

Renewable Fuels

Robert Dinneen
President & CEO
Renewable Fuels Association

MR. ROBERT DINNEEN: Good morning. Jean-Mari indicated that she thought there would be a little bit of spice at the end of the panel, and I suppose that means that Larry and I are the spice. And that makes some sense. I mean spice certainly makes the pork taste better, and it certainly washes down a lot better with a little alcohol fuel.

[Laughter]

So Larry and I are going to be good friends; we have a lot in common. I like his product, evidence to the contrary notwithstanding I'm not a vegetarian.

[Laughter]

All right. So there isn't a whole lot of evidence to the contrary.

Getting it right. What's the "it?" I was contemplating that yesterday as I was looking at the program. What's the "it?" Getting "it" right. If the "it" is cheap food, well we've had a policy for many, many years of assuring that we had the most affordable food in this country. But I think we've entered a new era in this country, and it's not just about that anymore. I think the "it" in getting "it" right is really about rural policy, it's about environmental policy, and it's absolutely about energy policy.

I don't think we can afford to choose. I think we have to make sure that we are doing everything we can to be revitalizing rural communities across this great country. And we heard this morning that we're certainly doing that today. I think we have to do everything we possibly can to address the very real challenge of global climate change. We're beginning to at least recognize that that's an issue we need to address. And two days ago as oil closed for the first time at more than \$100 a barrel I think we can all recognize that we absolutely have to confront the challenge of our addiction to oil. We can't choose among these things. We have to make sure that public policy is addressing all of these critical challenges today.

Ethanol is not a silver bullet for any one of those issues. It's not. But biofuels absolutely are a part of addressing each of them to a certain extent. And the ethanol industry today is indeed doing a great deal to expand, to respond to the challenge of the Congress, the President, rural communities across this country have laid for us that we need to do more. We have 140 ethanol plants in operation today that have the capacity to produce some 8 billion gallons of fuel ethanol. Last year we produced some 6.5 billion gallons of high quality, high octane motor fuel, an additional 14 million metric tons of distillers feed, protein that then is fed to livestock, poultry, dairy across this country. We have 60 plants that are currently under construction, 60. That will add another 5.5 billion gallons of

ethanol production capacity when each of them is on-line in the next 12 to 18 months. That's tremendous growth. That is reshaping agriculture today. It is reshaping motor fuel markets today. And when I started in this industry some 20 years ago, we were producing, oh, maybe 600 million gallons of fuel ethanol. I've seen tremendous growth in this industry over those years. When I started, you know we had to fight to get into a few Midwestern markets. Today, ethanol is blended in 50 percent of the nation's motor fuel, it's blended literally coast to coast and border to border. Ethanol has become a very critical and indeed a ubiquitous component of the U.S. motor fuel market.

Don't think for one moment that that hasn't shaken up our gasoline markets across this country. And I give our customers in the refining industry great credit for absorbing that amount of fuel, for working with us to build the infrastructure to make sure we met the challenges that were created by increased mandates. But we've done that, and it has been very successful.

As a result of our industry, we have become a critically important component of the economy. Last year 6.5 billion gallons of ethanol that we've produced generated \$47 billion across the economy to our GDP. Our industry is responsible for 238,000 workers. The increased demand for grain certainly had a significant impact on farm income and helped to lower farm program costs significantly. We added to local tax revenues, state tax revenues significantly.

One of the privileges that I have as the president of the nation's Ethanol Trade Association is that I get to go plant openings across the country, and I've been to a lot of them over the past few years. And you go to these small towns that the economic boom of the past several years have missed, and you go to a town that hasn't seen a new business open up in a generation. Some of the towns I've been to have, the Main Street is not even paved. Yet an ethanol plant comes to that area, and it's bringing jobs, it's bringing economic opportunity, and it is absolutely revitalizing and improving the quality of life in that part of the world. That's significant.

And that's what our industry is doing these days. Last year the 6.5 billion gallons we produced displaced 228 million barrels of oil. But look at it in another way. The increase in gasoline consumption over the past several years has been met entirely by expanded ethanol production. We have stemmed the tide of increased gasoline imports into this country. That's not insignificant at all.

If you take away the 8 percent of the motor fuel market that we expect to provide this country this year, the impact on gasoline markets would be very real. It would be tangible. See, I want Larry's mother to be able to drive as well as to eat her pork.

[Laughter]

And ethanol is going to make that happen. There are consumer impacts all over this economy from our growing biofuels industry, and this is really important.

Another critical benefit last year, the use of grain for ethanol production was taking carbon out of the air. An analysis that we did with Oregon suggested that we reduced 10 million tons of carbon last year, the equivalent of taking 1.2 million vehicles completely off the road. Our biofuels policy today is really the only policy that we have that is addressing global climate change. We need to do more, we need to get more efficient and we are.

Importantly, as our industry grows we are indeed utilizing new technologies. Corn fractionation, looking at energy inputs in a new way, using biomass gasification or methane burning as a way to power our plants. And with each new plant that opens up, we're becoming more efficient, we're having a better carbon footprint, and we are moving this nation ever closer to really addressing the challenges of greenhouse gases.

As the industry grows, obviously we are going to be looking at new feedstocks as well. Part of the challenge of getting it right with respect to biofuels is indeed making sure that we are moving beyond grain. And therein is where the energy bill that just passed and the President signed into law last December 19 really does send a strong signal to our industry, to the investment community, to the refiners that cellulosic ethanol is coming.

It requires 21 billion gallons of the 36 [billion] to be advanced biofuels, including cellulosic ethanol. That suggested the upper bounds of what we will get from this program for corn-derived ethanol is 15 billion gallons. So analyses that there may have been out there assuming 30 billion gallons or more from corn-derived ethanol is not going to happen under this bill.

We recognize that in order to grow our industry we need to move beyond grain. We realize there are limitations to what we can produce from grain today. And this bill memorializes that in statute. We are careening towards 15 billion gallons of ethanol from grain. We're going to get there, and it will be the foundation upon which a more sustainable cellulosic ethanol industry will grow. So the \$36 billion question of course is, Will cellulose really develop? I can tell you without hyperbole or exaggeration, yes it will.

There is not a company that I represent that doesn't have a very aggressive cellulose-to-ethanol research program. Why? Because we already have cellulose coming into our facilities. Companies like ADM are very close to commercializing fiber technology, cellulose that's in the plant, to ethanol. It will expand their ethanol production by 15 percent. Other companies like Poet are looking at technology to convert corn cobs and stover that is already readily available into cellulosic ethanol. They're building a pilot plant today in Emmetsburg, Iowa. It is very close. There are other companies. Range Fuels, a company in Georgia, is under construction today with a woody biomass base cellulosic ethanol plant, 20 million gallons a year. And when that plant opens up sometime in early '09 it will open up a new threshold for our industry.

There is already today limited cellulosic ethanol production. A company in Idaho, KL, announced a few weeks ago that they were already producing ethanol from woody

biomass and they had plans to greatly expand their technology to other sites across the country.

Again, there's not a company I represent that isn't looking at this challenge. I can't tell you whether biomass gasification or enzymatic conversion or acid hydrolysis will ultimately be the technology of choice. I'm certainly not smart enough to know whether or not corn cobs or municipal solid waste or wood chips or switch grass or jatropha or some other energy crop will ultimately be the cellulosic feedstock that makes this all work. But I can tell you that it is going to happen. There's too much energy, too much investment, and there's a lot going on that we don't even know about. The announcement a couple of weeks ago from KL took all of us by surprise. How many other companies are out there with technologies that we don't yet know about? It's going to happen.

The Energy Bill makes sure that it will happen. It moves our industry beyond just grain. Grain will continue to be the foundation upon which our industry will continue to grow, and it will continue to provide significant value-added markets for farmers, but if we were ever going to be a true alternative to gasoline we know, our industry knows, public policymakers know, we need to crack the code to produce ethanol from the abundant cellulosic materials that we have in this country. And when we do so, we can move beyond just being a blend component in gasoline to being used in more and more E85 vehicles.

The infrastructure for that is also developing. General Motors and Ford should be commended for the commitment that they have already made for flexible fueled vehicles. They have committed that by 2012 more than 50 percent of the vehicles that roll off of their assembly lines will be flexible fuel capable of running E85. We purchase on an annual basis about 17 million vehicles a year. Domestic auto manufacturers have about a 40 percent share; that suggests by 2012 we'll have 4 million additional flexible fueled vehicles coming on the road capable of running on E85.

To satisfy that demand, we're going to have to have much greater supplies of ethanol. And the benefits to that will be significant.

The infrastructure to supply this growing industry is also growing. When I go to plant openings these days, there is seldom a plant that I visit that doesn't have "unitrain" capability right there at the site. That didn't happen even three years ago, two years ago. But our industry recognizes that if we're going to get product coast to coast and border to border we'd better make sure that we are delivering it in the most efficient way. So you see unitrains being the norm, not the exception today.

In Manley, Iowa, recently there was a new terminal opened up with unitrain capabilities such that plants without unitrain capability at their own site could ship product there and they would assemble unitrains for the most efficient transportation to the destination markets.

And those destination markets today are increasingly adding unitrain receiving capability. I was at a terminal in Baltimore just a few weeks ago where they are putting the final touches on a terminal that will be able to take unitrains. But it's in New York and Atlanta, Georgia, in Florida, in Texas, in California, and every place in this country where ethanol markets are developing the infrastructure is developing as well.

Our industry is investing. We're working with our customers, we're working with the rail industry today and pipelines tomorrow. A couple days ago there was an announcement from two pipeline companies that talked about an investment that they want to make building an ethanol pipeline from the Midwest to the East Coast. I don't know if it will happen, but pipeline companies for the very first time are thinking about it.

I had my very first meeting yesterday with FMSA, the organization at the Department of Transportation that regulates pipelines. In 20 years I've never crossed that threshold. But our industry, the government is thinking about all of these challenges, and the pipeline industry is also thinking about it.

Now despite these benefits, despite the growth in our industry and the changes that are occurring, there are some that still want us to choose, that want us to choose between food and fuel. And in this hierarchy, the other white meat is somehow more important than the other alternative fuel. And I think that that is a huge mistake. I don't think we have to choose. I don't think we should choose.

Farmers have responded to the signals that they've gotten. Last year's 93 million acres planted is obviously an historic moment for agriculture. The announcement this morning of 90 million acres that they expect to be planted this year suggests that the markets are indeed responding. Now they're being challenged not just by the growth in biofuels but by a growing world economy, changing dietary habits in third world countries, the declining U.S. dollar, and a number of challenges facing agriculture today.

It's not just about biofuels. Those that want to suggest that there's going to be dramatic and drastic impacts on consumer food prices because of the biofuels industry are really missing the point. There are lots of things going on in agriculture today, and you need to keep all of that in perspective. An analysis that was done last fall of the impact of the biofuels industry on food prices suggested that the commodity prices really only had a 4 percent impact on consumer food prices – 4 percent. The lion's share of the consumer food prices were being driven by the marketing bill—energy, transportation, packaging, all elements that are driven by what? By petroleum, by \$100 a barrel oil.

The biofuels agenda is attempting to address that challenge. It's attempting to put some kind of a brake on the economic consequence of our over-reliance on oil. We cannot simply ignore that impact. Ultimately to the extent that biofuels are able to moderate the gyrations that occur in the gasoline markets today—and you saw that last fall when oil prices were going up and gasoline prices were not going up as much because ethanol was contributing to overall motor fuel supply—only if we keep that opportunity available will we have food security in this country.

We will not have food security in this country unless and until we have energy security in this country. Larry is absolutely right that this is all interconnected. We have to be looking at this in terms of all of agriculture, and we need to make sure that farmers are indeed empowered with everything that they need in order to continue to supply to our industry, to Larry's industry, to fiber and food markets all across this country. We need to make sure that there aren't unnecessary constraints on acres.

We need to make sure that we're doing everything possible on biotechnology, seed technology. And I think we're doing that. Paul's report earlier was very encouraging and is echoed by others in the industry that see that we are going to get to 300 bushels per acre far sooner than anybody believes we will.

I look forward to continuing to work with all of you in this room to make sure that the progress that has been made on biofuels continues, to make sure that we continue to advance all the goals that we need to be looking at: rural economic development, environmental progress, and certainly energy security as well.

Thank you very much.

[Applause]