

Ethanol Faces Issues, Opportunities

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As drought continues and corn prices skyrocket to record levels, ethanol supporters in both South Dakota and Nebraska are opposing a waiver of the federal Renewable Fuel Standard (RFS) for the corn-based fuel.

The RFS has played a major role in the ethanol industry, include the POET energy company. Founded in 1986 with a single plant in Scotland, the company has grown to 27 plants in seven states with a production capacity of more than 1.6 billion gallons.

Jeff Lautt, the POET chief executive officer, responded to the U.S. Department of Agriculture (USDA) 2012 corn crop estimates. He argued the drought should be seen in context.

"Although this year's drought poses challenges for farmers and corn customers, we need to remember it is a one-year problem, and even by today's USDA estimate, the 2012 crop would still be the eighth largest in history," he said in a news release.

Lautt argued the drought, not ethanol, has created the bigger impact on the corn market.

"Some in Washington have seized on Americans' fear during this time and used it to try to undermine our country's renewable fuel efforts," he said. "It is a lack of rain, not ethanol, that is causing corn prices to rise. Additionally, ethanol's use of corn is often overstated. After factoring in the high-protein animal feed produced at ethanol plants, the industry's net use of last year's corn crop was only 16 percent."

Ethanol has actually benefited the nation's corn supply, Lautt said.

"Ethanol production has created jobs and new income for farmers, and it has helped drive higher yields and increases in corn production that creates a greater corn supply during times like these," he said.

The drought should not be used to overturn the RFS, Lautt said.

"The Renewable Fuel Standard is long-term policy that has worked, helping boost farm income, lower dependence on imported oil and provide jobs in rural America rather than overseas. As both the national and international energy agencies have noted, flexibility exists in that standard," he said.

"Attacking long-term energy policy would be a poor response to a short-term problem, and attacking a key farm market at a time when farmers face weather-related challenges just doesn't make sense."

The RFS calls for the percentage of renewable fuel in the nation's transportation supply to increase from 4 billion gallons in 2006 to 36 billion by 2022. The mandate rises to 13.8 billion gallons next year, but ethanol production with a blend at the 10 percent level in gasoline has already exceeded the nation's capacity to absorb it.

In October 2010, the Environmental Protection Agency (EPA) approved E15, which increases the maximum blend of ethanol in gasoline from 10 to 15 percent. The measure was challenged in court, but a federal court rejected the lawsuit.

Lautt said the decision "helped ensure that groups with ulterior motives will not derail the expansion of domestic, renewable fuel.



RANDY DOCKENDORF/P&D
The American farmer's leadership in the battle for energy independence is reflected in this summer's display near the POET research center in Scotland. Area farmers gathered to hear retired Gen. Wesley Clark, also a 2004 Democratic presidential candidate and now a Growth Energy co-chairman, speak about the importance of ethanol and other alternative fuels as part of national security. The New Holland farm equipment display, shown in the photo and held during Clark's appearance, reflected the company's support for Growth Energy and the ethanol industry.

E15 will allow ethanol to further lower gas prices, lower U.S. dependence on foreign oil and improve our economy."

REDUCING CORN USAGE

Meanwhile, Nebraska ethanol producers are responding to a changing market because of the drought, according to a news release.

Like other end users of corn, ethanol producers have significantly reduced consumption in recent weeks. Latest estimates show the state's ethanol plants operating at approximately 70 percent of capacity, well below the near 100 percent levels in 2011. Nebraska ethanol plants produced more than 2 billion gallons of ethanol from corn last year.

"This slowing of production is a natural response to drought-related market forces and will not preclude the industry from achieving Renewable Fuel Standard benchmarks," according to Steve Hanson, chairman of the Nebraska Ethanol Board.

"Higher than normal ethanol stocks and a large number of existing RIN (renewable identification number) credits for U.S. refiners combine to make RFS standards achievable well into 2013."

A RIN credit is a serial number assigned to each gallon of renewable fuel as it is introduced into U.S. commerce.

Hanson also noted waiving the RFS would have little effect on the corn availability, citing a recent study by the Center for Agriculture and Rural Development (CARD). That analysis concludes a total waiver of RFS would reduce corn prices by less than 5 percent and force only a 5 percent reduction in ethanol production.

"The RFS was created to reduce U.S. petroleum imports and it has done so very effectively," Hanson said. "In 2011, 14 billion gallons of domestically produced ethanol replaced 13 percent of oil imports and reduced the nation's trade deficit by \$50 billion. For the first time in decades, less than half of U.S. petroleum demand was imported. In ad-

dition, Nebraska motorists saved more than \$50 million in fuel costs due to the lower price for ethanol fuels."

Hanson also noted the reliable supply of high-protein distillers feed produced at Nebraska ethanol plants is an important component of livestock feed supplies in Nebraska.

Nutritionists have noted that wet distiller's feeds are an excellent supplement to poor quality grass and other roughage used to feed cattle during drought conditions. "Feed efficiency is essential to livestock producers, and the use of distillers feed is a practical way to help accomplish that objective," Hanson said.

Hanson also cited the total impacts of the ethanol sector in creating quality jobs and a more diverse tax base in some of Nebraska's smallest communities.

A study conducted by Dr. Ken Lemke, chief economist at the Nebraska Public Power District (NPPD), says 7,700 Nebraskans are employed directly and indirectly as a result of the ethanol industry. State and local governments receive more than \$50 million dollars in tax revenues and \$250 million is added to household incomes in the state.

PAIN AT THE PUMP

Ethanol organizations are touting studies that the RFS has helped hold down gas prices, preventing even greater pain at the pump than the current prices nearing \$4 per gallon.

Thanks to the RFS, ethanol is helping stabilize gas prices, particularly during events like the recent severe weather in the Gulf of Mexico, according to the American Coalition for Ethanol (ACE).

Hurricane Isaac's strike on the Gulf Coast last month shut down nearly 95 percent of oil production and a million barrels a day of refining capacity, said Brian Jennings, ACE executive vice president.

"Fortunately, the RFS has helped make alternatives like ethanol available nationwide to limit the pain at the pump caused by this kind of

disruption," he said in a news release. "Even in normal weather conditions, the RFS is the best weapon we have against rising gas prices."

According to a Louisiana State University (LSU) study, gasoline prices are reduced by six cents for every billion gallons of ethanol added to the nation's fuel supply, Jennings said.

A recent study by the Center for Agricultural Development (CARD) also showed ethanol production helped to reduce wholesale gasoline prices by an average of \$1.09 per gallon in 2011, saving each U.S. family more than \$1,200 at the pump last year.

The \$1.09-per-gallon national impact is up from 89 cents per gallon in 2010, a change the researchers attribute to increased ethanol production and higher crude-oil prices as well as a bigger price difference between ethanol and gasoline.

The average price for a barrel of crude oil increased to \$95 in 2011, up from \$80 in 2010.

"States can't petition EPA for a waiver from our nation's 90 percent gasoline mandate, so when hurricanes and fires strain the oil industry — as they do nearly every year — we need to be able to count on a strong domestic ethanol industry to protect consumers from price spikes and gouging," Jennings said.

"While Hurricane Isaac may have triggered the most recent gasoline price spike, an underlying cause of high pump prices is outdated federal policy that has mandated continuing reliance on oil. The RFS is the only tool we have to reduce that reliance by making ethanol, a cost-effective alternative, available for Americans."

Another study conducted by two university economists shows Midwestern drivers saved \$1.69 per gallon of fuel last year because of domestic ethanol production and use. The study also determined drivers would have paid an average of about \$4.60 per gallon last year without the inclusion of 13 billion gallons of ethanol.

Chad Blindauer, president of the South Dakota Corn Utilization Coun-

cil, said in a news release that most consumers have no idea how much more it would cost to fill up their vehicles if it weren't for ethanol.

"Having access to American ethanol generates a significant savings for hard-working families in South Dakota and the rest of country, which typically goes unnoticed," said Blindauer, a Mitchell farmer and rancher. "It's important for consumers and policy makers at all levels to understand just how much of a positive impact the ethanol industry truly has on our country."

GENERAL KNOWLEDGE

The ethanol industry has gained a new leader and a staunch ally — one who has spent a military career fighting threats to the United States and its citizens.

Gen. Wesley K. Clark appeared this summer at Scotland, speaking to area corn producers near the POET research center. The facility helps spearhead the nation's work on ethanol.

The retired four-star general is helping battle the nation's dependence on foreign oil. He told the *Press & Dakotan* that the heavy reliance on outside sources has drained the American economy and placed the U.S. at the mercy of hostile nations.

Clark unsuccessfully sought the 2004 Democratic presidential nomination. He joined Growth Energy, which promotes the ethanol industry, as co-chairman in January 2009.

"I'm a national security guy, and you're the front line of our nation's food independence. We don't have to rely on other nations for food because of you," he told farmers gathered at the Scotland event.

However, the U.S. no longer enjoys that same independence when it comes to energy, Clark said. The nation imports about 9 million barrels of oil per day — or more than 3 billion barrels per year — at a cost of \$300 billion annually.

The nation's farmers can help the U.S. attain energy independence by producing the material for alternative energy, Clark said. Last year, the United States used 950,000 barrels of ethanol each day.

"You (farmers) have made us independent of food, and you can make us independent of fuel, which is vital for our children and grandchildren," he said.

With new research, ethanol is branching out from a corn-based industry into cellulosic ethanol using a variety of materials, Clark said. The U.S. can also develop and expand other energy sources, he said.

"We have the technology to dig ourselves out of this situation," he added, referring to dependence on foreign oil.

By leading the push for ethanol and other alternative energy, America's farmers are helping the nation win back its economic and political independence, Clark said.

The farmers gathered for the Scotland talk, as well as the POET research center in the background, symbolize America's heart as well as its heartland, the retired general said.

"The future of our national security is found in South Dakota," he said.

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