

TESTIMONY OF GENERAL WESLEY CLARK (RET.)

U.S. SENATE COMMITTEE ON
AGRICULTURE, NUTRITION & FORESTRY

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**AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
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HEARING ON EMPOWERING RURAL COMMUNITIES
WEDNESDAY, JULY 21, 2010**

STATEMENT OF GENERAL WESLEY CLARK (RET.) ON BEHALF OF GROWTH ENERGY

Madame Chairman Lincoln and members of the committee, thank you for the opportunity to share Growth Energy's priorities on empowering rural communities and renewable energy policy. Growth Energy is a coalition of ethanol supporters committed to the promise of agriculture and growing America's economy through cleaner, greener energy. Our members recognize America needs a new ethanol approach. Through smart policy reform and a proactive grassroots campaign, Growth Energy promotes reducing greenhouse gas emissions, expanding the use of ethanol in gasoline, decreasing our dependence on foreign oil and creating American jobs.

Growth Energy was created in November of 2008 and has quickly grown to become the nation's largest ethanol advocacy organization. We currently represent 60 ethanol producing plants throughout fourteen states and 38 associate members across sixteen states. Additionally, we have more than 18,000 Growth Force members, our grassroots volunteer members who want to lend their voice to the effort of supporting home grown renewable fuels.

We recognize there are many vested interests who do not share our belief and urgent priority to reduce America's dependence on foreign oil. However, those interests will not quiet our calls on Congress to establish a national energy policy that creates jobs in the United States, improves the environment and strengthens our national security. President Obama has stated repeatedly that "inaction is unacceptable", when it comes to addressing major policy challenges such as energy. Growth Energy could not agree more. Building infrastructure to create an open, transparent and competitive market and removing production and market barriers will put consumers in the driver's seat of choosing their fuel.

With fossil fuels getting dirtier, costlier and riskier to extract, as we are witnessing with the epic catastrophe in the Gulf of Mexico, now is the time we should move on expanding the production and consumption of clean, renewable fuels like ethanol. American citizens should no longer have to sit idly by and watch other countries such as Brazil become energy independent with the use of domestic renewable fuels.

During my years in uniform, I realized America will never be truly safe as long as we are dependent on energy from other countries. Every day, our economy bleeds away about \$1 billion to countries like Venezuela and Nigeria for oil – equivalent to a \$1,000 tribute by every man, woman and child in this country to the economies of foreign countries. We pay this tribute because we rely on oil to run our economy, and two-thirds of all oil comes from overseas, much of it coming from nations that do not share our values or are outright hostile to the United States.

The United States holds three percent of the world's oil reserves, yet consumes 25 percent of the world's oil production, and depends on foreign sources for 60 percent of its oil. As long as we continue to consume large amounts of oil, our nation is dependent on other countries for its energy needs, and the security of such key supplies remains imperiled. We do not need to be held hostage over a barrel of oil any longer.

The only thing preventing the United States from completely eliminating hostile, foreign imports is the resolve to get it done. We have a plan; the time for action is now.

In 2008, the ethanol industry displaced 321.4 million barrels of oil and diverted \$32 billion that would have otherwise been spent on oil imports. The 11.1 billion gallons the ethanol industry produced to meet the RFS2 requirement for 2009 accounted for more transportation fuel on a gasoline-equivalent basis than the oil imports into the United States from any country other than Canada. While ethanol continues to strengthen our energy independence, we can do better. Innovative policies from Congress and a regulatory environment that fosters additional growth will help ensure the goal of energy independence is realized.

Economic Benefits of Ethanol

Clean, affordable domestically-produced ethanol enhances America's economic prosperity and competitiveness through job growth, lessened dependence on foreign oil and increased GDP and tax revenues. The U.S. Department of Energy estimates that for every one billion gallons of ethanol produced, 10,000 to 20,000 jobs will be added. Hundreds of thousands of Americans are already employed thanks to the 10 percent ethanol in most of our nation's gasoline. Ethanol use reduces the price of gas by as much as 20-35 cents/gallon (DOE estimate), saving the average American household \$150-\$300/year. Iowa State University researchers found that ethanol use may take as much as 40 cents off a gallon of gas.

In 2008, the ethanol industry created and supported more than 400,000 new jobs across the country that cannot be exported or outsourced. In addition, ethanol production contributed \$53.3 billion to the nation's GDP and generated \$8.4 billion in federal tax revenues, resulting in a surplus of \$3.4 billion for the Federal Treasury. Ethanol production also plays a critical role in revitalizing America's rural areas — some of the hardest hit by the economic downturn — creating high-paying jobs and stimulating economic growth.

Ethanol is a 50-state solution. It can be made out of trash, trees, grass or the massive grain crop supply that our industrious farmers produce in surplus. According to the U.S. Departments of Agriculture and Energy, there is more than one billion tons of sustainable biomass available in the United States on an annual basis, which has the potential to generate 85 billion gallons of cellulosic ethanol annually. Thus, the combined production potential of cellulosic ethanol and grain-based ethanol could produce enough biofuel to nearly supplant current gasoline usage from domestic, renewable sources.

America's dependence on imported oil leaves the economy vulnerable to supply disruptions and price volatility. Energy price spikes have a devastating effect on consumers and the economy as a whole. In addition, the cost of importing oil results in hundreds of billions of American dollars being sent overseas rather than invested at home.

Renewable Fuels Standard II (RFS2)

Congress set an aggressive goal of using 36 billion gallons of renewable fuels by 2022 on an annual basis when it passed the Energy Independence and Security Act of 2007 (EISA). Implementation of EISA will create and preserve American jobs, foster the development and commercialization of next generation renewable fuels such as cellulosic ethanol, enhance energy independence, and benefit the environment.

The EISA policy not only aims to improve our national security, but will have considerable economic impacts, including:

- The \$631 billion of expenditures to build and produce 35 billion gallons of ethanol will add nearly \$1,230 billion (2000\$) to real GDP by 2022.
- Real household income will increase an average of \$24.6 billion (2000\$) per year between 2009 and 2022.
- As many as 1.18 million jobs will be supported in all sectors of the economy by the expanding ethanol industry.

- Federal tax revenue will increase \$222.6 billion (2000\$) between 2009 and 2022 while State and local tax revenues will increase \$167.2 billion (2000\$). Ethanol will account for nearly 30 percent of motor fuel use by 2022.

Regrettably, EISA included two policies that picked winners and losers. First, international indirect land use change is a controversial theory that uses speculative models and incorrect assumptions in an attempt to blame American farmers for deforestation in foreign countries such as Brazil. According to the theory, corn used for ethanol displaces other crops, like soybeans, which in turn causes farmers in other countries to cut down rain forests to grow soybeans and fill the demand. This policy is not advocated by scientists, but by anti-ethanol and anti-agriculture advocates. As this committee well knows, land use changes are dynamic. Changes occur for a variety of reasons; macro-economic issues such as monetary policy, currency values, domestic food needs, weather and productivity are all factors that influence land use changes.

If this dangerous theory is allowed to stand in statute, I submit that every sector of the American economy should take notice. If such theories can apply to agricultural, renewable and national security policy – there is nothing preventing the same theory from negatively impacting shopping malls, residential homes, hospitals, and virtually every element of our economy. Indirect land use change must be repealed.

The U.S. House of Representatives recognized the flaw of this policy and included a provision in the American Clean Energy and Security Act of 2009 that prevents the Environmental Protection Agency (EPA) from implementing the ILUC rule for six years while the National Academy of Sciences studies whether the theory can be corroborated by actual evidence. Growth Energy strongly urges the Senate to include a similar provision in energy legislation it considers.

The second flawed policy within EISA is the definition of an advanced biofuel. The RFS2 amended Section 211 (o)(1) of the Clean Air Act definition of an advanced biofuel and specifically excluded corn starch ethanol. We appropriately refer to this exclusion as the “discrimination clause”, because it has absolutely nothing to do with environmental improvement.

(i) IN GENERAL.—The term ‘advanced biofuel’ means renewable fuel, other than ethanol derived from corn starch, that has lifecycle greenhouse gas emissions, as determined by the Administrator, after notice and opportunity for comment, that are at least 50 percent less than baseline lifecycle greenhouse gas emissions.” This arbitrary barrier is counterintuitive to the definition of an advanced biofuel meeting a 50 percent greenhouse gas reduction threshold compared to gasoline. A 2009 study by the University of Nebraska showed modern ethanol plants reduce greenhouse gases by more than 50 percent; an advanced closed-loop biorefinery with anaerobic digestion reduces GHG emissions by 67 percent. Therefore, Growth Energy strongly believes that if corn-starch ethanol is able to meet and/or exceed the GHG requirements as prescribed by the RFS2, there is no scientific reason it should be excluded from qualifying as an advanced biofuel. The words “*other than ethanol derived from corn starch*” must be removed from the definition.

In addition to the legislative barriers mentioned above, regulatory barriers exist that will prevent domestic production of grain or cellulosic ethanol from ever reaching the 36 billion gallon target. Commercial constraints applied by the government are artificially suppressing today’s biofuels market. The first constraint is the blend wall that limits ethanol’s participation in the 140 billion gallon liquid transportation market to approximately 10 percent. This limitation is across the board for both grain-based and cellulosic ethanol.

Today, RFS2 which is the law of the land is contradicted by government rules that prevent those mandated volumes from ever entering the marketplace. Those same government rules are the single-largest barrier to displacing foreign oil. Federal government rules must complement our laws. Growth Energy has taken it upon

itself to break these market barriers and permanently end ethanol's "blend wall." We have proposed a vision founded on market based solutions, which I'll discuss in a moment.

By adopting our plan, the Congress would create a true competitor to foreign oil and provide critical market access for all forms of diverse feedstocks. We believe that market based solutions are the fundamental key to establishing a robust, renewable energy economy in the United States. Moreover, permanently eliminating the blend wall and allowing American consumers the ability to choose their fuel of choice – will provide a 50-state solution that can, unlike previous efforts, actually eliminate foreign oil imports and benefit and secure America.

Green Jobs Waiver

In March 2009, Growth Energy filed its Green Jobs Waiver to the U.S. Environmental Protection Agency seeking approval to blend up to 15 percent ethanol in gasoline, from the current cap of 10 percent ethanol. The Green Jobs Waiver was accompanied with more supporting academic, government and third-party research than any of the eleven previous waivers approved by EPA. By raising the wall from E10 to E15, the EPA could help create as many as 136,000 new jobs in the United States and eliminate as much as 20 million metric tons of GHG emissions from the air in a year — the equivalent of taking 10.5 million vehicles off the road. Increasing the domestic, renewable fuel supply would also displace some of the twelve million barrels of oil that is imported every day into the United States from places such as Venezuela, Saudi Arabia and Abu Dhabi.

EPA announced last month it was delaying its decision for a second time despite its statutory obligation to make a decision within 270 days of the waiver filing. However, EPA told Growth Energy in writing on December 1, 2009 they were delaying the decision until the middle of 2010 to give DOE more time to complete its studies. The second delay was announced in June 2010, as DOE again needed more time to complete its testing. Growth Energy finds this further delay unacceptable. The fact that federal agencies involved cannot meet their own deadlines reinforces a public perception that government bureaucracy does not work in the best interests of the public.

We urge this committee to direct the federal agencies involved in this waiver to expedite the testing process, add extra staff, additional shifts, or whatever other steps necessary to accelerate the completion of the testing. Again, the waiver decision should have been made in December 2009; when that deadline was not met, we were promised a decision in mid-June of this year. Now we are again being told to wait for testing that we believe was unnecessary in the first place to make a decision.

Simple mathematics demonstrate at 100 percent market saturation of E10, there is a 22 billion gallon RFS2 target shortfall that cannot be achieved unless consumers are able to more freely consume fuels of their choice via multiple demand-side opportunities or a singular market access solution is achieved. Even when EPA approves our waiver and allows E15 into commerce, at 100 percent consumption, the market is limited to 21 billion gallons of biofuels – 15 billion gallons short of the RFS2 mandate. This means more must be done in terms of building biofuels infrastructure.

After 30 years of being capped at 10 percent of the marketplace, it was Growth Energy that advanced the discussion to allow up to 15 percent ethanol into commerce. It's time to move forward.

Infrastructure

Thanks to the tight grip oil has on the American liquid fuel market, fuel options for American motorists are strictly limited. The oil industry controls everything from the oil wells to the fuel pumps. Today, of the 240 million vehicles on the roadways, a mere 8 million are Flex Fuel Vehicles (FFVs). Growth Energy supports codifying the existing voluntary, domestic OEM (Original Equipment Manufacturing) sales schedule for FFVs,

and by including foreign auto makers in the same sales schedule roughly 120 million FFVs would be on the road by 2023.

In concert with the FFV mandate, fuel retail stations would need to invest in infrastructure to provide a range of fueling options to consumers between E0 and E85. Today's pump manufacturers are offering "blender pumps" to retail stations, yet only 160 exist across the nation. Similarly, only 2000 E85 pumps are scattered throughout the nation. These numbers are woefully inadequate to meet the demand of 120 million FFVs. Meaningful infrastructure incentives and parameters must be put into place today.

In order to more efficiently deliver biofuels to population centers, multiple transportation modes are necessary; today the vast majority of biofuels are moved by rail. Growth Energy believes a dedicated ethanol pipeline will not only create jobs, but improve the delivery of biofuels from its production area to areas of the country where it will be consumed. The pipeline would enable the transport of ethanol across more than 1,800-miles from the Midwest to the East Coast, increasing access to ethanol and creating jobs that cannot be outsourced.

Multiple pieces of legislation have been introduced to address the above mentioned infrastructure needs. It is vital for all three to move forward in tandem to achieve both the RFS2 targets and our nation's goal of reducing our dependence on foreign oil.

Fueling Freedom

I recognize this is not the committee with jurisdiction over tax policy, but I would be remiss if I did not outline Growth Energy's recent "Fueling Freedom" plan as it relates to the Volumetric Ethanol Excise Tax Credit (VEETC). On July 15, 2010, Growth Energy called for the redirection and eventual phasing out of government support for ethanol in return for a level playing field – infrastructure investments that will create competition in the fuels market and give consumers true freedom to choose their fuel.

Similar to President Eisenhower's proposal for an interstate highway system to give Americans the freedom to travel our great nation, I believe we must give Americans the freedom to choose an American fuel to travel those highways. The "Fueling Freedom" plan calls for the phasing out of current ethanol supports over time, by redirecting a portion of those funds to build out the infrastructure for the distribution and use of ethanol, and shifting the remaining portion away from the oil companies to opening the market.

The primary elements of the plan include:

- A portion of the funds currently going to the oil industry as an incentive for blending ethanol into gasoline (the VEETC or blenders credit) would be redirected to provide backing for the build out of distribution infrastructure for ethanol – such as tax credits for retailers to install 200,000 blender pumps and federal backing of ethanol pipelines. This will provide Americans the access to choose ethanol in an open and free market, and would allow for the elimination of the tax supports over time in exchange for that level playing field.
- Requiring that all automobiles sold in the U.S. be flex-fuel vehicles – as many as 120 million. This requires no additional cost to taxpayers and a minimal cost (about \$120 per vehicle) to vehicle manufacturers.

Growth Energy's Fueling Freedom plan, once implemented, would build out the infrastructure in the United States to create a path that leads to a genuinely free market – an open market that is free of government supports. Redirecting monies currently paid to oil companies to blend ethanol into gasoline toward infrastructure improvements would enable consumers to choose between gasoline and renewable, homegrown ethanol.

Farm Bill Title IX Programs

Growth Energy strongly supports the implementation and full funding of the energy title of the Food, Conservation and Energy Act of 2008 (Farm Bill). This committee should be commended for its work in establishing a title that recognized the ability of the agricultural community to contribute and to be a part of our energy solution. Title IX programs are essential for the advancement of developing second generation biofuels.

The Biorefinery Assistance Program will provide much needed loan guarantees and grants to construct and retrofit advanced commercial-scale biorefineries. The Repowering Program will provide payments to biorefineries to produce heat or power with renewable biomass. Eligible agricultural producers will receive assistance with the Bioenergy Program for Advanced Biofuels to produce cellulosic crops for advanced biofuels. The Rural Energy for America Program provides important loan opportunities for the ethanol industry. USDA and DOE jointly run the Biomass Research and Development Program that provides funding for research, development and demonstration of biofuels. Finally, the Biomass Crop Assistance Program provides support to establish and produce energy crops for conversion to biofuels in project areas and to help with the collection, storage and transportation of biomass to use in a conversion facility. Congress should make this program permanent while USDA reviews the program to ensure current parameters and funding levels adequately encourage participation by various feedstock users.

Conclusion

Again Chairwoman Lincoln, I appreciate the invitation to come before your committee this morning. To summarize Growth Energy's priorities, it is vital to give American motorists the power to choose something other than oil at the pump. American ethanol is here today as the only commercially viable alternative to foreign oil.

In order to achieve true energy independence, we must:

- Build out infrastructure including blender pumps and a dedicated ethanol pipeline by redirecting and phasing out existing government support in exchange for these investments;
- Mandate Flexible Fuel Vehicles be made available;
- Remove regulatory barriers such as the blend wall; and
- Eliminate policy contradictions including international indirect land use penalty and the corn discrimination clause.

Growth Energy looks forward to working with the chair and members of this committee as the Senate proceeds to develop, debate and pass an energy bill.