

## 2018 State of the Industry

“Success consists of going from failure to failure without loss of enthusiasm.” Winston Churchill

“Success is how high you bounce when you hit bottom.” George Patton

“Failure is success if we learn from it.” Malcolm Forbes

“I’ve failed over and over and over again in my life and that is why I succeed.” Michael Jordan

This is how these thoughtful leaders from different generations, different backgrounds, from politics, business, military, and sports view success. I’ve always found it interesting that success and failure are inextricably linked, so long as one is willing to learn from one’s mistakes and persevere. I learned that lesson personally – again -- over the past year. Indeed, if measured by my failures, my life has been a bastion of success!

But hard-fought success is also the hallmark of this industry. The state of the U.S. ethanol is strong, because of the strength of character of the people in this room, because you persevere, because you didn’t give up when faced with a blend wall, because you are willing to work harder than your detractors to refute misinformation, pursue new markets, embrace new technology, and keep this industry moving inexorably forward. You’re not just strong; you’re Ethanol Strong.

Look at what you accomplished in 2017:

- 211 ethanol biorefineries across 28 states produced a record 15.8 billion gallons of clean-burning, high octane, renewable ethanol;
- Ethanol blending domestically broke all records, with the national blend levels exceeding 10% as E-15 and E85 sales soared, laying waste to the oil company narrative that ethanol blends cannot possibly exceed 9.7%, an unnecessary step backwards in the nation’s energy, economic and environmental policy;
- As ethanol prices averaged about 10% lower than gasoline prices, you saved consumers from coast to coast hard-earned money at the pump. In fact, you gave most Americans a bigger tax cut than Congress did last year!
- With the farm economy suffering through near-record surpluses, decade-low commodity prices, and global trade uncertainty, you provided the single most important value-added market to farmers, purchasing 5.5 billion bushels of corn for processing into fuel and feed;

- You produced a record 41.4 million metric tons of animal feed and 3.6 billion pounds of distiller's oil, providing cost-effective protein and energy to livestock and poultry across the globe;
- You continued to enhance U.S. energy security by displacing more than 560 million barrels of oil. On a net basis, the U.S. was dependent on imports to meet 20% of its petroleum demands in 2017; but it would have been 27% without ethanol. Make no mistake, the ethanol you produce is a big part of U.S. "energy dominance."
- In addition to reducing criteria pollutants at the tailpipe – carbon monoxide, hydrocarbons that form ozone, particulates, and air toxics -- the ethanol you produced and sold reduced CO2 equivalent GHG emissions by 53.5 million metric tons, or the equivalent of 13 coal-fired power plants; and,
- You exported a record 1.4 billion gallons of ethanol to more than 60 countries, helping to reduce the cost of motor fuel for consumers and addressing the carbon commitments of many foreign nations.

All of that my friends, is the definition of Ethanol Strong. You've taken every challenge and every failure and turned it into success. You've strengthened the economy. You've protected public health. You've improved the environment. You've muscled your way into the motor fuel market here and abroad to give consumers both choice and savings at the pump. And you've steadfastly refused to wither in the face of unrelenting attacks from those who believe America's future is beholden to the fossil fuels of the past. No! America's energy future will be defined by the people in this room. You are the stewards of the nation's premiere renewable energy industry. You have reshaped the world's energy landscape.

- You directly employ about 72,000 American workers and support another 287,000 indirect and induced jobs across the country. Importantly, note that a Department of Energy survey conducted last year found that fully 19% of the ethanol sector's workers are veterans of the U.S. military. That compares to 11% nationally and 10% in the petroleum sector. That's not just Ethanol Strong. That's America Strong!
- You created \$24 billion in household income and contributed \$45 billion to GDP;
- You paid more than \$10 billion in federal, state, and local taxes, helping to sustain and improve your local schools, roads, and public services. And you spent \$32 billion on raw materials, inputs, and other goods and services;

- You revitalized rural America by turning a \$3.20 bushel of corn into \$5.20 of fuel and feed output; and
- With your innovative spirit, you have embraced new technologies that are accelerating the commercialization of cellulosic ethanol and other advanced biofuels; producing ethanol from corn kernel fiber, producing biodiesel and renewable diesel from corn distillers oil, and reducing our energy inputs to make this industry ever more sustainable and profitable.

Ethanol Strong.

But know that the forces that would have us go backward, the foolish fossil fuel fanatics, are gathering strength too. Buoyed by sympathizers in the Administration and their champions on Capitol Hill, fueled by funding we can only imagine, and willing to distort reality to fit their agenda, efforts to undermine the growth in renewable fuels, repeal or render toothless the Renewable Fuel Standard, and deny consumers choice at the pump are gaining momentum.

A year ago, from this podium, I suggested we need to engage the petroleum industry in a constructive dialogue about the future of energy in this country. I still believe that. But some interpreted my comment as a willingness to negotiate away the gains we have made and thus offered up proposal after proposal to “reform” the RFS with various measures to destruct renewable fuel demand, trying to claw back lost market share.

Their logic is that in 2022, EPA is given broad authority over RFS levels and could eliminate it all together. We don’t know who will be in the White House or at EPA the narrative follows, so we should work to minimize the damage today. Well ... the answer to the uncertainty of 2022 is NOT let’s cripple it today! I’ll take my chances. After all, even EPA Administrator Scott Pruitt told a radio audience a few months ago that lifting the 15-billion-gallon restraint on corn starch ethanol might be appropriate given the obvious success of that part of the program.

So ... No. The message for post-2022 might be: Distill it; don’t kill it!

I still believe dialogue is preferable to dysfunction. If liquid transportation fuels don’t find a pathway to mutual growth, electric vehicles will increasingly displace us both, and the consumer will miss out on the economic, convenience, and environmental benefits our fuel offers every day. But the conversation must be about the future, and must include opportunities to grow the renewable fuel market beyond the RFS, not how to limit the RFS.

The RFS has been a tremendous success. It does NOT need to be reformed simply because some refiners don’t like the policy. RFS2 has been in place 10 years now, and by every measure it has accomplished what it was intended to do. Since 2007:

- The number of ethanol plants has almost doubled;
- Jobs in ethanol production are up almost 50%;
- Corn production is up 12%; but
- Land dedicated to growing corn is down 3%;
- U.S. forest and grassland has expanded; while
- Total cropland has fallen 7%;
- Crude oil imports are down;
- So are gasoline imports;
- GHG emissions from transportation are falling; and
- Household spending on fuel is down.

Ethanol Strong.

So, stop trying to relitigate the 2007 Energy bill to whittle away at the RFS. We need a rational, forward-looking conversation about the future that builds upon the success of the RFS. Let's talk about policies that grow biofuels by recognizing their octane, carbon, and emissions benefits. Everyone wins.

To date, though, entrees from our friends in the petroleum sector have included capping biofuels at 9.7%, even though we're already blending far more than that nationally; allowing ethanol exports to count toward an obligated party's RFS requirement, thus artificially increasing RIN supplies without increasing ethanol demand; and lowering the RFS by 10% by providing a blanket exemption to small refineries without so much as a cursory demonstration of economic hardship.

Here's one for you ... ethanol is cheaper than gasoline today; there is NO economic hardship to any refinery or marketer or consumer caused by blending more of a less expensive, higher octane product into gasoline! Period.

The poster child for the supposed economic harm caused by the RFS is Philadelphia Energy Solutions (PES), the oldest refinery in the country (the company itself says its Philadelphia operation began one year after the Civil War ended!). The refinery has antiquated technology and is captive to more expensive Brent crude oil imports because the elimination of the oil export ban and the new Dakota Access pipeline have cut off its supply of Bakken crude. But it's so much more expedient to blame ethanol. The financial problems of this refinery are legion. It has been in distress for decades, consistently bailed out by taxpayers with subsidies, economic development grants and environmental waivers. PES could have invested about \$40 million in the storage and blending infrastructure necessary for it to have met its RFS obligation. Instead, it purchased \$832 million in credits from its competitors who had over-complied with the program. PES doesn't have an RFS problem, it has a management problem!

Nevertheless, when even some of our own champions are suggesting we need to "reform" the RFS to lower the price of RINs to help the poor small refiners, you can see how much

traction this nonsense is getting. EPA Administrator Pruitt, for example, keeps talking about the need for “RIN reform” to prevent further bankruptcies like that of PES.

But most independent analyses looking at the impact of RIN prices on refinery economics have concluded the RIN cost is embedded in the crack spread and it creates no insurmountable burden. One representative study authored by economists from Harvard University, the University of Michigan, and MIT states that “RIN prices were passed through one-for-one in the prices of bulk petroleum fuels.” Even refiner Andeavor (formerly Tesoro) acknowledges that “RIN costs are passed through at the bulk finished product sales points and provide refiners with coverage of their exposure to them.”

If Scott Pruitt doesn’t want to trust Harvard and MIT, he could turn to his own Agency. In its final 2017 RVO Rule, EPA noted “obligated parties, including small entities, are generally recovering the cost of acquiring the credits...necessary for compliance with the RFS standards through higher sales prices of the petroleum products they sell.”

But that doesn’t mean consumers pay more for gas because of RINs. According to an Iowa State University study, “...the net effect on the [retail] price of E10 of high RIN prices is zero: higher gasoline prices are offset by lower ethanol blending costs and the price of E10 remains constant.”

Despite all the evidence concluding RIN prices are NOT causing harm to refiners, if policy makers still want to lower the price of RINs, it can be done by EXPANDING, not REDUCING, ethanol use. That’s because every gallon of ethanol comes with a FREE RIN attached. When ethanol producers sell a gallon of ethanol, it comes with the RIN free of charge. So, if the objective is to reduce the price of RINs, flood the market with more free-RINs by encouraging higher ethanol blends!

And the most effective way of expanding ethanol use quickly is by providing RVP parity for E15 and other higher ethanol/higher octane fuels. Today, out-of-date EPA regulations prevent marketers from offering E15 in conventional gasoline markets during the peak summer driving season. This disparate treatment of E10 and E15 with regard to volatility regulations is the single most significant barrier to expanded ethanol use and it needs to end.

This unfathomable RVP barrier is disrupting the market in obvious ways and keeping your product from reaching consumers who want it. Just look at this example showing E15 sales in the state of Minnesota. Just as E15 sales volumes start gaining momentum in the spring, retailers get the rug pulled out from underneath them on June 1 every year and they are forced to sacrifice E15 sales precisely at the time of year when gasoline demand is the highest. It makes NO sense.

There is NO market or environmental justification for disallowing the application of the RVP tolerance currently only provided to 10% ethanol. The RFA has provided EPA with reams of data from DOE and others concluding there are air quality benefits to allowing

E15 access to the waiver. The exhaust emissions reductions of E15 are greater, and the evaporative emissions impact is less with E15.

In denying the waiver, EPA has been hiding behind an overly restrictive interpretation of its authority under the Clean Air Act. The Agency should get its head out of the commas in 211(h) long enough to recognize that the whole point of volatility control was to lower ozone pollution, and allowing more ethanol, which provides greater reduction in exhaust hydrocarbons and carbon monoxide, the precursors to ozone, will result in less ozone pollution from automobiles. It's not complicated. EPA needs to provide RVP parity for E15 and higher ethanol blends now.

To encourage the Agency to do just that, we've provided post cards for you to send to the President, reminding him of his commitment to reduce the regulatory barriers to expanded ethanol use and the importance of empowering consumers to make the fuel choices that are appropriate for their vehicles and their pocket books. Please send one or both of those post cards today.

Ethanol Strong also means being involved in the political debate.

The bottom line is this: there is no reason for the ethanol industry or its champions in Washington to accept demand destruction as a necessary or legal path to the future to accommodate the failed business plans of a few independent refiners. The facts are on our side. The success of the RFS is on our side. And the President is on our side.

President Donald Trump has been the stalwart for ethanol generally and the RFS specifically we believed he would be. He has lived up to his promise, expressed in a letter to this audience a year ago that he "values the importance of renewable fuels to America's economy and to our energy independence." He has also promised to "encourage regulators to end restrictions that keep higher blends of ethanol and biofuel from being sold," and we need to assure he does this also. Send the postcards!

Building ethanol demand is what the RFA is all about. When I started working for the RFA some 30 years ago, we were producing about 600 million gallons a year. Over the years I have worked on tax incentives for gasoline marketers to use ethanol, the Clean Air Amendments of 1990 that created air quality programs like RFG that boosted ethanol demand and continues to provide markets for ethanol in the nation's most polluted cities today, and countless regulatory issues, including the original RVP waiver for 10% blends that was necessary to create a national year-round market. The RFA formed the alliance with API to pass the original RFS in 2005, establishing ethanol as a ubiquitous component of the U.S. motor fuel market, and the RFA worked with a completely different coalition of environmentalists just two years later to pass the RFS2, bringing biofuels into the mainstream and making it the energy juggernaut we see today. The RFA provided the technical underpinnings for the E15 waiver and has worked with marketers across the country to assure the introduction of blender pumps, enabling not just E15, but E25, E30, and E85 as well. The RFA has also led the effort with other

industry partners to accelerate ethanol exports and build demand in all corners of the globe.

The challenge the industry faces today is the same as it has always been ... increase demand. And that is what we will continue to do.

Beyond the effort to secure RVP parity for E15, the RFA is leading the way toward higher octane fuels. We helped form the High Octane/Low Carbon coalition. A great deal of progress has been made, and if the widespread comments in support of high octane fuels being a critical option to meet increasingly stringent fuel economy standards coming from auto companies and biofuel advocates at EPA's recent public hearing on its mid-term review of CAFE standards provide a glimpse into the future, high octane fuels will be commercialized.

But it's past time for the rubber to hit the road. We need leadership from EPA to make it happen. The auto companies say they want more octane, but they have been very slow to identify or embrace a regulatory pathway to high octane while the future of corporate fuel economy standards remains uncertain. The autos need assurances the reductions in carbon and improved efficiency of high octane will be codified in a regulatory structure that gives them an incentive to build higher compression ratio engines, and not just embedded into a more stringent standard. The RFA will continue to work with the automakers on such a mutually beneficial incentive, but, again, EPA needs to demonstrate leadership by making it clear it is on board with regulating octane for its carbon and efficiency benefits. Two weeks ago, at a Senate EPW hearing, Administrator Pruitt generally endorsed the benefits of high octane fuels, but the market needs more than vague platitudes for investment.

The other major demand driver for ethanol, of course, is exports. As noted earlier, the U.S. ethanol set a new record in export demand last year, with nearly 1.4 billion gallons going to more than 60 countries across the globe. But there is also a growing and troubling protectionist undercurrent that if left unchecked, threatens to undermine future growth in the world biofuels industry. That would be a shame. We will never build a dynamic and competitive biofuels trade on the back of tariff and non-tariff barriers.

The EU continues to cling to a demonstrably illegal 9% anti-dumping duty on U.S. ethanol, despite no evidence of dumping by U.S. producers ever having been found. Even the EU court agreed with us that the imposition of this duty was illegal. That case remains in limbo while appeals are settled, but in the meanwhile, consumers in Europe are being denied access to the lowest cost ethanol on the planet.

Last January, China suddenly imposed a completely unjustified 35% percent tariff on U.S. ethanol in an apparent effort to draw down its domestic grain surplus. The move resulted in the immediate loss of the fastest growing U.S. export market, and again, only hurt Chinese consumers. We can do better.

But I'm personally most offended by Brazil's recent action to impose an unreasonably low TRQ on U.S. ethanol and an unreasonably high 20% tariff on every gallon over quota. Are you kidding me? I listened to years of pious free trade diatribes from UNICA's lobbyists in D.C. when our Congress had authorized a tariff to simply offset the tax benefit imported ethanol would receive. The Congress did not believe U.S. taxpayers had to further subsidize imported ethanol that already benefited from a tax credit. That made sense, and the offsetting tariff went away as soon as the tax incentive went away in 2011. What Brazil has done makes no sense. It is purely a protectionist measure designed to assuage northern sugar cane producers who can't compete with either U.S. ethanol or sugar produced by their southern countrymen. If Brazil's political leadership is comfortable with Brazilian consumers paying more for ethanol to accommodate sugar cane producers in the north at a time of great political uncertainty in the country, Ok. But it's a mistake, and it should be rectified as soon as possible.

On all of these challenges and others, the new Administration's America First trade policy has been a refreshing change from previous Administrations of both parties who were too often accommodating of foreign trade barriers and reluctant to challenge them. From Ambassador Branstad in China to USDA Undersecretary for Trade Ted McKinney to our friends at the Department of Commerce, this Administration has demonstrated a real commitment to addressing these trade challenges with passion and prejudice. America first. Thank you, Mr. President. We are optimistic that the tide of protectionism will soon ebb, and a new period of fair and free biofuels trade will create increased demand here and relief at the pump for those consumers currently being denied access to the lowest cost ethanol in the world.

\*\*\*\*\*

Washington D.C., is a dysfunctional town today. Tribalism on both sides of the aisle has made a mockery of political discourse and rendered the city virtually incapable of positively impacting the important policy priorities of the day. Nonetheless, good things are happening, and it's a sad indictment of the Fourth Estate that the media's fascination with all things salacious distorts and dismisses important policy and marketplace developments. The tax bill has provided a jolt to American industry. Regulatory reform is empowering the entrepreneurial spirit of American business. America First trade policies will create new international market opportunities and create jobs. And perhaps most importantly, because it is happening despite, not because of Washington, innovators like the people in this room are embracing the technologies and market strategies that will drive the world's more sustainable energy future.

But the chattering class from CNN to FOX are incapable of sifting through the fog of partisan warfare to report on any of this consistently or effectively. Our challenge then, and my promise to you, is to ignore the nattering nabobs of negativity and stay focused on the need to build demand.

- We cannot allow demand destruction to be the cornerstone of RFS discussions. We must assure that an opportunity for growth in renewable fuels is understood as an immutable pillar for any future energy policy conversation.
- We must continue to press the Administration to provide RVP parity for E15 and other higher blends. Removing that regulatory barrier was an important tenet of the President's commitment to the farmers across America who helped elect him. It would provide environmental benefits to the nation's cities, price relief at the pump for American consumers, and RIN relief to those refiners who failed to properly prepare for their RFS obligations.
- We must intensify the effort to commercialize high octane fuels. If market-based demand is where the industry is heading, we need to make sure that market recognizes and incentivizes ethanol's superior octane, performance, and environmental characteristics. If the move toward higher octane allows aromatics to increase and causes backsliding on air quality or does not recognize the international drive toward lower carbon fuels, then we will have failed and electric vehicles will reap the reward.
- We must stem the scourge of protectionism and work to build a free and fair biofuels trade across the globe, only then will biofuel production everywhere be made possible and consumers shown the value of renewable fuels.
- Ultimately, we must change the narrative about renewable fuels so they are not viewed with cynicism and derision by key influencers and decision-makers. We need to understand there's another team on the field spinning their own anti-ethanol narrative. This isn't just a "Got Milk" campaign because milk didn't have an army of PR folk out there saying milk was bad. We do. But they're wrong and we must never let misinformation get traction when the truth and the facts are on our side. So far, their assaults have had little impact. Polling recently completed for RFA shows that the American public recognizes the incredible value of this industry to the overall economy. When asked, over 80% of respondents concluded that the renewable fuels industry is very important to the country's economy. Exactly. Ethanol Strong.

I am more confident than I have ever been that the U.S. ethanol industry, led by the visionaries in this room, is poised for continued growth and unprecedented success. That is not just because the industry is strong today and getting stronger. It is because this industry knows what it takes to succeed, and remains resolute in the face of setback,

determined in the face of adversity, and committed to the farmers who grow our feedstock, consumers who use our fuel, and a nation that rewards innovation. I am proud to represent you in Washington and to be counted among you. I am grateful for your leadership, your counsel, and your friendship. I am inspired by your strength. You are Ethanol Strong.