Good Afternoon

Today is an unprecedented time for America's ethanol industry. Efforts to expand ethanol's place in the market are being challenged and potentially artificially limited. Critical policies that have built America into the largest ethanol producer in the world will expire at the end of this year unless this dysfunctional Congress can pull together. At the same time, critical breakthroughs in ethanol production technologies are on the cusp of commercialization waiting for signals that a market will exist for their product.

All of these have a direct impact on the reason why all of you are here today. As a nation, failure to continue the growth of our domestic ethanol industry will not only limit our ability to reduce our dependence on foreign oil, but constrain our ability to provide a high quality livestock feed to our domestic livestock industry and world trade partners. Make no mistake, the success of the distillers grains market is directly tied the fate of American ethanol production.

Let's take a step back and look at how we got here. American ethanol production has been on tremendous growth curve. Last year alone, we produced more than 10.7 billion gallons of ethanol…and 30 million metric tons of distillers grains. Ethanol today is used effectively in vehicles coast to coast, representing nearly 10% of the total U.S. gasoline supply. Ethanol production provides much needed economic stimulus to hundreds of rural communities, helping to support nearly 400,000 jobs and adding $50 billion to the U.S. economy.

In addition, ethanol production is the second largest market for corn in the U.S., only surpassed by feed uses. Without the new demand brought on by ethanol production, American farmers would not be producing 13 billion bushels of corn this year and seed companies would not be investing in the technologies to double this production on the same acres within a generation.

But, what often gets overlooked is the fact one-third of every bushel of corn entering an ethanol biorefinery is returned to feed markets, largely in the form of distillers grains. And, production of distillers grains directly mirrors that of fuel ethanol production.

Just in this decade, we have seen distillers grains production grow from just a few million metric tons to more than 33 million metric tons expected this year – and total feed production including corn gluten and corn gluten meal grow to more than 36 million metric tons.

In fact, the amount of distillers grains produced last year is equal to the total amount of grain fed to cattle in American feedlots.

That is why what happens in Washington has a direct bearing on the distillers grains market. Resolution of five key policy decisions will determine the future of America as a leading producer and exporter of distillers grains.

Before taking them individually, I believe it's critical to provide some context…particularly as it relates to Washington.

It is a broken town. Congress is dysfunctional, likely unable to even pass a resolution in support of Mothers' Day. Concerns over budgets and deficits dominate conversions as Republican salivate and Democrats cringe over the upcoming elections. With Congress now recessed until November, nothing will happen on the issues important to this industry. The only chance we to accomplish anything yet this year will be in a "lame duck" session. And, too often, the name is very prescriptive for what actually gets done. But I remain optimistic that we will see movement on the most important issue before the industry today – extension of the tax incentive for ethanol use, known to many of you as VEETC.

On December 31 of this year, VEETC will expire unless Congress acts to extend it. This have been the top legislative priority for the RFA because it has the most direct bearing on whether or not American ethanol production continues to move forward.

The math and rationale behind VEETC is simple. Blenders of ethanol can take a $0.45 per gallon tax credit for every gallon of ethanol they use, regardless from where it came. It encourages often reluctant petroleum interests to blend more ethanol, beyond what is mandated, and install the necessary infrastructure to do so. It lowers the price for consumers and has proven to be the largest driver in the expansion of ethanol production in the U.S. and all the energy and economic benefits it brings.

Tied directly to VEETC, a secondary tariff on ethanol imports is imposed to prevent foreign companies from gaining access to U.S. taxpayer dollars. As I noted, VEETC is tied to the gallon of ethanol used whether it comes from Sao Paulo or Peoria. The tariff simply acts to recover that value of VEETC. It has never been a barrier to entry, as hundreds of millions of gallons of imported ethanol is incorporated into U.S. fuel supplies each year. But a failure to extend it in conjunction with VEETC could lead to surge in sugar-based ethanol imports and reduction in grain-based U.S. ethanol production.

More directly, failure to extend these policies would cost Americans jobs. There is simply no way around it. While estimates differ, allowing VEETC to expire would force up to 37% of domestic ethanol production to idle and 100,000 Americans to join unemployment rolls.

Such a dramatic reduction in U.S. ethanol production would have profound impacts on the distillers grains market as well. As much as 13 million metric tons of distillers grains would be lost. As domestic livestock producers and international trading partners have become accustomed to using this high quality product, it remains unclear just how dramatic a disruption the loss of up to one-third of the distillers market would mean. It also remains unclear just how far farm prices and family farm income would plummet as a result.

Expanding the market for ethanol through the use of higher ethanol blends is also extremely critical to America's ethanol industry. If extending VEETC is priority number one, expanding the market for ethanol is priority 1A.

Right now, the U.S. Environmental Protection Agency is contemplating whether or not to allow the use of 15 percent ethanol, or E15 as its known, in a gallon of gasoline. Currently, EPA has arbitrarily limited ethanol content to 10%. At a 10% rate, ethanol's share of the market could only be approximately 13.5 billion gallons out of the 135 billion gallon U.S. gasoline market. Ethanol production this year is expected to reach 12.8 billion gallons or more, running dangerously close to that 10% cap. This is what is known as running into the blend wall.

In the coming days, EPA is expected to announce a decision on whether to allow E15 for vehicles made in 2007 or newer. Some in the industry may tell you that is just fine, but we have some serious concerns about EPA's approach.

First, EPA has provided no scientific justification for such a decision. Test after test has shown E15 to be safe and effective for the entire light duty vehicle fleet in the U.S. Limiting it to just 2007 seems to be a decision pulled out of thin air.

Moreover, creating a bifurcated market in this manner adds confusion at the point of sale that need not occur and has many fuel retailers hesitant to make E15 available. To be blunt, our concern with an EPA decision of this manner will result in few additional ethanol gallons being sold in the near term.

Equally troubling is the signal EPA is sending that it will approve E15 for only 2001 and newer vehicles sometime early next year. While encompassing around 60% of the total light duty vehicle market, such a decision would leave tens of millions of vehicles out and still create the same kind of confusion and concern generated by a 2007 and newer only waiver.

While theoretical volumes demonstrate that these decisions could result in some significant volumes of additional ethanol sales, discussions the RFA has had with fuel retailers suggest a much lower gain in market share. Recently, the Petroleum Marketers Association of America wrote in its weekly newsletter:

> ""Limiting the waiver to a specific class of vehicles based on date of manufacture means retailers would be forced by market conditions to carry both E-10 and E-15 product, thus increasing the risk of consumer misfueling. The good news is that the waiver will likely not require E-15 but only allow its use. Refiners are not expected to supply E-15 as a result of the waiver approval alone."

Nevertheless, the RFA firmly believes that we will see E15, and E20, and higher level blends in the future. We must. The only viable alternative to foreign oil in America today is ethanol. And increasing ethanol sales means more distillers grains.

By moving to E15 for all vehicles, as the RFA has called for and repeatedly demonstrated is scientifically justified, distillers grains production would grow from the roughly 33 million metric tons we will see this year to more than 50 million metric tons.

Another factor driving U.S. ethanol demand, and thus the production of distillers grains, is the Renewable Fuels Standard. The RFS requires that United States to use 36 billion gallons of renewable fuel per year by 2022. Of this volume, however, only 15 billion gallons of ethanol can be derived from grain.

As we just discussed, the current cap on ethanol blending due to the arbitrary 10% limit is no more than 13.5 billion gallons. Without question, we must see the use of ethanol grow. Blends such as E12 or E15 are needed immediately, and higher level blends such as E20 or even E50 must become part of the fueling mix. Without such blends, achieving the goals of the RFS will be not be possible.

Other issues, such as carbon regulations both at the federal level and in the states, will be key to watch. States like California are moving aggressively forward with punitive programs that would systematically eliminate starch-based ethanol based upon “science” that has been routinely and roundly refuted. These initiatives, or worse a patchwork of similar initiatives across the country, have the potential to profound limit the use of ethanol and renewable fuels. Low carbon fuel policies encourage, or require in some cases, ethanol producers to lower their energy use, which could have unexpected indirect impacts on co-products markets. For instance, a plant that does not dry its distillers grains gets a much more favorable “score” under the California program than does an identical plant that is drying. Corn oil and removal is similarly encouraged by some of these policies. Will this result in increased production of wet distillers grains, more fractionation and corn oil separation? Only time will tell.

I have spent a great deal of time talking about the policies that impact ethanol production and use in the U.S. These policies and regulations are important, not only to the use of renewable fuel but to the market for distillers grains as well.

You have heard talk of the ethanol blend wall that limits the amount of ethanol that can be used. In much of the same manner, we are rapidly approaching a feed wall in the U.S.

Due to current limits in dietary rations, the livestock feed market will likely be saturated with distillers grains when the industry is producing between 35 and 45 million metric tons. As we spoke about before, we are rapidly approaching the lower end of the “feed wall” estimates.

As distillers grains grow in importance to the financial health of ethanol producers and the quality of the product continues to improve, finding new markets is vital. That is where all of you come in.

America’s ethanol and grain producers are committed to establishing and maintaining good relationships with trading partners all around the globe. We recognize that we need to work with you to expand markets for our product. At the same time, we are aware of the value of distillers grains to the world feed market and want to be seen as consistent and reliable trading partners.

As goes ethanol policy, so goes the market for distillers grains. Extending current investments in ethanol, expanding ethanol’s market share, and ensuring the Renewable Fuels Standard is successful will all be essential to the continued growth of affordable supplies of distillers grains.

Ethanol production is fuel and feed. It is not either or. And the success of one has a great impact on the viability of the other. Together is the only way we can secure market growth for both.

I’m glad you’re here with us. These are important issues and important discussions. I look forward to spirited and thoughtful discussions that expand the market for distillers grains, both domestically and internationally.

Thank you.