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Written Testimony Presented Before the Senate Agriculture, Nutrition and Forestry Committee

Hearing from the Heartland: Perspectives on the 2018 Farm Bill from Kansas

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By
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Chairman Roberts, Ranking Member Stabenow, and distinguished members of the Senate Committee on Agriculture, Nutrition, and Forestry, thank you for the opportunity to testify before you today regarding the 2018 Farm Bill and the roll the ethanol industry in Kansas and America plays in the agriculture economy and rural communities.

My name is Derek Peine, and I am here today representing Renew Kansas. Renew Kansas is the trade association that represents the independent ethanol production facilities in our state and those who provide services to the Kansas ethanol production industry. Renew Kansas serves as a central contact for the Kansas ethanol industry, and as a clearinghouse for accurate, reliable information about the many benefits of using ethanol blends to power our vehicles.

I currently serve as chairman of the Renew Kansas Board, and I am also the CEO of Western Plains Energy, LLC, an ethanol plant located in Northwest Kansas. Western Plains Energy produces 50 million gallons of denatured ethanol annually and employs a team of 48 people.

Today I want to talk about the relationship between producers of agricultural products, the ethanol industry, the animal feed industry, and rural America in general. Each of these groups play a key role in the American economy, and the success of each group is directly linked to the success of the others.

Let me start by sharing a key point about the ethanol industry. Western Plains Energy, like most ethanol plants today, was founded with two goals in mind. First, an ethanol plant would provide additional value for the producer's grain by creating additional local demand. Second, an ethanol plant would provide needed jobs and additional economic

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value to the communities in region in Northwest Kansas. These two goals are as relevant and as important today as they have ever been.

Positive for Kansas and the United States Economy
There are 12 dry mill ethanol plants currently in operation in Kansas, producing about 550 million gallons of ethanol per year. This production creates a local market for approximately 200 million bushels of sorghum and corn, utilizing about 20 percent of corn and sorghum production in Kansas. Unlike many other areas in the country, ethanol produced in Kansas has the ability to utilize these two different feedstocks interchangeably in the ethanol production process. In addition, one-third of the grain used for ethanol returns to the food stream as wet or dry distillers grains, a valued, high-nutrient livestock feed.

These facilities provide a stable domestic market for agricultural producers during a time of volatile challenges such as weather and decreased commodity prices. The ethanol industry also provides a consistent supply of high quality distiller grains for Kansas feed yards and dairies. Each of the ethanol production plants in Kansas are located in a rural area, and they provide more than 380 direct jobs across the state with an average salary of over $50,000. Kansas ethanol production annually provides over $2 million in real property taxes, $100,000 in personal property taxes, and $53 million in trucking fees.[1] With regard to the United States economy, annually, the industry sustains nearly 400,000 jobs, contributes $44 billion to the US GDP, and added $24 billion to household incomes.[2]

Positive for American Agriculture
It is to the benefit of all Americans to ensure a healthy US agriculture sector that is able to consistently provide food and nutrition for all of us. I believe that the ethanol industry has provided the greatest contribution to agriculture profitability in my life time.

For years, producers were plagued with oversupply of their commodity products which resulted in stagnant pricing. In fact, corn carryout values peaked at nearly 5 billion bushels in 1986 from an 8.2-billion-bushel crop and an export value of nearly 1.5 billion bushels. Then there was a paradigm shift. With regulatory support from the Renewable Fuel Standard, the ethanol industry began to grow. This growth provided a localized end-use for corn and sorghum crops, which helped to provide pricing support of those crops. Each year, technology has improved to allow producers to obtain increasing grain production yields. And each year, the ethanol industry has consumed more and more of that grain. Data from the past 36 years (1980-2016) reveals that corn yields have improved an

[1] Source: Kansas Legislative Research Department Study
[2] Source: J. Urbanchuk, ABF Economics LLP

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average of nearly 2 bushels per acre per year (based on a straight-line average), growing from around 91 bushels per acre in 1980 to the record-setting 174.6 bushels per acre in 2016. During this same time period, exports have been flat (based on a straight-line average). Corn demand, including distiller grain demand, by the feed sector has increased modestly during this same time frame.

When we talk with our nearly 200 local farmers who provide us corn and sorghum, we hear repeatedly how important a strong, predictable farm safety net is to their operations. Many of them cite the federal crop insurance program as something that greatly helps them be able to finance their capital intensive farming operations. In order for our business to be successful, a symbiotic relationship exists: we need a strong farm economy to keep productive and innovative farmers on the land, and they need us as a strong, consistent, local market for their grain.

Today, corn producers face the familiar situation of oversupply and depressed pricing. We have just experienced the largest corn crop in US history and the largest corn crop in Kansas history, and the projected carryout from this past harvest is expected to be 2.3 billion bushels. Looking ahead to the future, increasing yield numbers are likely to continue to create larger corn production numbers, putting even more downward pressure on commodity pricing.

The good news is that the ethanol industry stands ready to help. Our industry has been working hard to create additional demand on both ethanol, and subsequently on corn, and to actively position the industry for increased production capacity.

First, Renew Kansas and the ethanol production industry have been actively developing additional domestic ethanol markets, namely markets for E15 (a mixture of 15% ethanol and 85% gasoline). We have worked successfully with the privately funded Prime the Pump program and USDA's Biofuels Infrastructure Program to provide E15 to consumers at 640 locations across 28 states.[3] By the end of 2017, these numbers are expected to grow to more than 1,000 locations.[4]

Within our state, Renew Kansas is a proud partner of the Kansas Better Blends Initiative (KBBI), which is an alliance of key partners in the ethanol industry that is utilizing USDA's Biofuels Infrastructure Program. In addition to our association, other KBBI partners include the Kansas Department of Agriculture, Kansas Corn Commission, Kansas Grain Sorghum Commission, United Sorghum Checkoff Program, and ICM, Inc. These

[3] Growth Energy
[4] Growth Energy

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organizations have committed matching funds and in-kind services to make this program a success. The USDA Grant is administered by the Kansas Department of Agriculture, and in total, KBBI will make available $2.23 million directly to retailers for installation of new or retrofit equipment here in Kansas.

We have also focused on increasing ethanol demand internationally. Ethanol exports have been growing, and we surpassed the 1-billion-gallon mark in 2016. And the trade programs authorized under the Farm Bill have been key in helping the ethanol industry unlock additional trading partners. Keeping USDA Foreign Ag Service trade promotion available to ethanol is a key component to ensuring we can expand our export opportunities.

While there is much optimism about foreign markets for ethanol, I would be remiss if I did not mention trade restrictions from China that have shut out American ethanol exports and have also reduced the demand for ethanol distiller grains. The recent increases from 5% to 30% tariff on US ethanol and approximately 70% total tariff on US distillers by China have significant impact on US exports. While not related to the Farm Bill, these restrictions will hamper the ethanol industry from helping farmers have a stronger marketplace for their grain.

The combination of increasing the ethanol concentration in our domestic fuel supply and increased exports can help relieve the current over-supply of domestic corn. This would also provide the country and the agriculture community a consistent solution for the increased crop production in future years.

The ethanol industry is also poised to increase production capacity. Innovation is driving plants to produce more ethanol from the same bushel of corn through both increased conversion yields and the addition of cellulosic ethanol. Yes, it is finally here. Cellulosic ethanol production is finally a commercially available option for existing ethanol plants. Not only are plants able to convert the starch in grain to ethanol, but they are now able to convert some of the fiber in the grain to ethanol as well. Beyond cellulosic, there has also been considerable development to allow plants to get more throughput through the existing assets with nominal capital investments. These combined technological improvements make it possible to for us to expand production capacity to accommodate the expected increase in corn production.

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Continued Support for Ethanol Provides Continued Support for Agriculture
The ethanol industry can provide immediate support to grain pricing by increasing ethanol production capacity. To support increased capacity, we must increase both domestic and international demand for ethanol. This is where you can help.

As committee members, and policy makers, we respectfully request that you advocate for policies supportive of renewable fuels – including those not related to the Farm Bill. Supportive policies will provide confidence to grain producers that there will be demand for their product, and it will provide confidence to existing ethanol producers and investors to continue to aggressively pursue innovation and improvements.

Specifically, we ask that you support E15 as an option for consumers. E15 is a federally approved fuel for all vehicles 2001 and newer, and there has been a strong commitment by both the industry and the government to build the refueling infrastructure needed to expand the availability of this fuel. To turn away from E15 now would mean reduced ethanol demand in both the short and long-term, hurting a key market for farmers.

I also want to touch on a regulatory hurdle and market barrier to entry that impacts the E15 marketplace. Due to a 26-year old legislative oversight, even though E15 is a less expensive, higher performing fuel, it cannot be sold like E10 during the summer months. This is
because of statutory Reid Vapor Pressure (RVP) restrictions. And legislation will be introduced in the House and the Senate to address this issue.

RVP is a measurement of evaporative emissions from motor vehicles. Under the Clean Air Act, RVP is capped at 9 pounds per square inch (psi). E10 comes in at around 10 psi, but given the fuel's favorable environmental profile it was issued a one-pound waiver under the 1990 Clean Air Act Amendments. As the ethanol level in gasoline increases, the RVP decreases, resulting in a cleaner fuel. While the RVP of E15 is less than E10, measuring between 9 and 10 psi, it does not receive the same waiver as E10, making retailers comply with two separate RVP levels. Because of this, fuel retailers are not allowed to sell E15 in certain areas of the country during the summer months, even though it is a cleaner fuel than E10.

For retailers already selling E15, this causes confusion for their clientele who have become accustomed to using a less expensive and better performing fuel in E15. While they can purchase E15 the same way as E10 on May 31, from June 1 to September 15 they are advised that the exact same fuel they just purchased will not be available to them for several months. Most importantly, this acts as an illogical barrier to fuel retailers who are

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interested in offering E15, but shy away because of the implications of not being able to sell a fuel year-around. In all of this, it is the consumer who suffers. Americans should have the option to choose what kind of fuel they use, not be subjected to a "one size fits all" rule. By fixing this RVP issue, consumers will have the choice of using a cleaner, higher performing, less expensive fuel.

I also wanted to briefly touch on the Renewable Fuel Standard (RFS), the bedrock policy of America's ethanol industry. Corn ethanol is an earth-friendly biofuel that reduces greenhouse gas emissions by an average of 43 percent, while some advanced biofuels can reduce emissions by 100 percent or more over gasoline. It is because of the market access granted by the RFS that we have 12 ethanol plants in Kansas today. While this policy is not related to the Farm Bill, it is absolutely a critical component to the success of farmers here in Kansas and America.

I wanted to close by thanking the Chairman and the Committee for allowing me the opportunity to testify here today. We are proud of the work that America's ethanol industry does to help the American farmer and rancher succeed. We believe very strongly that a healthy farm and ranch sector is critical to our success. Farmers provide grain to our facilities, and ranchers utilize the feed product we produce.

The work you are doing today to develop a strong farm bill is critical to the work we do to produce feed and fuel, and we hope that our positive message will help you produce a solid, predictable Farm bill in Washington, D.C.

Again, thank you for your time today.

Respectfully submitted,
Derek Peine