

# Biofuels and Foreign Direct Investment: Golden Egg or Cooked Goose?



**Ryan Fitzpatrick**

Deputy Director of the  
Clean Energy Program

[@rdfitzpat](https://twitter.com/rdfitzpat)

While it's only been a month, few Washington observers expect an exceptionally cooperative relationship between the new Congress and the White House. No shock there. What is surprising, however, is the fact that President Obama is still failing to capitalize on one particular opportunity to advance his economic policy agenda—one that doesn't require the approval of Congress. In fact, he's actually getting in his own way.

At a White House summit in late 2013, the President encouraged executives from dozens of foreign-owned companies to increase their investment in U.S. companies. This foreign direct investment (FDI) injects billions into the economy each year and puts millions of Americans to work. But the U.S. share of global FDI fell from 36% in 2000 to 19% in 2013. To stem these losses, the President vowed to double-down on efforts to "make the case for investing in America" using regulatory policy and organizational changes to appeal to international businesses.

When it comes to the emerging advanced biofuels industry, however, the Obama administration may have killed an FDI

goose that was preparing to lay hefty golden eggs. While overall FDI numbers were falling during the past decade, projects in this sector were beginning to attract hundreds of millions of dollars from around the world. And this was just the first batch of "golden eggs," as foreign companies were making plans to replicate successful initial investments at new plants or to license their technologies to partners across the country. The expected result was more than 100 additional projects, tens of billions in FDI, and all of the jobs and residual economic benefits that come along with that.

Then came the axe—swung by the Obama administration itself.

Less than a month after the President spoke on FDI, EPA issued a proposal to adjust the way it administers the Renewable Fuel Standard, effectively eliminating the growth potential for second generation biofuels. The loss of market certainty sent shockwaves through the investment community and quickly dried up interest in this promising sector. EPA announced last November that it would delay a decision on its controversial proposal until 2015, perhaps recognizing the damage it was inflicting.

But foreign investors appear to be waiting for the Obama administration to recommit to the RFS before they pour more cash into U.S. biofuels.

- Abengoa: Despite the successful completion of a \$500 million production facility in Kansas, the Spanish company is no longer considering additional investments in cellulosic ethanol in the U.S. Instead, it has turned its attention—and cash—toward a plant in Brazil. Said CEO Manuel Sanchez Ortega, "unless a firm confirmation of the RFS is done by EPA, this will be [our] second and the last cellulosic ethanol plant in the U.S."

- **Novozymes:** After investing some \$500 million in R&D and production in California, Nebraska, and North Carolina, the Danish biotech company is not planning further investment in the U.S. advanced biofuels market. It is, however, investing in a biorefinery in China. Adam Monroe, President of Novozymes Americas, explained, "We made these strategic choices because America's [RFS] was strong, stable and clear. The EPA now has a great opportunity to restore confidence in the Obama administration's clean energy and climate agenda by returning to its historical administration of the RFS."
- **DSM:** After opening a cellulosic plant in Iowa with American partner POET, the Dutch company now sees China as the best place to invest. It's also pursuing a project in Finland. "There is huge potential for additional investment in second generation biofuels in the United States and we have pursued such," said Hugh Welsh, President of DSM North America. "While we hope to continue these types of investments in the future, recent policy uncertainty no longer makes this an attractive commitment for companies."

President Obama has told foreign-owned companies that he will help them navigate regulations so they can "invest faster, open facilities faster, [and] create jobs faster" in the U.S. But actions speak louder than words. If the President truly wants to coax biofuels companies to start laying golden eggs in the U.S. again, he might want to put down the regulatory axe first. If EPA sends the right message now, he has a good shot at wooing back these companies. His odds are definitely better than waiting for Congress to help promote his economic growth agenda.

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