

**Remarks of the Biodiesel Coalition of Texas (BCOT)**

**Presented by Jim Karlak, President, BCOT**

To the

**House Committee on Agriculture & Livestock \***

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*Capitol Extension Bldg., Room E2.028, Austin*

**INTRODUCTION**

Good afternoon Mr. Chairman & members. My name is Jim Karlak and I am President of the Biodiesel Coalition of Texas (BCOT).

I appear before you today to introduce the committee to BCOT, which is Texas' first industry association focused exclusively on advancing the Texas biodiesel industry and to offer our assistance to this Committee as it fulfills its interim charge to assess potential contributions of Texas agriculture to the energy supply as a feedstock for biodiesel.

**Biodiesel Coalition of Texas**

BCOT is a Texas non-profit corporation formed by biodiesel producers, distributors, and retailers, as well as agricultural interests that provide biodiesel producers feedstock for their fuel. BCOT singular mission is to band together competitors within the biodiesel industry and, along with allies in the agricultural community, work to shape regulatory and tax policies that will ensure the success of this emerging industry in Texas.

BCOT supports the production and growth of the ethanol industry, and the prior speakers have already covered the extraordinary benefits of biofuels, generally, and biodiesel, in particular, so I will limit my remarks to an explanation of the many biodiesel applications that are not commonly mentioned and to explain BCOT's view of how the Legislature can better ensure that Texas agricultural products are used by Texan biodiesel producers to produce Texas biodiesel for Texas end-users.

**MARKET POTENTIAL**

In addition to the commonly discussed passenger vehicle and trucking applications of biofuels, biodiesel has the potential to tap into vast additional markets that could significantly increase the demand for Texas agricultural products as feedstock. Some of the end uses commonly forgotten include the following:

- Use of biodiesel in school buses in place of traditional petroleum diesel to eliminate the risks of respiratory disease that have been the focus of several studies regarding the adverse health effects of school bus diesel exhaust on school children. The use of biodiesel in Texas school bus fleets is growing every

day along with the increased awareness of the adverse effects of petroleum diesel and the comparative benefits of biodiesel.

- Use of biodiesel in marine applications, especially in-port where diesel fuel use is heavy, with the ability to significantly alleviate concerns about fuel spills given the biodegradable characteristics, which in turn significantly reduces insurance premium for marine vessels.
- Use of biodiesel in military applications given its significantly higher flash point than traditional diesel, which has led the Army and Navy to begin a massive shift toward the use of biodiesel in tactical and non-tactical applications.
- Use of biodiesel to generate electricity with state-of-the-art generators that countries all over the World already use to generate electricity from biodiesel. In fact, the Houston Area Research Center (HARC) in conjunction with a major biodiesel producer in the Houston area, is pursuing an aggressive project to put renewable electricity on the grid using exclusively biodiesel-fired generation.

These are just a few of the ever-increasing uses for biodiesel in place of traditional petroleum diesel to fuel this Nation's and this State's economy.

### **Big Market Big Demand Big Impact**

BCOT is dedicated to the mission of exploring new and innovative markets to facilitate the growth of the biodiesel industry in Texas, but, to be blunt, increasing demand is not the biggest challenge facing the biodiesel industry in Texas. Rather, assuming we can clear all the environmental regulatory hurdles we are working with TCEQ to address, the biggest challenge facing us is the ability to secure a sufficient and consistent domestic feedstock that can fuel increased biodiesel production without significant price variations.

Based on the input I have received from BCOT members and my personal experience, some key steps that need to be taken within Texas to improve the viability of Texas agricultural products as biodiesel feedstocks include the following:

### **INCENTIVES NEEDED**

- Guarantee funding, by-line item, for the Biodiesel Incentive Program, for example, new plants in the State of Oklahoma are being built. Not surprisingly, Oklahoma's production incentive is funded, at 20 cents per gallon.
- Secure long-term state excise tax exemption for biodiesel that would include the volume of all blended fuel.

**BCOT will be working with other Committees to foster the development of Texas biodiesel projects.**

**ENVIRONMENTAL**

- Texas must recognize the environmental beneficial properties of biodiesel.
  - Biodiesel is non-toxic; it's biodegradable; and its exhaust emits less toxic air pollutants (by orders of magnitude), particulate matter, and carbon monoxide than diesel fuel.
  - Biodiesel offers a sink for carbon sequestration. Why? Because the plants that are grown each year to produce biodiesel will absorb carbon dioxide, and would therefore "offset" the carbon release from fuel combustion.
  - Uncontroverted data about the significant volatile organic compounds, particulate matter, carbon monoxide, and hydrocarbon emission reductions associated with the use of biodiesel; therefore, BCOT seeks the support of the agriculture community that other state agencies, including the TCEQ must assess biodiesel's net environmental benefit.

**FEEDSTOCK NEEDS**

- Given that the feedstock cost is the largest single component of the biodiesel production cost, Texas should incentivize the production of locally-grown feedstock for the purpose of biofuel manufacturing.
- If soybean prices were to increase, say to \$0.35, it would cost as much as \$2.96 per gallon to produce biodiesel. Incentivizing locally-produced and processed seed oils, such as cottonseed, could provide a more certain price for feedstock commodities, and would benefit biodiesel production.
- Incentivizing feedstock production would benefit the local agriculture community and help alleviate the other major limiting factor associated with biodiesel production, which is feedstock supply. Based on the projected production rates of biodiesel, feedstock shortages could occur unless there is more investment into Texas' agriculture for the specific purpose of energy development.
- **BAD** Between 2000-2004, soybean oil accounted for more than 57% of the total US annual feedstock supply. Texas is not known for its soybean production, in fact, it is sixth from last and ranks up there with New York, Delaware, and New Jersey, and biodiesel producers in Texas often ship soybean oil in via rail, which is the most economic means for transporting this commodity.

- **GOOD** Given Texas' agriculture history and landmass, it is possible that locally grown, Texas feedstocks could be used to supply the demand for Texas biodiesel plants. It is true that farmers will sell their crops to the market that offers the best price, but as far as biodiesel plants are concerned, new crops could be grown on existing land to satisfy the need for a reliable and affordable supply of feedstock.

## **CLOSING**

As the founder of one of the first and largest producers of biodiesel in the state, SMS Envirofuels, I have become intimately familiar with the challenges facing the Texas biodiesel industry and the hurdles that need to be cleared in order to ensure that Texas agricultural products supply a majority of the feedstock for this emerging industry. BCOT members are leading the charge in developing native Texas crops as biodiesel feedstocks like, for example, cottonseed and sunflower seed oil, in addition to agricultural by-products from the beef, poultry, and swine industries.

The critical need to do more to develop Texas feedstocks is particularly pressing on me, personally, as I am in the unfortunate position of needing to race down to San Antonio after this hearing in order to court Minnesota Soy Bean interests to ensure that I receive an adequate supply of biodiesel feedstock at a fair price.

Like I said, I've been on the phone this morning with folks from Minnesota, and frankly, I'm glad to be visiting with y'all this afternoon. The point is, Texas biodiesel producers need help from Texas Farmers, communities, and leaders to ensure that an affordable and reliable feedstock source is available. In turn, Texas biodiesel producers will provide a benefit to the local economy through the form of jobs; secure fuel contracts with local fleets, including local government, schools, and farmers.

Thank you, Mr. Chairman, and members for taking the time to listen to our comments here today and, on behalf of BCOT and the Texas biodiesel industry, I look forward to years of collaboration with you on this important initiative that holds such promise for our country and for the Texas agricultural community.