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Lowering standards?

The production and use of transportation fuels accounts for about one-fourth of all carbon emissions in the United States.

By limiting the carbon "intensity" associated with gasoline and diesel, Low Carbon Fuel Standards proponents hope to reduce carbon emissions.

Ethanol and biodiesel are familiar examples of this kind of thinking.

Paying the bills

Although the emissions benefits of LCFS are debatable, one thing is not: LCFS will increase energy prices.

Consumers will pay those higher energy prices in several ways. The first is through tax dollars.

In the U.S., ethanol production is subsidized at a whopping 45 cents of taxpayers' money per gallon.

Another cost to consumers comes in the form of increased fuel purchases.

Because ethanol delivers about one-third less energy than gasoline, drivers have to buy more ethanol-blended fuel to travel the same distance they used to get with a gallon of gasoline.

"If a low carbon fuel standard is enacted," said Brad Razook, president of Flint Hills Resources, "it would be very bad news for our industry, our employees and our customers."

Crude logic

"LCFS would not only mean higher costs at the pump," said Razook, "it would force us to purchase more crude oil from the Middle East and less from our neighbors in Canada."

FHR's Pine Bend Refinery in Minnesota is one of the most efficient refineries in the world. It was specifically designed to process heavy, sour crude piped in from Canada.

> "Low carbon fuel standards have a large cost in terms of efficiency and effectiveness."
> - American Economic Journal

If Canadian crude cannot be processed in the U.S. because of LCFS, that oil will probably be shipped (at a much higher cost) to countries with high demand but perhaps lower emissions standards.

The net result of that switch would be an increase in global greenhouse gas emissions, including those from tanker ships moving crude oil halfway around the world.

Pine Bend Refinery in Minnesota was designed to process high-carbon Canadian crude.

Unlike cap-and-trade (see page 9), which is essentially a tax, LCFS would also raise costs by making the energy industry less efficient.

Relying on unproven technologies – such as those for producing cellulosic ethanol – is risky and impractical, at least for now. Converting sawgrass (above) into fuel is a promising concept, but it may not be commercially viable for many years to come, especially in the quantities necessary to meet the demands of the market at a reasonable cost.

Meanwhile, jobs will be lost in both the U.S. and Canada as highly efficient refineries and pipelines end up with much less product to process or transport.

Conclusion

All Koch companies believe in the efficient use of resources and maintaining a clean and healthy environment.

By ignoring such improvements and forcing a different approach, LCFS proposals have the potential to inflict a host of unintended consequences.

"We don't believe that many of our political leaders have a full understanding of the implications of LCFS," concluded Razook.

"LCFS means higher energy costs for consumers, lower employment, less reliable foreign oil sources and probable fuel shortages.

"Then, to make matters even worse, you have the prospect of even higher global emissions. Let's face it: LCFS just doesn't make sense."

As LCFS is debated at the state and national level, Razook encourages all Koch company employees in the U.S. to learn about this issue.

"You can never be too aware of policies that affect your business," said Razook.

www.kochind.com/ViewPoint/lowCarbon.aspx