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Senate Agriculture Committee Energy Subcommittee Field Hearing
"The next Generation of Biofuels: Cellulosic Ethanol and the 2007 Farm Bill"

April 4, 2007

First, I would like to thank Senator Thune for holding this field hearing and for his work and commitment to the issues important to South Dakota; and on behalf of the South Dakota Corn Growers, I thank him for his continued commitment and ongoing efforts to advance ethanol and renewable energy in this country.

Today, South Dakota is at the forefront of the emerging biofuels industry. South Dakota boasts 13 ethanol plants with three more plants in development stages and over 50 E85 pumps throughout the state. Percentage wise South Dakota consumes over half of it's corn production for ethanol by consuming over 250 million bushels and ranks number four in ethanol production with nearly one billion gallons of capacity expected by 2008. Additionally, there are more than 14,000 South Dakotans invested in some form of ethanol production making us the leading state in farmer ownership and equity. For South Dakota, ethanol has created economic investment, rural and community development, and unparalleled opportunities for agriculture.

South Dakota Corn Growers are here today to advocate for a national energy policy that continues to support ethanol expansion and development and create increased opportunities for South Dakota farmers. As we look towards the future of energy development in this country, it is important farmers and agriculture play a key role. From corn-based ethanol to the potential of cellulosic fuels, corn will remain a vital feedstock in growing our energy independence.

Currently, there are 115 ethanol plants in operation with nearly 6 billion gallons of capacity and 5 billion gallons of additional capacity under construction or undergoing expansion. Our current Federal energy policy, in part, is responsible for the growth of this once cottage industry into a \$23.1 billion fuels market, displacing nearly 5% of petroleum consumption and creating over 150,000 jobs in rural America.

In 2005, Congress passed and signed into law the Energy Policy Act of 2005. This legislation established the Renewable Fuel Standard (RFS) and included several key provisions vital to developing our robust renewable fuel industry. The establishment of the RFS signaled the market to produce more ethanol, grow more corn, and provided a safety-net for investors. As set in 2005, the RFS incrementally mandates ethanol production and consumption from 2006 to 2012 peaking at 7.5 billion gallons. Today, ethanol production in this country has exceeded the RFS two-fold. We are on the verge of meeting the 7.5 billion gallons in the next 18 months.

In addition to the RFS, the Volumetric Ethanol Excise Tax Credit (VEETC) and the secondary ethanol tariff have been extremely critical to the ethanol industry. In 2004, the Jobs Creation Act was passed and signed into law. This landmark legislation extended the ethanol tax incentive, a blenders' credit, at 51 cents per gallon through 2010 as well as created a new tax incentive for biodiesel and improved the small ethanol producer tax credit to allow farmer

cooperatives to pass the credit along to its farmer owners. This 51-cent blenders' credit means market access for ethanol and brings that fuel to the pump. The VEETC stimulates demand and encourages more production, which has created a fair market price to our undervalued commodities. As the ethanol industry continues to expand and more renewable fuel comes online, it is imperative we keep VEETC in place and permanent.

An offset to the 51-cent credit, the Secondary Ethanol Import Tariff places a 54-cent duty on foreign ethanol imported to the U.S. Removing the 54-cent tariff would in essence be asking American taxpayers to further subsidize already heavily subsidized ethanol and sugarcane production in countries like Brazil. U.S. gasoline refiners receive that 51-cent tax incentive for every gallon of ethanol they blend into gasoline, regardless of the ethanol's origin. So, imported ethanol from Brazil, for instance, qualifies for the tax incentive. Brazil has built its ethanol industry through 35 years of tax incentives, production subsidies, mandates, export enhancement, infrastructure development, debt forgiveness and currency devaluation. Brazil does not need U.S. tax dollars to compete effectively, as evidenced by the fact that over 430 million gallons were imported last year and those volumes are increasing. Together, the Ethanol Tax Credit and the Secondary Tariff are the most critical policies behind ethanol development and expansion and will continue to play a vital role as cellulosic ethanol comes online.

Today, grain-based ethanol continues to increase its capacity and expand its reach and soon we will see cellulosic ethanol enter the fuel market. Together, grain and cellulosic feedstocks can displace potentially 20% of the nation's petroleum usage and increase our reliance on homegrown fuels. However, cellulosic ethanol is still some time away with transportation, storage, and economic obstacles in its path. As we wait for cellulosic ethanol to join the market, grain will continue to meet the needs of food, feed, and fuel across this country.

Although we are making great strides in ethanol production and advances in cellulosic technologies, infrastructure problems could stunt our growth as an industry. Currently, 85% of ethanol is shipped via the rails and the remaining 15% relies on trucks and barge. As we increase ethanol capacity over the next ten or twenty years we will need greater rail capacity, access, and expansion in order to meet the needs of a booming biofuels industry. Combine rail and road constraints with the need for more pumps and more cars, ethanol could hit a wall. Without making these infrastructure improvements and addressing head on these obstacles, ethanol will hit a saturation point, a blend wall, near 15 billion gallons. At 15 billion gallons, the US will be blending 10% ethanol in all gasoline; however, we cannot surpass that wall without investment in renewable fuel infrastructure as well as getting more pumps at stations, more FFVs on the road, and higher blends to market like E-20. We appreciate greatly Senator Thune's efforts to get E-20 online and his work with the EPA on this matter. In the end, these limitations could stymie progress and are key issues that need to be looked at as we push forward our domestic energy security agenda.

Lastly, South Dakota Corn Growers are extremely proud to lead this country in farmer ownership when it comes to ethanol plants. We believe farmer investment brings great returns to local communities, supports rural development, and creates economic growth throughout the country. It is imperative we continue to foster farmer ownership throughout this state and continue to take ownership of American agriculture. Our future is in the farm.

In conclusion, I would like to again thank Senator Thune for his fantastic work in Washington and his efforts on behalf of the great state of South Dakota. He has truly been a leader for agriculture and a staunch advocate for the needs of South Dakota's corn growers and the future of renewable energy in this country.