Testimony: Farm Bill Hearing
April 30, 2010, Des Moines, Iowa
Jeff Stroburg, Chairman and CEO, Renewable Energy Group®

Comments Regarding Bioenergy Titles of the Farm Bill

The results of the previous Bioenergy Titles (2002 and 2008) Farm Bill have helped transform farm producers and agri-businesses to not only feed the world, but feed and fuel the world. The forward thinking work this committee has pioneered has forever changed rural America.

The U.S. biodiesel industry stands in support with you in achieving our national priorities for increasing energy independence, reducing greenhouse gas emissions, supporting green collar jobs and advancing American agriculture. The 2012 Farm Bill offers tremendous opportunities to advance current Bioenergy Title programs and further promote biodiesel utilization.

Here is a brief summary of the tremendous results our industry has achieved as a direct result of previous energy titles.

- *Biodiesel Promotes National Energy Independence and Reduces Greenhouse Gas Emissions*
  Today, the U.S. has the capacity to produce more than 2 billion gallons of biodiesel which can be integrated into existing petroleum industry infrastructure. Our feedstocks are renewable; we use the fat Americans don't want in their burgers and the oil left over from cooking their French fries.

  Biodiesel is today's only commercially-available renewable fuel which qualifies as an advanced biofuel. Biodiesel significantly reduces harmful greenhouse gas emissions as compared to petroleum diesel. With an energy ration of 4.5:1, we intend to continue improving fuel production efficiency while continuing to produce clean burning fuel.

  Becoming an advanced biofuel is not our final goal as an industry; we have already achieved status as an advanced biofuel which can be produced from hundreds of fats and oils. On the horizon, integrated bio-refineries will produce high value specialty chemicals and jet fuel from current renewable oils and fats. Bio-refineries will continue to displace industrial and consumer petroleum-based products and in turn reducing dependency on foreign oil while supporting American agriculture.

- *Biodiesel Supports Green Collar Jobs*
  Many of our staff grew up on family farms, surrounded by production agriculture. I concur with Secretary Vilsack's comment that more and more farm families need off-farm income to make ends meet. REG and our partners offer full-time, highly skilled employment in rural areas like Wall Lake, Ralston, Farley and Washington, Iowa. Several of our employees or their spouses are involved in production agriculture today and sought out positions at our biodiesel plants in

order to be able to continue their commitment to agriculture. I believe maintaining these green collar positions and creating new jobs in these rural areas is a valuable piece of the USDA's role in biofuels and bioenergy for the next Farm Bill.

- *Biodiesel Advances American Agriculture*
  In the 1940s in rural Iowa, West Central cooperative built a soybean crush facility to add value to local farmers' grain, producing soybean meal and its co-product, soybean oil. In the early 1990s, West Central partnered with Iowa State University to determine the feasibility of using excess soybean oil to manufacture biodiesel. This feasibility study was funded in part by the USDA.

  Today, our REG network of commercial scale biodiesel plants utilize a multiple feedstock strategy that currently includes soybean oil, choice white grease, beef tallow, poultry fats, canola oil, corn oil from ethanol production, used cooking oil from restaurants and other virgin fats and oils. These fats and oils are the co-products or by-products of the U.S. agricultural industry.
    - Value to soybean producers
      - $0.25 of value added to every bushel of soybeans produced in Iowa, according to the United Soybean Board.
      - In 2009, almost 60% of all biodiesel produced in Iowa was produced from soybean oil.
      - $121.5 million in additional value for 2009 alone for Iowa soybean producers.
    - Value to livestock producers
      - In October 2009, the national biodiesel industry used more than 50 million pounds of inedible fats.
      - $9.00 per head earned by Iowa cattlemen due to value of beef tallow-based biodiesel production
    - Value to corn and ethanol producers
      - Inedible corn oil from ethanol production utilized in Iowa biodiesel plants.
      - $0.25 per pound of value returned back to ethanol producers and in turn, corn growers.

2012 Farm Bill Considerations

Considering the Energy Title programs currently underway and the results that I just outlined; these recommendations are designed to build on a few key programs that will ensure that the previous investments are indeed - the solid foundation for the next generation of bioenergy technologies.

However, given the serious economic difficulties of the financial industry, banks and lending institutions are hesitant to partner with commercial-ready bioenergy projects. Financing options should be kept open to keep this critical industry moving forward. Therefore, we recommend the following adjustments in order to remain within your priorities and restore confidence in the marketplace.

- *Under section 9003, Biorefinery Assistance*
  Currently the USDA proposed rules allow for loan guarantees and grants to be awarded, but right now only loan guarantees are offered. Our recommendation is to package grants and loan guarantees together, more banks and lending institutions would be willing to step forward, more projects would be awarded, and more competition would result. Under this scenario, the total coverage from the government would remain at 80%, but that coverage could be split

between a grant and a guarantee at the discretion of the USDA. By combining grants with loan guarantees; more banks would step forward and more projects would compete and commercialization would occur at a faster rate.

- *Under section 9005, Bioenergy Program for Advanced Biofuels*
  This program has particularly been one of the most helpful to our industry at this time in history. We would encourage you to continue funding these incentive payments. The biodiesel industry has the capacity and is poised to meet the volume requirements of RFS2. However, the goal for the industry is to not only meet the reduced green house gas emissions levels, but to exceed these reduction levels. The incentives in this program will assist the current infrastructure's transformation to the next generation of feedstock and next generation of biorefinery technology that will exceed reduced green house gas emissions levels. If your goal is to transform the biodiesel companies of today to the next generation of biorefinery production of tomorrow, this program will keep the pace moving forward. That said, removing the 150 million gallon cap will help accelerate this progress.

- *Under section 9007, the Rural Energy for America Program (REAP)*
  A combination of grant and loan guarantees are allowed for REAP, but at only 75% of project costs. A penalty is allotted if a grant and loan guarantee is packaged. Our recommendation is to remove the penalty and the total coverage from the government would remain at 80%, but that coverage could be split between a grant and a guarantee at the discretion of the USDA. This adjustment will encourage more banks and lending institutions to fund more projects and commercialization would occur at a faster rate.

- *New consideration for counter-cyclical payments for biodiesel feedstock risk management*
  The Renewable Fuels Standard, created by the Energy Independence and Security Act of 2007, contains the nation's first carve-out for biodiesel utilization. While this program, in combination with the reinstatement of the biodiesel blenders tax credit, are major milestones for our industry, we would like the USDA to consider an additional option for promoting the growth of the biodiesel industry.

  Agricultural co-products and by-products account for more than 85 percent of the cost of a gallon of biodiesel. For example, as the cost of soybean oil increases, soybean producers are rewarded and the biodiesel industry looks to alternative ag feedstocks. In turn, animal fats and inedible corn oil increase in value. As the cost for soybean oil and other biodiesel feedstocks increase, soybean producers and other agricultural producers are rewarded, while biodiesel producers margins' tighten significantly.

  Our recommendation is a counter-cyclical payment directed to biodiesel producers, which would offer a risk management opportunity when soybean, corn and livestock producers receive value from high commodity prices and the biodiesel industry is exposed to squeezed margins. In turn, when soybean, corn and livestock producers are struggling with low commodity values, our current risk management strategies offer sufficient support for our business progress.

Renewable Energy Group believes our nation's energy security needs are more sensitive and costly than ever and will only get more acute in the future if investments in biofuel production, with these program adjustments, are not put into operation. We stand ready to work with you and any of these recommendations at your convenience.

Comments Regarding Impact of the Loss of the Federal Biodiesel Blenders Tax Credit

Failure to extend the tax credit for biodiesel produced in the U.S. would have a substantial negative impact on biodiesel production and the consequent economic and environmental benefits made by the biodiesel industry.

The original biodiesel tax credit was passed in 2004 and has been extended twice, most recently as part of the Emergency Economic Stabilization Act of 2008 (P.L. 110-343), signed into law in October 2008. Biodiesel produced from both virgin feedstocks (such as soybean oil) and non-virgin feedstocks such as yellow grease and animal fats qualifies for the $1.00 per gallon excise tax credit. An incentive such as the biodiesel tax credit is necessary to offset the higher cost of producing biodiesel compared to petroleum diesel.

The biodiesel blenders' tax credit lapsed on Jan. 1, 2010. Currently, demand for biodiesel is extremely limited because our customers are no longer taking the risk of purchasing biodiesel without the tax credit. Manufacturing plants have idled. This dire situation is occurring not only in Iowa, but all over the country.

According to a December 2009 study by John M. Urbanchuk**,** Director, LECG LLC, "without the tax credit the price of biodiesel would be insufficient to provide a positive return over variable costs and the biodiesel industry could be expected to collapse". This would have several notable adverse economic impacts including:

- a loss of jobs and income
- increased demand for petroleum diesel and a degradation of energy security
- lower demand for soybean oil and soybeans for crushing leading to lower soybean prices and a negative impact on farm income
- stranded investment as biodiesel capacity is idled
- lost tax revenue for States and local governments

The biodiesel industry will spend about $1.3 billion on raw materials, goods and services to produce 475 million gallons of biodiesel this year. In doing so the biodiesel industry will add $4.1 billion to GDP this year, increase household income by nearly $1 billion, and support nearly 23,000 jobs in all sectors of the economy. In addition the biodiesel industry will provide $445 million of tax revenue to the Federal treasury and $383 million to state and local governments.

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Located in the heart of United States agriculture, West Central is a leading grain, agronomy, and value-added processing entity. With headquarters in Ralston, Iowa, this member-owned cooperative boasts a national and international agricultural presence. The policies within the 2008 Farm Bill provides a positive, sound foundation for the future of our industry and our business.

Comments Regarding the 2012 Farm Bill

We would recommend consideration of the following:

- Reduced complexity and increased flexibility to plant in response to market demand;
- Maintenance of a farm income safety net that includes consideration of an energy escalator clause that addresses high fuel and fertilizer prices;
- Compliance with WTO agreements;
    - Reduce trade-distorting domestic support (amber box) in exchange for a proportionate increase in agricultural market access, elimination of export subsidies and fully funded "green and blue box" eligible programs.
    - This could be accomplished through working lands conservation programs, risk management, the Market Access Program, enhanced crop insurance, the concept of a revenue based safety net program, or government programs that increase producer profitability that may include direct payments and/or tax credits;
- Inclusion of a commodity loan program.

In considering the new Farm Bill policies, we oppose:

- Mandatory government supply management programs and acreage reduction programs, (excluding Conservation Reserve Program and conservation easements, for marketing loan commodities under the current farm program)
- A farmer-owned reserve or any federally controlled grain reserve with the exception of the existing, capped emergency commodity reserve;
- Income means testing;
- Payment limitations; and
- Targeting of benefits being applied to farm program payment eligibility.

Regarding the USDA proposed cuts to the Standard Reinsurance Agreement (Crop Insurance Program), by almost 30%-

- Iowa would be hit harder by the proposed cuts to than anywhere. Iowa producers buy more crop insurance than most other states, and Iowa has more crop insurance agents than most other states. There were $735 million in premiums written in Iowa last year alone for just two crops - corn and soybeans
- Let Congress decide how to best handle crop insurance during its farm bill process