Address to the Second Annual
Iowa Renewable Fuels Summit
by
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Welcome to the second annual Iowa Renewable Fuels Summit. I am Monte Shaw, Executive Director of the Iowa Renewable Fuels Association.

We appreciate you braving the Iowa weather to be here. Last year over 400 hearty souls braved a blizzard to attend our inaugural event. I am proud to report that over 700 pre-registered for today and about 100 more were doing so on-site.

Iowa truly is the center of the renewable fuels world.

It is my privilege to work for the Iowa Renewable Fuels Association. That's a fancy way of saying the state trade group for Iowa's ethanol and biodiesel producers. They pay the dues, sit on the board and make the decisions.

We work on their behalf to promote the production and use of biodiesel and ethanol in Iowa.

The "we" are my colleagues – Lucy Norton, our Managing Director (and the one most responsible for today's event); Julie Vyskocil, our Biofuels Specialist focused on biodiesel; and, our intern Matt Bockert.

Many people like to focus on the "next big thing." Or they like to point out any challenges as "insurmountable obstacles."

No fuel is perfect. No fuel is completely benign. But let me tell you: biodiesel and ethanol are the best on the road today – and we are just getting started!

Iowa is #1 in renewable fuels production. Iowa is the Ethanol leader.

Today there are 28 ethanol plants in Iowa capable of producing over 2.1 billion gallons per year.

To put that in context, consider that Iowa uses only 1.5 billion gallons of gasoline. So we are a net exporter of gasoline components – the only "exporter" state without any crude oil production – not a drop.

And we are growing. Iowa has 16 ethanol plants either under construction or expansion that will add roughly 1.5 billion gallons of new annual capacity over the next 18 months or so.

Combined, that is 3.6 billion gallons of ethanol production capacity. But don't be surprised to see Iowa grow along with the new federal 36-billion gallon renewable fuels standard. Six or seven billion gallons of capacity (or more) by 2022 is very possible for Iowa.

We have the corn. We have the cellulose. In fact, we're just getting started.

Iowa is also the Biodiesel leader.

We have 14 biodiesel plants capable of producing over 315 million gallons annually. In addition, there are two biodiesel plants under construction that will add 35 million gallons of capacity. Those 16 plants could replace 35 percent of Iowa diesel use (both on and off-road) if it was all consumed in Iowa.

The renewable fuels industry is growing. We're making a profound impact on Iowa's economy. In a few minutes you'll hear just how important renewable fuels are to Iowa's economy, job growth, and tax revenue.

But while the economic impact news has all been positive for the state of Iowa, not everything is rosy for the industry. Rapid growth in biofuels production led to rapid increases in the price of our feedstocks – corn, soybean oil and animal fats. Quite frankly, some Iowa plants are struggling to keep their nose above water.

We must help them. If we can get through this year, I believe we'll be on a solid foundation for the future.

There is light at the end of the tunnel: the 36-billion gallon federal RFS. But passage of this historic energy legislation does not mean we're done. In fact, our work is just getting started!

The new requirements for biofuels use will require new markets.

The E10 market will only absorb 14-15 billion gallons of ethanol. What about the other 16-billion-plus gallons of ethanol the RFS calls for? We need higher blend markets.

E85 is a growing option and will be, I believe, a key market today and even more so in the future. More FFVs are being sold – Iowa increased its FFV fleet by 23% in 2007 after a 20+ percent increase in 2006.

And more E85 retail stations are going in. But 80% of Iowa's FFV owners don't have an E85 pump in their ZIP code.

As this market continues to mature, we need to take up the short-term slack in another way – mid-level blends for regular vehicles. Blends of 15, 20, or 30 percent ethanol.

Just think – if the EPA would move the ethanol blend cap from 10 to 20 percent – that would open up an additional 15 billion gallons of potential demand.

We also need more robust, year-round markets for biodiesel. Moving from the common blend of B2 (2% biodiesel) to B5 wouldn't be noticed by consumers – but it would more than double Iowa's biodiesel use.

Farmers, mine operations, ocean vessels and others need to be using B20 or higher blends. This will be discussed in more detail during our 2nd panel.

You might ask: But what can Iowa do? It's mostly a federal issue. Or you might say: Iowa already enacted a 25% state renewable fuels standard. Aren't we done?

I, however, would submit: Iowa is not yet done being a leader. Iowa is not ready to rest on its laurels and be passed by. In fact, Iowa – is just getting started.

Let me touch on five things Iowa can do.

First, let's enhance the grant program for retailers to install E85 and biodiesel pumps.

With new regulations, the cost to install these pumps has increased and the current grants do not always cover as much of the installation as was intended by the Legislature. A higher cost share of 60 or even 70 percent could attract many new retailers to the program.

And let's raise the cap of 30 thousand dollars. New, state-of-the art pumps and infrastructure cost more. Let's step up the incentive and get E85 and biodiesel to more consumers.

Second, let's focus on blender pumps. There are some challenges with blender pumps, but nothing that can't be overcome.

What is a blender pump? Why is it important?

Let me give you an ethanol example – although it is similar for biodiesel.

Most of our fuel retailers have two gasoline tanks. Currently, to add E85, they bury a third tank and put in a dedicated E85 pump.

But with a blender pump, you'd fill one tank with regular unleaded and the other with either E85 or E100. The consumer could then pick – in some cases – from between five different blend levels. For example: E0, E10, E20, E35, and E85.

The blender pump sucks fuel from both tanks in the right ratio to provide the correct blends.

Today, regular cars could use E0 or E10, and flex fuel cars could use the E20, E35 or E85. By changing to a blender pump you've added three options for flex fuel owners.

But that's not all. As I mentioned earlier we need mid-level blends approved for all cars. I believe the EPA will do this in the next couple of years.

If you put in a blender pump, you can start selling E85 to flex fuel cars today and you're already prepared for when mid-level blends are approved for regular cars. It might be E15 or E20 or E35, but you can set the pump to offer the right blend. No new infrastructure would be needed.

I hope retailers will work with us to make this an attractive option for E85 today and mid-level blends tomorrow.

Third, Iowa does not have to sit "idly by" and hope the EPA approves mid-level ethanol blends. We'll hear later today how Minnesota has led the charge to gather the data and do the testing required for EPA to consider approving mid-level blends.

But there will be data gaps that need to be filled. For example, the EPA will likely require data on how mid-level blends impact not just automobiles, but small engines as well.

I urge Gov. Culver, the state legislature and the Iowa Power Fund to partner with the Iowa Renewable Fuels Association and federal agencies to help fill these gaps.

Maybe other companies in Iowa will step up and be a partner as well.

We don't know for sure yet what the EPA will require. But we should know in the next couple of months. Putting together the data for a successful mid-level ethanol blend approval could do more to enhance Iowa's energy independence than just about anything else.

And besides, we don't want Minnesota to get all the credit!

Fourth, we need to enhance the current biodiesel retailer tax credit for higher blends. Today, a retailer gets three cents per gallon whether they sell B2 or B20 – which has 10 times the biodiesel content. We need to increase the tax credit proportional to the biodiesel content.

Yes, this will have a small fiscal impact. But it is vital to the survival of our Iowa biodiesel producers to drive demand. Let's help retailers move quickly from B2 to B5 – or even to B10 and B20. This must get done.

Finally, Iowa needs to engage the consumer in our drive to become energy independent. We have the renewable fuels production. We have incentives in place for retailers. Consumers are the missing link.

IRFA and others are proposing a $500/per taxpayer credit for the purchase of E85 and/or biodiesel blends. What Iowan doesn't want to shave 500 bucks off their annual fuel bill?

This will encourage Iowans to buy flex fuel or diesel vehicles and to seek out an Iowa retailer who sells E85 or biodiesel blends.

Let me be clear, this would not replace or reduce the successful retailer tax credits already in place. This would bring the renewable fuels program full circle by, for the first time, directly incentivizing Iowans to use the renewable fuels that are powering our economy.

I know the state budget is tight. But we'll hear in a little bit about the hundreds of millions of dollars the renewable fuels industry generates in state tax collections. Let's continue to prime the pump.

The results are there to see: higher ag prices, higher farm income, higher land values, more jobs, more tax revenue. If you doubt the economic impact of this industry just walk a few blocks north and visit the Iowa Power Farming show. Every company there is expanding and hiring people and selling more goods. That's just one example.

Engaging consumers to create local markets for E85 and biodiesel is vital to keeping our industry moving forward during this difficult time. But make no mistake: biodiesel and ethanol have not hit a peak. With thoughtful and determined public policy leadership – we are just getting started!

I am excited about the future. I grew up in southwest Iowa when the farm economy was in decline. I can only think of one kid in my high school class who wanted to be a farmer. And I was shocked – he was pretty smart. Why in the world did he want to work a "town" job all night just to lose that money farming during the day?

Now, go to Iowa State or a community college. The number of students interested in farming or the renewables sector is increasing rapidly.

You'll learn a little bit of the reason why today. We only have time to scratch the surface of all the exciting developments in biodiesel and ethanol production and what they mean for our rural economy.

While you might not realize it from reading the paper, for every one hurdle there are five potential solutions within reach. And I honestly can't keep up with all the promising new technologies that will reshape the ethanol and biodiesel industries over the next five years.

But as we anxiously look to the future, let's not ignore what's right in front of our face. For example, the potential role for corn has been vastly underestimated by some policy, media, and research leaders.

In the rush to secure funds or dazzle the public with the latest "scientific revolution," people often overlook the dramatic advancement of the preeminent biofuel feedstock: corn.

Let me run you through a little thought exercise just to make the point.

Yield trends projected by our leading seed companies predict a national average yield of 300 bushels per acre by 2030. This is not hard to understand; corn yields have been increasing at an increasing rate for years.

So in 2030, let's assume we plant the same number of acres to corn as we did in 2007. In other words, we're not taking acres from the CRP program or other crops.

Let's further assume that we reserve 9.5 billion bushels of the crop for uses others than ethanol production – the same as 2007. This way we're not taking corn away from anyone or any animal – not to mention the fact we'll be producing far more distillers grains for food and feed markets.

So 85 million harvested corn acres times 300 bushels per acre yields 25.5 billion bushels of corn. Subtract out the 9.5 billion bushels for "other" and you're left with 16 billion bushels for ethanol production. At a three gallons per bushel conversion, you get 48 billion gallons of ethanol from corn starch.

That's one-third of our current gasoline use from corn starch – no cellulose like corn fiber, corn cobs or dedicated energy crops. They'll play a role in 2030 and will only add to the potential. And remember, the same acres as 2007 and reserving enough corn for other markets but you still can produce 48 billion gallons of ethanol from corn starch. Amazing.

Now, there could be a "Eureka" moment that alters the current projections with a fantastic new feedstock or processing breakthrough, but we shouldn't ignore the very real, easily predictable potential of corn.

That doesn't mean there won't be other feedstocks. We will hear from Iowa State about some of the exciting potential new crops that could enter Iowa's rotation.

And I foresee a future where the lines between ethanol and biodiesel are further blurred. Soybean meal or glycerin for ethanol production. Corn oil for biodiesel production.

One thing that might provide a transformational "Eureka" moment – growing algae (high in starch for ethanol and/or high in oil for biodiesel) in tubes that are "fed" carbon dioxide from ethanol fermentation. How's that for closed loop?

I can't predict the winners and losers in the future. But if the last five years are any guide, I can predict that at the 7th annual Iowa Renewable Fuels Summit, just five years from today, we'll look back at the discussions today – that we think push the boundaries – and we'll wonder then: how could we have thought so "small" and so "short-term."

Because the one thing I know for certain – when it comes to the potential of ethanol and biodiesel, we are just getting started!