Committee Field Hearing 2007 Farm Bill
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Prepared by Renewable Energy Group, Inc. for Senator Tom Harkin, Iowa and Senator Ben Nelson, Nebraska

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About Renewable Energy Group, Inc. and Biodiesel
In the past 36 months, the biodiesel industry has grown by nearly a factor of 10. The State of Iowa sits in the spotlight as the industry leader in production. Renewable Energy Group, Inc. is fostering growth of biodiesel in this state and nationwide with our biodiesel network. Today, out network includes three commercial-scale plants in operation; two in Iowa and one in Minnesota. Within a year, four more Iowa plants will be producing high quality biodiesel which will be marketed by Renewable Energy Group, Inc. Each of these plants utilize between 30 and 60 million gallons per year of soybean oil, animals fats or other vegetable oils to produce between 30 and 60 million gallons per year of biodiesel. Within this network, we help to represent approximately 3,000 Iowa investors who have committed capital to biodiesel production facilities in our network. We take great responsibility in helping to protect their financial interests by marketing high quality biodiesel nationwide. By 2010, Renewable Energy Group, Inc. and our network plants plan for 600 million gallons of biodiesel to be available to this nation's petroleum distributors, fuel retailers and over-the-road diesel consumers.

Our company and our network plants have been able to market fuel to these economically with the help of the federal blender's credit. Today, biodiesel industry leaders can now affirmatively demonstrate that all of the benefits that were put forward as arguments to pass this biodiesel tax credit are being realized. Renewable Energy Group, Inc. network plants are illustrations of that fact. The tax credit has stimulated investment in new plants in Iowa and beyond. Commercial plants offer new skilled jobs and rural development and enhanced energy security by adding biodiesel capacity. The tax credit is fueling our nation's energy supply and, with each step, benefited America's farmers. It is gratifying to be able to show that these were not just arguments to achieve a political goal. All of these things are happening and Renewable Energy Group, Inc. and its network and industry partners are very proud and grateful for this opportunity.

Position on Federal Issues
Renewable Diesel

Amidst all of the positive news and investment going on in the biodiesel industry today, there is one potential threat that we all fear could, in a few short years, severely undermine the work that has been accomplished within our network and within the entire industry.

That threat is renewable diesel. The threat that the federal Renewable Diesel Credit is incorporated into the same section of federal code as the volumetric biodiesel credit and "shall be treated in the same manner as biodiesel" could effectively cripple Iowa's biodiesel industry.

More specifically, certain oil and gas interests are aggressively petitioning the Treasury

Department to provide an interpretation of the Energy Policy Act's renewable diesel provisions (section 1346 of the Act) that would allow them a generous tax credit for mixing biomass in their refineries with their conventional fossil fuel feedstocks.

If refiners are able to take advantage of the volumetric credit of $1 per gallon for merely blending small amounts of vegetable oil or animal fat into crude oil derivatives and processing the blend in existing petroleum refineries, it would amount to a subsidy of existing petroleum refinery capacity, and not the growing biodiesel industry in Iowa, Nebraska and the rest of the United States. Such a policy would result in the federal government paying the petroleum industry in a way that would disrupt the vegetable oil supply, stifle the biodiesel industry, and stimulate imports.

Other than displacing a small amount imported crude oil, allowing this renewable diesel tax credit would not accomplish any of the energy policy objectives obtained by biodiesel. The policy would not stimulate investment in new plants; it would not increase our nation's refinery capacity or fuel supply; and would not create new jobs. Indeed, by stifling the growth of bona fide biofuel companies, it would perversely result in a net decrease in our national refinery capacity and rural jobs, without benefiting the U.S. economy or domestic agriculture. And it would take money from U.S. taxpayers and give it to some of the richest private companies in the world, with minimal public policy benefit.

Renewable Energy Group, Inc. is a technology company. We are not opposed to oil refineries using biomass as a feedstock in their conventional processes or improving their technologies to create cleaner burning fuels. But for the government to pay them such a generous subsidy to do so does not stimulate the kind of innovation, investment, rural development, or domestic agricultural benefit that biodiesel does. As the United States seeks independence from foreign oil, renewable diesel will not add any new capacity or add fuel to the fuel supply. It merely creates a short-term disruption in vegetable oil supply that would evaporate once the subsidy goes away. It would however, provide multi-national oil interests with the tools to lock up the raw material necessary for the continuing momentum of the fledgling biodiesel industry.

Current Farm Bill Proposals Supported

As Renewable Energy Group, Inc. examined current proposals for the Farm Bill, we found extensive support for renewable energy including ethanol and biodiesel. Although both industries are vital to our independence from foreign oil, they are different. Today, biodiesel is a young industry with specific needs to aid industry growth and product utilization. Today, consumer awareness and acceptance of biodiesel is not at the same level as ethanol. Each industry has specific needs for feedstock procurement and process technology. Agriculture producers today can ship corn directly to an ethanol facility for processing, while the biodiesel industry depends on crush facilities to supply our feedstock. The oils utilized by a biodiesel facility must meet quality standards before they enter the production process to ensure high quality finished biodiesel. This production process involves a series of reactions created by a catalyst while ethanol involves fermentation and distillation. Commercialization of biodiesel technology is needed today as the industry researches new feedstocks and works to meet consumer demand. Ethanol and biodiesel are stored and handled differently in their finished stages as are diesel and gasoline. Biodiesel can be used in any diesel engine without

modification in blends from B2 to B100 (pure biodiesel).

Renewable Energy Group, Inc. proposes increased support for programs which target biodiesel consumers relating to biodiesel utilization. In addition, our industry continues to seek support for engine testing and further emissions and performance testing which can be utilized in this education process.

Renewable Energy Group, Inc. supports the Research Title outlined in Chapter IX of the Farm Bill which authorizes $500 million in mandatory funding over 10 years for the creation of a Bioenergy and Bioproducts Research Initiative to facilitate collaboration between Federal and university scientific experts and ultimately make bioenergy production more cost-effective. Biodiesel will be more readily accepted in today's marketplace if it can be produced more efficiently, thus decreasing cost of production.

Feedstock Supply

In order to make large volumes of high quality biodiesel available to the transportation industry, the issue of the availability of economic feedstocks must be addressed. Today, feedstock procurement and transportation account for approximately 80 percent of the total cost of biodiesel production. The transportation industry is driven by economics. Renewable Energy Group, Inc. supports renewal of the Federal Blenders Tax Credit and the clarification of the renewable diesel vocabulary.

In today's industry, the selling price of biodiesel is often above that of blending incentive economics (when combining production and transportation costs and including a profit margin). Biodiesel can be produced from many domestically produced vegetable oils and animal fats, however the industry responds primarily to soybean oil pricing. Until a pricing structure is instituted which allows for a margin from a diversified pool of feedstocks, these inputs will remain a key economic challenge.

Infrastructure

Renewable Energy Group, Inc. sees the cost of infrastructure as a priority in the development of biodiesel use in the transportation industry. We support actions which place a high priority on activities which facilitate the installation of biodiesel storage facilities for transportation fleets. Renewable Energy Group, Inc. believes investment in distribution infrastructure is necessary to make biodiesel available to the transportation industry. Capital investment for biodiesel storage at petroleum terminals is needed. In addition, biodiesel infrastructure is needed at petroleum retail locations and truck stops that provide fuel for the transportation industry. To maximize biodiesel transportation efficiencies and reduce biodiesel movement costs; capital investment, financial incentives, or legislative regulatory incentives are needed to encourage transport of biodiesel fuel blends through the petroleum pipeline and terminal system. This will serve to improve biodiesel fuel transportation costs and the product would realize the cost effective product movement that diesel fuel receives.