



September 25, 2019

The Honorable Andrew Wheeler
Administrator
Environmental Protection Agency
1200 Pennsylvania Ave NW
Washington DC 20004

Dear Administrator Wheeler,

On August 22, 2019, I sent you a letter (enclosed) responding to reports that a spokesperson for the Environmental Protection Agency (EPA) had claimed there is “zero evidence” that small refinery exemptions (SREs) from the Renewable Fuel Standard (RFS) have had “any negative impact on domestic corn ethanol producers.” In a backgrounder attached to our letter, we provided data and analysis showing the inaccuracy of the EPA spokesperson’s claim.

In light of our August letter and the further deterioration of ethanol market conditions that has subsequently occurred, we were disappointed to hear you repeat similar claims about the impact of SREs on ethanol producers during your testimony before the House Committee on Science, Space, and Technology on September 19, 2019.

Several statements made during the hearing about ethanol supply and demand are inconsistent with government data and market intelligence. I write today to challenge several of your statements and provide additional information regarding the very real impact of SREs on the ethanol industry. Your statements from the hearing are reproduced below in bold-face type, along with our response to each.

“Ethanol demand has not been impacted by the small refinery program and in fact we’ve seen an uptick in ethanol over the last two years.”

In reality, U.S. ethanol consumption has shown a *downturn*—not an uptick—in the last two years. According to the U.S. Energy Information Administration (EIA), U.S. ethanol consumption was 14.382 billion gallons in 2018—down from 14.485 billion gallons in 2017.¹ According to the *Wall Street Journal* and other sources, this marked the first year-

¹ U.S. Energy Information Administration. Monthly Energy Review: Table 10.3 “Fuel ethanol overview.” Available at: <https://www.eia.gov/totalenergy/data/monthly/>

over-year decrease in ethanol consumption in more than 20 years.² Moreover, the reduction in ethanol blending in 2018 was not a function of lower gasoline consumption (as EPA has reportedly argued in the past³), as U.S. gasoline demand in 2018 was unchanged from 2017 at 143 billion gallons.⁴

In any event, a static comparison of current levels of ethanol consumption to past levels of consumption misses the point. The RFS was intended to continually grow the volume of domestic ethanol consumption; thus, the proper comparison is actual consumption levels to the consumption levels that would have occurred in the absence of the SREs.⁵ EPA regularly utilizes this type of “counterfactual analysis” when assessing RFS impacts and should do so here.⁶

In January 2018—before the public became aware of the dozens of 2016 and 2017 SREs that were being issued—EIA forecasted 2019 U.S. ethanol consumption at 14.82 billion gallons. But in its latest forecast, EIA now expects 2019 consumption to total just 14.38 billion gallons. In recent short-term energy outlooks, EIA has stated it “...assumes that growth in higher-level ethanol blends is limited in the near-term by recent Small Refinery Exemptions that reduced volumes of renewable fuels required under the RFS.”⁷

“So far this year the industry has produced more ethanol than they did at this point last year.”

Data published by both EIA and EPA dispute this statement. Monthly EIA data show that total U.S. ethanol production in January-June 2019 (latest available) is down 1.3% from the same period in 2018 and down 0.3% from the same period in 2017.⁸ The EIA weekly data (through September 20, 2019) show even greater erosion in ethanol output, with 2019 year-to-date production down 2.0% versus the same period a year ago.⁹ According to EIA,

² J. Bunge and K. Maltais. Wall Street Journal. “Ethanol Industry Reels as Trade Dispute and Policy Changes Cut Demand.” Sept. 4, 2019. Available at: <https://www.wsj.com/articles/ethanol-industry-reels-as-trade-dispute-and-policy-changes-cut-demand-11567604261>

³ H. Pamuk and J. Renshaw. Reuters. “EPA chief defends biofuel waivers in meeting with farm senators: sources.” July 30, 2019. <https://www.reuters.com/article/us-usa-ethanol-waivers/epa-chief-defends-biofuel-waivers-in-meeting-with-farm-senators-sources-idUSKCN1UP1HC>

⁴ U.S. Energy Information Administration. “U.S. Product Supplied of Finished Motor Gasoline.” Available at: <https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=MGFUPUS1&f=A>

⁵ The University of Missouri’s Food & Agriculture Policy Research Institute (FAPRI) conducted this sort of analysis on the impact of SREs, concluding that the waivers have significant negative economic impacts on ethanol and corn producers. See <https://ethanolrfa.org/2018/09/university-analysis-epas-refiner-waivers-could-cost-ethanol-industry-20-billion-in-losses/>

⁶ For example, EPA’s RFS2 final rule included analysis comparing the expected economic and environmental impacts of the RFS2 to a counterfactual scenario where the RFS2 does not exist.

⁷ U.S. Energy Information Administration. Short-Term Energy Outlook. July 9, 2019. Available at: <https://www.eia.gov/outlooks/steo/archives/Jul19.pdf>

⁸ U.S. Energy Information Administration. “U.S. Renewable Fuels Plant and Oxygenate Plant Net Production of Fuel Ethanol.” Available at: https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=M_EPOOXE_YNP_NUS_MBBL&f=M

⁹ U.S. Energy Information Administration. “Weekly Ethanol Plant Production.” Available at: https://www.eia.gov/dnav/pet/pet_pnp_wprode_s1_w.htm

ethanol production last week was the lowest in 177 weeks.¹⁰ EIA expects 2019 ethanol production to fall from 2018 levels—the first annual decrease in nine years.¹¹ Similarly, your Agency’s own EMTS data show domestic ethanol production in January-August 2019 was down 2.1% compared to the same period in 2018.¹²

“We do not see any demand destruction from the small refinery program on ethanol production.”

As previously noted, EIA data show that ethanol consumption experienced the first year-over-year decline in more than 20 years in 2018, and 2019 year-to-date consumption is far below the levels initially expected. In addition, data from both EIA and your own Agency show ethanol production is down versus year-ago and 2017 levels, as producers respond to waning demand.

Meanwhile, data from the U.S. Department of Agriculture (USDA) show corn use for ethanol is falling as well. In November 2018, USDA forecast corn use for ethanol in the just-completed 2018/19 marketing year (Sept. 1, 2018 - Aug. 31, 2019) at 5.65 billion bushels. However, in its latest report, USDA now estimates actual corn use for ethanol fell to 5.375 billion bushels. The 275-million-bushel reduction in corn use for ethanol is equivalent to eliminating demand for the entire Michigan or Kentucky corn crop.

As ethanol demand has softened, prices have fallen and profit margins have turned negative. As a result, plants have been forced to idle or shut down permanently. Since the first quarter of 2018—when the public began to recognize EPA’s massive expansion of the SRE program—at least 17 ethanol plants have idled production or permanently closed. Each plant directly employs 40-50 workers and supports hundreds more indirect jobs. More than 3,000 jobs have been affected by these recent closures.

“It is my understanding that the Department of Energy has that same opinion.” (i.e., that SREs have not caused demand destruction)

Data and statements from the EIA—a division of the U.S. Department of Energy (DOE)—clearly show that the department is not of the same opinion. EIA has explicitly stated that SREs are “limit[ing]” demand growth in the near-term. EIA has reduced its forecast for 2019 U.S. ethanol consumption by 440 million gallons, noting that it “...assumes that

¹⁰ *Id.* (Ethanol output for the week ended 9/20/19 was 943,000 bbls/day, the lowest since the week ended 4/29/16).

¹¹ U.S. Energy Information Administration. “Increase in U.S. fuel ethanol production capacity slows.” Sept. 20, 2019. (“U.S. production of fuel ethanol reached 16.1 billion gallons (1.0 million b/d) in 2018. In the September Short-Term Energy Outlook (STEO), EIA expects U.S. production of fuel ethanol to decline slightly to 15.8 billion gallons for 2019...”). Available at: <https://www.eia.gov/todayinenergy/detail.php?id=41393>

¹² U.S. Environmental Protection Agency. “Public Data for the Renewable Fuel Standard.” (comparing volume of “non-cellulosic ethanol” produced by “domestic producers”). Available at: <https://www.epa.gov/fuels-registration-reporting-and-compliance-help/public-data-renewable-fuel-standard>

growth in higher-level ethanol blends is limited in the near-term by recent Small Refinery Exemptions that reduced volumes of renewable fuels required under the RFS.”¹³

Evidently, the DOE also does not have the same opinion as EPA on whether small refineries are truly experiencing “disproportionate economic hardship.” Information made recently available shows that EPA disregarded recommendations from DOE to deny certain SRE requests or to only grant partial exemptions.¹⁴

* * * * *

In closing, we encourage you and your staff to more carefully and more thoroughly analyze the actual marketplace implications of retroactive SREs. EPA statements suggesting there has been no negative economic impact from SREs are an insult to the thousands of biofuel industry workers and farmers who are experiencing very real pain today because of EPA decisions. Thank you for your consideration of this information and I would appreciate the opportunity to further discuss this matter with you and your staff soon.

Sincerely,



Geoff Cooper
President & CEO

Cc:

The Honorable Sonny Perdue, Secretary of Agriculture
The Honorable Rick Perry, Secretary of Energy

Encl.:

Letter from RFA to Administrator Wheeler; August 22, 2019

¹³ U.S. Energy Information Administration. Short-Term Energy Outlook. July 9, 2019. Available at: <https://www.eia.gov/outlooks/steo/archives/Jul19.pdf>

¹⁴ See, for example, letter to Sen. Charles Grassley from Secretary of Energy Rick Perry. July 19, 2019. (“EPA has never granted a 50 percent exemption,” despite receiving recommendations to do so from DOE. “DOE is aware of one instance in which DOE’s analysis indicates that EPA consider no exemption, but the result was an EPA decision to grant an exemption to the petitioner.” Available at: <https://www.grassley.senate.gov/sites/default/files/2019-07-19%20DoE%20to%20CEG%20%28Small%20Refinery%20Economic%20Hardship%20Analysis%29.pdf>. Also see J. Renshaw & S. Kelly (Reuters). Sept. 24, 2019. “Exclusive: EPA granted full biofuel waivers to refineries despite Energy Department advice – memo.” Available at: <https://www.reuters.com/article/us-usa-biofuels-epa-exclusive/exclusive-epa-granted-full-biofuel-waivers-to-refineries-despite-energy-department-advice-memo-idUSKBN1W91S6>



Thursday, August 22, 2019

The Honorable Andrew Wheeler
Administrator
Environmental Protection Agency
1200 Pennsylvania Ave NW
Washington DC 20004

Dear Administrator Wheeler,

I was shocked by reports this week that a spokesman for the Environmental Protection Agency (EPA) claimed there is “zero evidence” that small refiner exemptions (SREs) from Renewable Fuel Standard (RFS) compliance obligations have had “any negative impact on domestic corn ethanol producers.” Such a crass statement is entirely at odds with the facts, and demonstrates a woeful lack of understanding about the actual marketplace implications of EPA’s decision to approve SRE petitions.

The U.S. ethanol industry has indeed been negatively impacted by the dramatic increase in SREs that have been issued by your Agency. U.S. ethanol consumption in 2018 was far below the level forecast by the U.S. Energy Information Administration (EIA) at the start of the year. Further, 2018 domestic ethanol consumption fell from 2017 levels—the first year-over-year decline in 20 years. Ethanol’s share of U.S. gasoline consumption (the “blend rate”) also fell in 2018 relative to 2017, likely the first-ever annual decline in the blend rate.

These impacts are continuing in 2019. Domestic ethanol consumption is on pace to be 450 million gallons lower this year than initially expected by EIA, which now “assumes growth in higher-level ethanol blends is limited in the near-term by recent Small Refinery Exemptions...” Moreover, ethanol prices are severely depressed, profit margins have turned negative, corn use by ethanol plants is falling, and the U.S. ethanol industry is curtailing production.

On the very same day your Agency suggested there is “zero evidence” of demand destruction, two major ethanol producers announced they were idling production. This means the total number of plants that have temporarily or permanently shuttered production since EPA began to massively expand the SRE program now stands at 15. Each of those facilities directly employed 40-50 workers and supported hundreds more jobs throughout the economy.

In fact, in the week following EPA’s August 9 announcement that 31 more SREs had been approved, ethanol prices plunged 18 cents per gallon (12 percent), corn prices fell 47 cents per bushel (11 percent), and RIN credit values dropped from the already-low level of 20 cents to just 12 cents (43 percent). All told, the August 9 announcement alone could result in a staggering \$10

billion transfer of wealth from the agriculture and biofuel sectors to the oil industry. There's your evidence of demand destruction.

I am attaching a short background document providing further evidence of SRE-induced demand destruction. I respectfully encourage you to review this information, especially the statements of numerous ethanol company executives regarding the negative impacts of SREs. No one is more qualified to provide perspective on the economic impacts of SREs than those who participate in these markets every day. I hope you take their views to heart and ask your staff to revisit whatever analysis it conducted that ultimately led to the absurd conclusion of "zero evidence" of negative market impacts from SREs.

Thank you for your consideration of this information and I would appreciate the opportunity to further discuss this matter with you soon.

Sincerely,



Geoff Cooper
President and CEO
Renewable Fuels Association

cc:
Secretary of Agriculture Sonny Perdue
Secretary of Energy Rick Perry

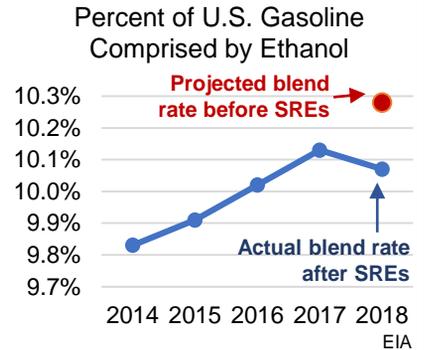
Evidence of Demand Destruction from Small Refiner Exemptions

Domestic Ethanol Demand is Down

U.S. ethanol consumption in 2018 was nearly 300 million gallons (mg) below the level forecast by the EIA at the start of the year and more than 100 mg lower than in 2017. **This was the first decline in consumption in more than 20 years.**

The U.S. ethanol blend rate—the average content of ethanol in the gasoline pool—fell to 10.07% in 2018 from 10.13% in 2017. This was **far below expectations** at the start of 2018, when EIA had forecasted an implied ethanol blend rate of **10.26%**. The U.S. ethanol industry had ramped up production in anticipation of demand that did not materialize due to SREs.

Ethanol blending has fallen



- In January 2018, EIA projected 2019 domestic ethanol use at **14.82 billion gallons (bg)**
- By August 2019, EIA had cut projected 2019 domestic use to **14.37 bg**, a difference of **450 mg**
- EIA "...assumes that growth in higher-level ethanol blends is limited in the near-term by recent **Small Refinery Exemptions** that **reduced volumes of renewable fuel required under the RFS...**"

Minnesota Dept. of Commerce data show E15 sales fell as RIN prices plunged

- E15 sales between December 2018 and May 2019 were **down 13%** compared to the same period a year earlier. RIN prices dropped 67% in the same period.

Corn Use for Ethanol is Down

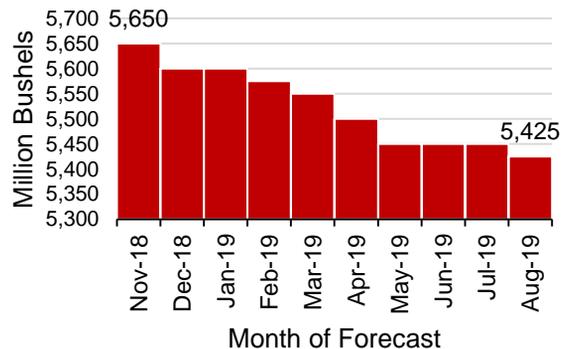
In the wake of 2016 and 2017 SREs being announced in 2018, the USDA has continually reduced its estimate of the amount of corn used by ethanol plants, as more plants announce they are idling production.

USDA has reduced its estimate of corn use for ethanol in the 2018/19 marketing year by **225 million bushels**—roughly equivalent to the entire Michigan corn crop.

Corn prices have **fallen 48 cents per bushel**—or 12 percent—since EPA announced 31 more SREs on August 9.

Corn demand has fallen

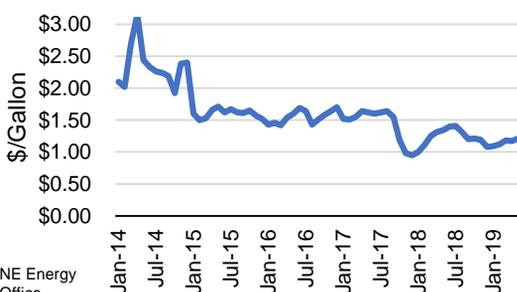
USDA Estimate of Corn Use for Ethanol in 2018/19 Marketing Year



USDA

Ethanol prices have fallen

Fuel Ethanol Price, Omaha Rack



NE Energy Office

Ethanol Prices are Down

Demand has two components—quantity and price—and SREs affected both.

In the wake of massive SREs in early 2018, ethanol prices plummeted in an attempt to buy back demand and maintain as much market share as possible.

In the absence of SREs, ethanol prices would have been higher by an average of **24 cents/gallon** in 2018. This cut industry revenues by **\$3.9 billion**.

Ethanol Plants are Closing

As ethanol demand has softened, prices have fallen and profit margins have turned negative.

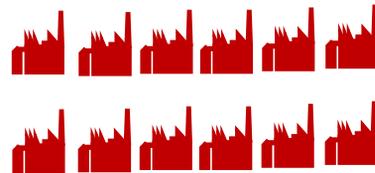
As a result, plants have been forced to idle or shut down permanently. Since the first quarter of 2018—when EPA began massively expand SREs—at least **15 ethanol plants have idled production or permanently closed.**

Each plant directly employs 40-50 workers and supports hundreds more indirect jobs. More than **2,500 jobs** have been by recent closures.

Plants are closing and jobs are being lost

12

plants
have
idled



3

Plants permanently
closed



Demand Destruction is Taking a Toll on Ethanol Producers

Recent financial filings and earnings calls have detailed the demand destruction and economic hardship caused by SREs.

*“The EPA has granted over 2.6 billion gallons of small refinery exemptions over the last two years to the oil industry, approving all 54 requests in that timeframe, which is unprecedented. **Abuse of the RFS has dampened demand for our product.**” — Pacific Ethanol CEO Neil Koehler*

*“Small refinery exemptions issued by the EPA have absolutely hurt this industry as domestic blending is lower than last year. **While the EPA says blending is not being impacted, they are dead wrong.**” — Green Plains Renewable Energy CEO Todd Becker*

*“With negative margins in the industry persisting, you’re starting to see smaller ethanol refineries shut down now. The small refinery exemptions are out there—**that’s a negative for the industry here.**” — Ray Young, ADM*

*“Crush spreads have also been affected by low RIN prices, which we believe is **a result of the EPA issuing hardship waivers** to a significant amount of refineries causing a requirement for less RINs overall.” — Executive Chairman Stuart Rose, REX American Resources Corp.*

*“The federal government is sitting at **a decision point about the small refinery exemptions...** If we just enforced federal law the supply/demand of ethanol will dramatically improve, resulting in a significant improvement in margins for the ethanol industry.” — Aemetis CEO Eric McAfee*

*“...we continue to see very tight margins. The industry has become dependent on continued export demand to offset the **EPA induced shift in demand due to small refinery waivers.**” — SIRE CEO Mike Jerke*

*“Most importantly for ethanol in the near term, EPA continues to grant extensive small refinery exemptions. This **demand impact is immediate** and demonstrates the ongoing support of the current administration for the fossil fuel industry and continuing hostility towards the ethanol industry.” — Lincolnway Energy*

*“If SRE waivers continue to be granted and ethanol supplies remain greater than ethanol demand, it could **negatively impact ethanol prices** and could **negatively impact our profitability** for the remaining quarters of 2019 and beyond.” — Golden Grain Energy*

*“Increased waivers of small refiner RVOs by the US EPA, as well as uncertainty regarding the potential RFS reset, will **contribute to the projected tight margins.**” — Granite Falls Energy*

*“Management attributes this decrease in ethanol prices with decreased ethanol demand **due to small refinery exemptions from the RFS** issued by the EPA during 2018 and 2019.” — Homeland Energy Solutions*

*“The practice of granting RFS waivers has continued into our 2019 fiscal year which has continued to **negatively impact ethanol demand.** Management expects this negative impact to continue so long as the EPA issues these small refinery exemptions from the RFS.” — Red Trail Energy*