

Policy Pennings by Dr. Daryll E. Ray

Marketing E85: Big oil obstacles and ethanol industry opportunities

As we write this column, the market is in the process of adjusting to the *Prospective Plantings* report that was released by the USDA on Friday, March 30, 2007. The intention of farmers to plant 90.5 million acres of corn was at the top of the range of trade expectations. As a result, corn futures were down the limit on Friday. What they will do between our writing of this column and when you read it is anyone's guess.

The development of a new industrial sector like ethanol faces two major challenges: production and marketing. The first challenge has been met by corn farmers who have financed and organized ethanol cooperatives to provide added value to the low priced corn they were producing. As they developed the industry they lobbied for and received fuel tax credits, tariff protection, and in some states the mandatory blending of 10 percent ethanol in the gasoline as an oxygenate to reduce some forms of air pollution.

In some ways ethanol is like the aging actor who suddenly finds herself in a hit TV series with the press all abuzz as they proclaim her an "instant success." It only took thirty years of casting calls and bit parts to achieve "instant success."

With high oil prices due to Katrina and Middle East instability, ethanol went from inside pages in farm publications to front page news as the President and auto company officials proclaimed ethanol to be an important element of the nation's quest to reduce its dependence on oil from politically unstable regions.

Add to this concern about global warming and the role played by the burning carbon from fossil sources and the number of ethanol plants in the planning process began to mushroom as private investors joined farmers in seeking to become a part of the ethanol boom. Major oil firms began to reposition themselves away from seeing themselves as petroleum suppliers to envisioning themselves as energy suppliers.

None have done this clearer than BP. BP has used its initials to proclaim that BP means "Beyond Petroleum." As they say on their global website, in addition to "the development of new ways in which to produce and supply oil and gas – through clean fuels, through greater efficiency and through substitution – particularly of gas for coal in the power sector," Beyond Petroleum involves "working to bring the next generation of biofuels to market."

Here comes the current marketing challenge facing ethanol producers. Despite the verbal commitment of BP and the other major oil companies to renewable energy, an April 2, 2007 Dow Jones news story on the DTN website reports "oil-company policies make it [hard] for many service stations to stock a fuel called E85, a blend of 85 percent ethanol and 15 percent gasoline."

According to the story, the major oil companies make it difficult to sell E85 through a series of policies including: (1) requiring stations "to purchase all the fuel they sell from the oil company" and the oil company does not produce ethanol, (2) limiting local service

stations from advertising E85, (3) not allowing service stations to charge E85 on oil company credit cards, and (4) requiring "that any E85 pump be on a separate island, not under the main canopy."

As a result less "less than 1 percent" of fuel stations "stock E85." The story reports that "some experts say that to really take hold and be seen as a viable alternative to gasoline, [E85] would have to be available at, roughly, 10 percent of stations." One way to achieve this goal would be for non-petroleum based companies like supermarkets and big box stores to offer E85 at their fuel stations.

In addition to cultivating sales to major supermarket chains and big box stores that have on-site fuel stations, the fledgling ethanol industry needs to look to its own resources to meet the marketing challenge. One strategy is for ethanol cooperatives and plants to increase the demand for E85 by offering incentives for investors and workers to purchase flexible fuel vehicles (FFV). With more FFVs on the road, the ethanol plants could then work with local and regional farm supply cooperatives to install E85 pumps at their fuel stations.

At present many fuel injected automobiles on the road could be converted to FFVs for a modest cost, adding to the market for E85. According to the National Ethanol Vehicle Coalition, the problem is that "there are no conversions or after-market parts that have been certified by the EPA as meeting the standards to maintain clean exhaust emissions. Technically speaking, converting a vehicle that was designed to operate on unleaded gasoline only to operate on another form of fuel is a violation of the federal law and the offender may be subject to significant penalties. No after-market conversion company has successfully certified an E85 kit that would allow a gasoline vehicle to operate on 85 percent ethanol."

The production of an EPA certified after-market FFV conversion kit represents a opportunity for the ethanol industry to reach a large number of drivers who are not ready to turn in their current vehicles. Some targeted investment by the ethanol industry should be able to overcome this problem.

Then they could also offer their investors and workers an incentive to convert their present fuel injected vehicles to run on E85 or any blend up to that percentage. While the cooperation of major oil companies would be the simplest way to increase the availability of E85, the ethanol industry is not without alternatives.

"If ethanol were available on the supply side, the demand is there," says Dan Kammen, co-director of the Berkeley Institute of the Environment and UC Berkeley's Class of 1935 Distinguished Chair of Energy.

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