Biofuels Producers Coordinating Council

The President
The White House
1600 Pennsylvania Ave.
Washington, DC 20500

August 27, 2012

Dear Mr. President,

The drought impacting the United States has already caused millions of dollars in economic damages to rural America. By all accounts, the drought of 2012 has been historic: more than one-fifth of the continental United States is in an extreme or exceptional drought. As you know, this is a very difficult situation for ranchers and farmers, and lower than expected grain yields could ultimately result in higher grain prices.

We understand that the Administration will be reviewing a range of options for providing relief to those impacted by the drought. With this deliberation in mind, we are writing to caution against granting a waiver for the federal Renewable Fuel Standard (RFS). A number of groups and some governors seem to believe that the RFS is a substantial part of the equation when it comes to grain prices, and waiving the program this year or next will ease the impact of the drought on consumers. There is substantial evidence to the contrary.

1. **Waiving the RFS will have a minimal impact on grain prices.** Those supporting an RFS waiver allege that the RFS is a rigid mandate, and waiving the standard will therefore provide immediate relief. This is not the case. There are provisions built into the RFS that are already providing relief in the marketplace. As discussed in a recent study published by Purdue University, the RFS allows refiners to meet as much as 20 percent of their obligation with credits accumulated in previous years (i.e. without purchasing wet gallons of ethanol). Right now, there are more than 2 billion excess credits (provided on a per gallon basis) available in the marketplace, which in essence allows refiners to comply with the RFS without putting pressure

on this year's grain crops or ethanol stocks. This "roll over" allowance is an important consideration for two reasons: (1) it already provides the year-to-year relief sought by waiver proponents; and, (2) its existence means that any additional waiver would have only a marginal effect on the marketplace. This is one of the primary reasons that the Purdue researchers found that granting a waiver would only reduce corn prices by an estimated 5.6 percent in 2013. It is also important to note that refiners cannot immediately stop or even reduce their use of ethanol. Ethanol is critical for octane levels and Clean Air Act (CAA) compliance. It is highly misleading for proponents of an RFS waiver to suggest that such action will significantly change refiner behavior, and thus reduce corn prices, in the near term. The outcome they are seeking is the weakening of the domestic biofuels industry over the long term, which has nothing to do with the drought and will have much broader negative effects discussed below.

2. **Weakening the U.S. commitment to renewable fuels will increase gas prices.** Any consideration of reducing ethanol use in gasoline (to theoretically reduce grain prices) must be taken in consideration with the counterbalancing effect of increasing gas prices. According to a recent analysis by economists at the University of Wisconsin and Iowa State University, ethanol consumption reduced wholesale gasoline prices by $1.09 per gallon in 2011. According to the study, growth in ethanol production reduced wholesale gasoline prices by an average of $0.29 per gallon between January 2000 and December 2011. Thus, ethanol reduced the average American household's spending on gasoline by more than $1,200 last year. Several groups have tried to challenge the notion that the RFS has reduced gas prices, but it is hard to escape the reality that ethanol has enlarged gasoline supplies by 10 percent and has been, on average, $0.70 per gallon cheaper than gasoline in 2012. The impact of the RFS on gas prices is critical not just because of the direct consumer benefits of lower pump prices, but also because higher fuel prices are a primary cause of higher grain prices. As such, suspending the RFS will result in a number of counterbalancing outcomes that could actually worsen the consumer impacts of the 2012 drought.

3. **Altering or waiving the RFS will chill investment in advanced biofuels.** Since Congress created the RFS in 2005, advanced biofuel companies have produced more than 4.1 billion gallons of advanced biofuels during very difficult financial times. The advanced biofuels industry continues to construct biorefineries in nearly every state across the country, producing competitively priced fuels from an increasingly diverse mix of feedstocks, including recycled cooking and algal oil, cellulosic materials, agricultural oils, municipal and agricultural waste, and animal fats. Yet, the biofuels industry continues to be reliant on the RFS and the demand predictability it provides because the transportation fuel marketplace is distorted by OPEC and generally lacks the free market principles that would otherwise reward lower cost, more innovative products. Without a forcing mechanism to correct this dynamic, the risk/uncertainty metrics for most investors in the advanced biofuels space will be very high, and the development of these fuels will stall. The last thing the advanced biofuels industry needs is alterations to the RFS - especially those based on specious arguments - that will effectively erode investor confidence in the

program and increase the policy and market uncertainty that is already pervasive in the liquid transportation fuel marketplace.

4. **Waiving the RFS will destabilize a cornerstone of the U.S. economic recovery.** During challenging economic times, and in contrast to national trends in the manufacturing and oil refining sector, the U.S. biofuel industry has grown to employ almost 500,000 Americans and generate $53 billion in economic activity each year. With the continued development of advanced biofuels, the industry could add as many as 800,000 new employment opportunities, grow annual economic activity by an additional $37 billion, and further reduce U.S. dependence on foreign oil. America's Renewable Fuel Standard (RFS) has provided and continues to provide the foundation necessary to drive private investment in the domestic bio-based economy.

With so many Americans in distress from the 2012 drought, it may be difficult to accept that the flexibility provisions built into the RFS and the market itself are working to minimize the consumer impact of lower grain yields. But that is exactly what is happening. While refiners look to ample RFS credits and ethanol stocks to comply with the program, some ethanol facilities have cut production or temporarily shut down. The Energy Information Administration (EIA) recently noted that ethanol production has decreased since corn prices began to escalate in early June. The recent four-week average for ethanol production is the lowest in more than two years and down more than 15 percent from the beginning of this year. This fact is often ignored by the media or by opponents of biofuels.

The undersigned organizations very much appreciate your ongoing support for the U.S. biofuel industry. The development of our sector came as a result of the RFS, and proves out the theory that with the right market signals, the United States will emerge as the worldwide leader in the development of alternative fuels. Recent calls to suspend the RFS, while sometimes well-intended, are misguided and may actually worsen the consumer impacts of the drought. For this reason, we urge you to stay the course on the RFS, which is the cornerstone of our efforts to reduce foreign oil dependence and create jobs and economic growth across America.

Sincerely,

Biofuels Producers Coordinating Council

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