making diesel fuel.

The biodiesel industry's future is further clouded after losing a $1 blenders' tax credit at the end of the year. The tax credit makes biodiesel more competitive with petroleum diesel, industry leaders say. While much of the focus on the EPA proposal has been on ethanol — with the corn-based renewable fuel possibly rolled back about 10 percent, to 13 billion gallons — the younger biodiesel industry could be hit hardest.

"We believe that plants will close. People have told us that privately. And some people around the country are saying that publicly," said Ben Evans, a spokesman for the National Biodiesel Board. "At the very least, plants will have to reduce operations."

“You can’t go from producing 1.7 billion gallons in 2013 to producing 1 billion gallons without a tremendous shock to the market,” Evans said. “Clearly, many businesses will be hurt, and others will go out of business.”

Just how big of a shock the biodiesel markets will experience is a guess.

Production could be cut 25 to 50 percent, said Evans and Monte Shaw, executive director of the Iowa Renewable Fuels Association.

One reason for the uncertainty is that the industry believes that biodiesel will be carried over from record production last year, especially as blenders scrambled to take advantage of the expiring tax credit.

“Everybody filled every storage container they had — and probably a few empty pop cans — by midnight Dec. 31,” Shaw said.

He said the economics don’t favor biodiesel the way they favor ethanol, which is cheaper than gasoline. Industry leaders hope Congress will reinstate the tax credit. Now, Western Dubuque would lose about 45 centsonevery gallon of biodiesel, if they were producing, Brooks said.

Shaw said he believes that Iowa biodiesel plants are well-positioned to survive the challenge ahead. “Iowa has good plants,” he said. “They’re well-sized, well-capitalized and they’re efficient,” with several able to use different feedstocks that include lower-cost industrial corn oil and animal fat.

“And some plants are tied into large companies like Cargill or AGP,” private grain processing businesses. “I don’t think Iowa will be immune from the storm, but I think plants here are well situated to ride it out.”

Daniel Oh, CEO of the Renewable Energy Group, a publicly traded company based in Ames, said his company can compete. REG hasn’t provided guidance to investors on the impact of the EPA’s proposal. The company’s Iowa plants are in Newton, Mason City and Ralston.

“Of course, we want to see the strongest support possible from a policy perspective,” Oh said. But it’s not a situation “where the market and government and customers want to move away from biodiesel.” Despite short-term concerns, Oh said the EPA has “spoken favorably about biodiesel, the performance of the industry, its ability to meet obligations and its ability to grow.
“I think the EPA is going to rely heavily on biodiesel over time,” Oh said.

Even though production has stopped, Western Dubuque continues to pay workers. They’re using the time for maintenance, cleaning and training.

He expects the company could remain idle for a few months before it would need to begin laying off workers. The plant laid off its workers in 2010 for a couple months, after losing federal supports and part of the industry’s export market, Brooks said.

That was tough for employees, he said. The company managed to keep providing workers with health insurance, but was only able to bring back 24 employees. “We’ve learned to be leaner,” he said.
An idle plant causes headaches for businesses that serve Western Dubuque as well. Simon’s Trucking, across the street, typically has about 15 to 20 drivers hauling biodiesel out and canola oil, animal fat and other supplies in daily.

Justin Philipp, Simon’s general manager, said he is scrambling to keep his drivers and trucks moving products for other clients.

“It puts a strain on our tanker business,” he said. “When production there comes to a screeching halt, it means we have a lot of iron sitting, not being used.”

Western Dubuque has posted strong results over the past three years, with last year setting a record, Brooks said. The company shares profits with employees, and gave each hourly worker $3,000 to $5,000 last year in bonuses. Brooks said that helped workers stash away a little, especially families living paycheck to paycheck.

Employee Keith Neyen said the plant has helped young families like his remain in the community. The company’s pay and benefits are among the best in the area.

Brooks said the company pays above the Dubuque County average.

Neyen, a production operator, wants to stay in Farley, where he has extended family, is a volunteer firefighter and has deep ties to his church.

“We’ve gone through slow times before,” he said. “I’m hoping for the best.”