October 5, 2011

The Honorable Bob Goodlatte
United States House of Representatives
Washington, D.C.  20515

The Honorable Jim Costa
United States House of Representatives
Washington, D.C.  20515

Dear Representatives Goodlatte and Costa:

As representatives of the nation’s most successful renewable energy industry in the U.S., we write to express our concern about legislation you recently introduced that would reduce the Renewable Fuels Standard (RFS) when corn supplies fall below a pre-determined threshold.

Numerous studies have concluded that the RFS is a minor contributor to corn prices. The most recent study, a July 2011 analysis commissioned by the International Centre for Trade and Sustainable Development, found that corn prices would have been exactly the same in 2009/10 if both the RFS and Volumetric Ethanol Excise Tax Credit (VEETC) had not existed. The analysis showed corn prices might have been just $0.18/bushel lower (4.5 percent) in 2008/09 without the RFS and VEETC, with VEETC accounting for most of the difference. Thus, implementing an RFS waiver trigger based on the stocks-to-use ratio will not have the effects on corn prices desired by livestock and poultry interests.

Further, the stocks-to-use ratio has limited value as an indicator of expected market dynamics and price. University of Illinois economist Darrell Good cautions that stocks-to-use ratio should only be considered as “a starting point (for estimating potential price impacts) since very different supply and demand conditions in individual years can lead to similar ratios of stocks-to-use but very different prices.” Because of this, Good writes, “…the relationship between stocks-to-use and price is not consistent over time.” Such an imperfect indicator of potential market conditions should not be used as the basis for policy.

Contrary to statements made recently before the House Agriculture Subcommittee on Livestock, Dairy, and Poultry, America’s ethanol producers are not immune to the effects of higher corn prices. Like other end users of grain, ethanol producers are tightening their belts and have reduced corn consumption in recent months. Because of the recent ratcheting down of ethanol production, and due to the fact that ethanol yields per bushel of corn are higher than estimated by the U.S. Department of Agriculture (USDA), it is likely that USDA is overestimating the amount of corn that will be used for ethanol and animal feed co-products in 2011/12. Since averaging 908,000 barrels per day (bbl/day) of production for the week ending August 5, 2011, weekly ethanol production has steadily declined and hit 871,000 bbl/day for the week ending September 16, 2011—this is the lowest weekly output since early May 2011.

However, there is already flexibility built into the RFS to alleviate the potential impacts of tighter-than-normal grain supplies and high feedstock prices. Obligated parties under the RFS (typically oil refiners)
may use excess Renewable Identification Number (RIN) credits rather than physical gallons to comply with their RFS obligations in the event high corn prices reduce ethanol production. As much as 20 percent of the 2012 RFS (equivalent to 2.64 billion gallons, or 950 million bushels of corn) can be met with excess RIN credits.

Furthermore, corn prices are subsiding. After closing at $7.75/bushel on August 30, December corn futures prices are down sharply in recent weeks. Harvest has begun in earnest and the market has responded to outside factors (such as strengthening of the U.S. dollar). As a result, December futures closed at $6.39/bushel on September 23, the lowest price since early July and 18 percent lower than just three weeks earlier.

If waiving a portion of the RFS did in fact lead to less ethanol production, as some have suggested, consumers would undoubtedly suffer through higher fuel prices. A recent analysis by economists at the University of Wisconsin and Iowa State University found growth in ethanol production reduced gasoline prices by an average of $0.25 per gallon, or 16 percent, over the entire decade of 2000-2010. The effects of ethanol on gasoline prices are magnified as gasoline prices rise and ethanol output increases. In 2010, for example, the authors found that the use of ethanol reduced wholesale gasoline prices by an average of $0.89 per gallon. Iowa State University Professor Dermot Hayes, one of the report’s authors, stated that if there was an immediate reduction in ethanol output, “…there would be a dramatic increase in U.S. gasoline prices and the resulting increase in U.S. gasoline imports would also cause world gasoline prices to increase in the short run.”

World corn prices are influenced by a number of factors, including currency valuation and export demand, trade policy, weather events, and prices for oil and other energy commodities. Additionally, there is some evidence that speculative investment by non-commercial interests, such as hedge and index funds, contributes significantly to commodity price volatility.

A careful look at the facts reveals that American farmers have met, can and will continue to meet our domestic and international commitments for food and feed while still making a significant and growing contribution to lessening our dependence on imported oil with homegrown, American-made renewable fuels. We would welcome an opportunity to discuss the facts with you at your earliest convenience. We look forward to hearing from you to start this important dialogue.

Sincerely,

American Coalition for Ethanol
American Farm Bureau Federation
Growth Energy
National Corn Growers Association
National Farmers Union
National Sorghum Producers
Renewable Fuels Association