

TESTIMONY OF NEIL RICH BEFORE THE SENATE AGRICULTURE COMMITTEE

Farm Bill Policy Proposals Relating to Farm
and Rural Energy Issues and Rural Development

May 9, 2007

Good morning Chairman Harkin, Ranking Member Chambliss, and Members of the Committee. I want to thank you for the opportunity to appear before the Committee to testify on the importance of the biodiesel industry to rural development and the importance of including our proposed Biodiesel Incentive Program in the 2007 Farm Bill.

My name is Neil Rich, I am the President and CEO of Riksch BioFuels. Riksch BioFuels is a ten million gallon per year biodiesel facility which started production in December of 2006. We were able to create 14 high quality jobs in a small community in Southeast Iowa, which in the past decade and a half has struggled with positive job growth. Our project has been funded by private investment from local producers and local Ag businessmen. Today I stand here to testify that the construction of our biodiesel facility is the direct result of the successful programs from the 2002 Farm Bill. I can only hope that I can help to enable Biodiesel to be a significant part of the 2007 Farm Bill.

Using cutting edge technology Riksch BioFuels produces a high-grade biodiesel (B100) fuel for consumption in the Midwest. Our goal is to become a regionally recognized leader in fuel production through quality products and unquestionable business integrity. Riksch BioFuels will produce products that help reduce pollutants that affect air quality and reduce our reliance on fossil fuels while utilizing the Midwest's vast resources of soybean and vegetable oils. We are partners with our customers, our employees, our community, our environment, and we take personal responsibility in our actions towards each.

Positive Impacts of the U.S. Biodiesel Industry

Riksch is not unique in the U.S. biodiesel industry. In fact, we are quite typical. There are currently 105 biodiesel plants with a total production capacity of 864 million gallons. That equates to an average plant capacity of about 8 million gallons. While small in size, these biodiesel plants combine to make a big economic impact. According to economic analysis by LECG completed last Fall, America's biodiesel industry will add \$24 billion to the U.S. economy between 2005-2015. Biodiesel production will create over 39,000 new jobs, many of them in rural communities, and it will keep \$13.6 billion in America that would otherwise be spent on foreign oil.

Of particular interest to this Committee, biodiesel has created additional demand for soybean and vegetable oils, as well as other agricultural feedstocks. Analysis conducted by the U.S. Department of Agriculture indicates that every 50 million gallons of biodiesel raises soybean prices one percent. Long-term forecasts expect biodiesel demand to increase average soybean prices nearly 10 percent by 2015. These benefits have helped raise average price received by

soybean farmers from \$5.89 per bushel in 2005 to \$6.31 per bushel through the first six months of 2007. These increased prices not only raise farm revenues, they help minimize farm program payments and save taxpayer dollars.

Biodiesel also has many environmental benefits. Biodiesel is nontoxic and biodegradable. Tests sponsored by the USDA confirm that biodiesel is ten times less toxic than table salt. One of the most significant benefits of biodiesel is its reduced carbon dioxide emissions. The overall life cycle emissions of carbon dioxide, a major greenhouse gas, are 78% lower from biodiesel than they are from petroleum diesel. This significant reduction in the major source of greenhouse gas emissions should be of great interest to policymakers.

There are additional environmental benefits from biodiesel as well. In 2000, biodiesel became the only alternative fuel in the country to have successfully completed the EPA required Tier I and Tier II health effects testing under the Clean Air Act. These tests demonstrated that biodiesel reduces virtually all regulated emissions. Biodiesel contains no sulfur and results in substantial reduction of unburned hydrocarbons, carbon monoxide, and particulate matter. Biodiesel also has a positive energy balance. For every unit of energy needed to produce a gallon of biodiesel, 3.24 units of energy are gained.

Biodiesel Incentive Program

In order to take advantage of the many benefits of biodiesel and ensure a viable domestic production industry, the National Biodiesel Board and the American Soybean Association are supporting authorization of a Biodiesel Incentive Program in the 2007 Farm Bill. This Program would operate similarly to the CCC Bioenergy Program, which worked well in encouraging expanded biodiesel production in recent years. Our industry very much appreciates your leadership, Mr. Chairman, in championing authorization of the Bioenergy Program in the 2002 Farm Bill.

Unlike ethanol, biodiesel is not protected by a secondary import tariff that offsets the value of its tax incentive. As a result, biodiesel importers pay a nominal 4.5% ad valorem U.S. tariff and are eligible to receive the \$1.00 per gallon tax incentive. Moreover, a number of countries subsidize biodiesel production or offer incentives to encourage biodiesel exports. Argentina taxes biodiesel exports at 5% compared to 24% for soybean oil exports. This 19% Differential Export Tax (DET) creates an incentive worth \$0.43 per gallon for Argentine soybean processors to convert soybean oil into biodiesel prior to export. Just last week, a shipment of 4,000 metric tons of Argentine biodiesel exports to the U.S. was announced in the trade press. U.S. biodiesel producers need an incentive that offsets foreign subsidies in order to compete in their own market.

In addition to competing with subsidized imports, the U.S. biodiesel industry is struggling to establish itself at a time of extremely volatile energy markets. The \$1.00 tax incentive enables domestic biodiesel to compete when prices for soybean oil and petroleum diesel reflect their traditional relationship. However, recent petroleum prices have reached historic highs, and are subject to rapid changes as a result of foreign policy decisions as well as economics. Also, the price of soybean oil has climbed to over \$0.30 per pound as markets anticipate the possible loss

of up to eight million U.S. soybean acres to corn production in 2007. A safety net is needed to offset these uncertainties, which discourage investment in U.S. biodiesel production.

To provide this protection to the domestic industry, we are requesting authorization of a Biodiesel Incentive Program in the 2007 Farm Bill. Similar to the previous CCC Bioenergy Program, the Commodity Credit Corporation would use commodities to reimburse U.S. biodiesel producers on all biodiesel production. The reimbursement would be established at a level that offsets foreign subsidies provided to imported biodiesel, using the subsidy value of Argentina's Differential Export Tax (DET) as the benchmark. At the current soybean oil price of \$0.30 per pound, and with 7.5 pounds of oil used to produce one gallon of biodiesel, the amount of the reimbursement would be equivalent to \$0.43 per gallon of biodiesel produced ($\$0.30 \times 7.5 \times 19\% \text{ DET}$).

Based on projected U.S. biodiesel production of 250-300 million gallons in 2007, if the incentive was paid on every gallon produced, the cost of the reimbursement this year would be \$107-129 million. By comparison, the 2002 Farm Bill authorized funding of \$150 million per year for the CCC Bioenergy Program.

Impact on Small Biodiesel Producers

This Biodiesel Incentive Program would allow Riksch and other U.S. biodiesel plants to remain economically viable by allowing domestic producers to compete with foreign manufacturers on a level playing field. This program will allow small producers, to be quite frank, the ability to survive in the environment we now find ourselves immersed in. With historical high soybean oil prices, and alternative feedstocks following a similar trend, both small and large biodiesel manufacturers will need this program to get off the ground and have the potential for growth in the future.

Conclusion

I urge your continued support for the U.S. biodiesel industry and hope that you will use the opportunity that this Farm Bill presents to advance and promote an industry that increases our energy independence, improves the environment, benefits farmers, and spurs rural economic development.

Thank you again for the opportunity to testify. I look forward to answering any questions you may have.