



January 7, 2013

The Honorable Gina McCarthy, Administrator
U.S. Environmental Protection Agency
Mailcode: 2822T
1200 Pennsylvania Ave., NW
Washington, D.C. 20460

Docket ID: EPA—HQ—OAR—2013—0479

RE: 2014 Standards for the Renewable Fuel Standard Program

Dear Administrator McCarthy:

On behalf of the family farmer and rancher members of National Farmers Union (NFU), thank you for accepting comments on the 2014 standards for the Renewable Fuel Standard (RFS) program. NFU is a general farm organization that represents 200,000 farmer, rancher and rural resident families in all 50 U.S. states.

Renewable fuels support thousands of jobs in rural America and increase farm income. The first generation of renewable fuels has contributed significantly to the economic, social and environmental health of rural areas. The advanced biofuels sector has the same potential of revitalizing rural economies and creating new, good-paying jobs for young people in rural areas. NFU strongly supports the RFS because it is a principal driver of the renewable fuels industry by requiring the oil industry to offer consumers the choice of using renewable fuels.

NFU opposes the Environmental Protection Agency's (EPA) proposed reduction in the 2014 biofuels targets. This the first time in the history of the program that the numbers have been reduced, and the overall volumes are proposed to be cut by a dramatic 16 percent. This proposal seems to wrongly suggest that renewable fuels are somehow inferior to both imported oil from the Middle East and to oil derived from tar sands. Equally disappointing is that EPA cited the "blend wall" as a reason to reduce the required applicable volumes for cellulosic, advanced, and total renewable fuels.

The RFS targets were designed to incent production by category to meet or exceed the stated amount. In no case should they be set at rates lower than possible production levels. Accordingly, NFU supports

EPA's proposed reduction in the cellulosic biofuel targets to 30 million gallons since that sector is developing more slowly than originally anticipated. Importantly, however, it is developing. The bio-



UNITED TO GROW FAMILY AGRICULTURE

based diesel target should be set at a minimum of 1.7 billion gallons because that, in fact, is what will be produced this year. The conventional biofuel target should remain at the statutorily prescribed level of 14.4 billion gallons since it is quite clear that the industry is fully prepared to, once again, meet that level. Finally, the total renewable fuel target should be set at no less than 16.7 billion gallons, which is necessary to send a clear signal to the market.

NFU has long been a strong supporter of renewable fuels. Until recently, the oil industry has held a monopoly over our nation's transportation fuel supply. However, the recent growth of the renewable fuels industry, largely thanks to the RFS, has given consumers a new option at the pump. Given a choice, NFU believes consumers will prefer to purchase less expensive, cleaner-burning renewable fuel.

Background

Initially passed in the Energy Policy Act of 2005 (EPAct), the RFS was updated by the Energy Independence and Security Act of 2007. The RFS calls for America's transportation sector to consume 36 billion gallons of renewable fuel by the year 2022. The goal of the program is to lay "the foundation for achieving significant reductions of greenhouse gas emissions from the use of renewable fuels, for reducing imported petroleum, and encouraging the development and expansion of our nation's renewable fuels sector."¹

Each year, EPA is required to publish the required applicable volumes for each of the four types of biofuel (cellulosic biofuel, biomass-based diesel, advanced biofuel, and total renewable fuel). Although the RFS statute requires specific targets for each year of the 15-year-long program, it also provides EPA with significant flexibility to respond to unforeseen market conditions. Specifically, there are two provisions within the statute that provide EPA with flexibility.

The first is section 211(o)(7)(D) of the Clean Air Act. This provision pertains to production of cellulosic biofuel. EPA may "waive" the cellulosic biofuel target if production is anticipated to be lower than that required by the statute. If this occurs, EPA can then reduce the advanced biofuel and total renewable fuel targets by the same (or lesser) value.

The second provision is covered under section 211(o)(7)(A) of the Clean Air Act. This gives EPA the authority to waive requirements of the RFS if either of two criteria is met:

- 1) "Severe" harm to the economy or environment could result; and/or
- 2) There is inadequate domestic supply of renewable fuel

Neither of these criteria has been met. Therefore, NFU believes the only reasonable available adjustment that EPA can make is to the cellulosic ethanol category because in this case, and in this case only, "production is anticipated to be lower than that required by the statute."

¹ "Renewable Fuel Standard". Environmental Protection Agency. <http://www.epa.gov/otaq/fuels/renewablefuels/>



UNITED TO GROW FAMILY AGRICULTURE

Blend Wall

EPA's decision to reduce annual percentage standards based on the lack of infrastructure to distribute renewable fuel is not supported by either the letter or the intent of the statute. The so-called "blend wall" refers to the point at which renewable fuel has saturated the market and existing infrastructure cannot handle increased supplies. Currently, ethanol comprises roughly 10 percent of our nation's fuel supply. However, the "blend wall" is a creation of the oil industry in order to protect its market share. The oil industry has concluded that renewable fuel poses a threat to their product demand and has consequentially resisted investing in new infrastructure. The "blend wall" is not a legally valid reason for reducing the 2014 RFS targets because it does not fit into either of the two "waiver" provisions earlier mentioned.

There are straight-forward solutions to move past the "blend wall": widespread product availability of E15 and E85 would effectively penetrate the "blend wall". The oil industry, however, is deliberately erecting barriers to the use of both E15 and E85. The RFS was specifically designed to put economic pressure on the oil industry in order to provide more access for renewable fuels in the marketplace.

Renewable Identification Numbers (RINs) are credits that are traded between oil companies, and help the oil industry comply with the statute. Oil companies are able to carry over RINs from one year to the next in order for compliance to be easier. Unfortunately, EPA's proposal calls for a "buffer" of excess RINs. Given the fact that RIN prices have been steadily declining, this proposal flies in the face of the RFS intent of forcing oil companies to blend more biofuels, not create a bloated RIN bank.

Rather than scale back the RFS, more should be done to expand renewable fuel infrastructure. We should also increase the number of flex-fuel vehicles (FFVs) in the marketplace. FFVs are capable of handling higher levels of ethanol blends such as E15 and E85. In addition, E15 is now certified for use by EPA in model year 2001 vehicles and newer. These vehicles constitute around 75 percent of the miles driven in the U.S. today. In sum, more FFVs, more E15 and E85 availability, and the economic pressure applied through RIN use can and should all be used to penetrate the blend wall.

Based on the recent past, it is clear that the oil industry will continue fighting against these solutions. The oil industry is simply not interested in expanding the availability of renewable fuel. EPA should not accept the oil industry's specious claims regarding the "blend wall". After all, the RFS was never intended to be convenient for oil companies. It was intended to reduce our dependence on foreign oil, reduce emissions, and give consumers a choice at the pump.

Farm Income and the Rural Economy

EPA's proposal would reduce farm income and damage the rural economy. Since the RFS was enacted, ethanol industry jobs have increased 60 percent, and currently constitute 383,260 jobs nationwide².

² Urbanchuk (2008), Urbanchuk (2013). Includes direct, indirect and induced jobs.

Jobs will undoubtedly be lost and production facilities will shut down if EPA decreases the 2014 biofuels targets. For example, the biodiesel industry is set to produce at least 1.7 billion gallons in 2013. However, because EPA proposes to reduce the bio-based diesel target to 1.28 billion gallons for 2014, the industry is projected to lose 400 million gallons, or 25 percent of production. According to the National Biodiesel Board, that reduction would cost nearly 8,000 jobs.

Production costs for farmers are at an all-time high, and crop prices are now substantially depressed. The U.S. Department of Agriculture (USDA) estimates that it cost \$655 per acre to plant corn in 2012, resulting in an average break-even price for corn of \$4.25. Current prices are below this threshold and the trends project even lower prices.

EPA's proposal has already put downward pressure on corn prices because of reduced demand. This price is likely to continue downward since USDA estimates that farmers have harvested the biggest corn crop in history in 2013. Basic economics dictates that the increased corn supply and decreased demand will further reduce prices. Eventually, increased production costs and lower corn prices will have a dramatic effect on farm income and have a negative economic impact on rural America.

Impact on the Advanced Biofuels Sector

EPA's proposal would strand billions of dollars of investment in the advanced biofuels industry. It would also increase risk and discourage investment in new technologies and production facilities. In 2013, the industry began producing commercial quantities of cellulosic biofuel at two different facilities. These facilities are now producing the world's lowest carbon fuels. There are six additional commercial-scale cellulosic facilities under construction around the country that are expected to go online in 2014. Unfortunately, billions of dollars of investment are on the line, and because of EPA's proposal investors are beginning to look toward other countries with more stable policy environments.

The advanced biofuels industry has made tremendous strides in moving toward commercialization. The main argument against cellulosic biofuel is that it is too expensive to produce. However, production costs are falling and those costs will continue to fall as more facilities open and the industry matures. According to a Bloomberg New Energy Finance study, enzyme technology has also vastly improved which is driving down costs.³ It is therefore crucial that EPA not create an unfavorable policy environment for advanced biofuel development.

This nascent but growing industry promises to create thousands of jobs in rural America. It will also create economic development opportunities and increased investment in rural economies. Farmers understand the importance of this industry to their bottom lines. In states like Iowa and Kansas, farmers will be selling corn stover to cellulosic ethanol facilities. At a time when input costs are at an all-time high and farmers' profits are squeezed, cellulosic biofuel facilities provide an additional market opportunity for these producers.

³ See <http://about.bnef.com/press-releases/cellulosic-ethanol-heads-for-cost-competitiveness-by-2016/>



UNITED TO GROW FAMILY AGRICULTURE

Environmental Impacts

If EPA's proposal is enacted, greenhouse gas (GHG) emissions from the transportation sector will increase. A recent study by Argonne National Laboratory found that corn ethanol reduces GHG emissions by 34 percent compared to gasoline.⁴ Cellulosic ethanol reduces GHG emissions by significantly more. Studies published in the Journal of Industrial Ecology found that cellulosic ethanol reduces GHG emissions by 87 percent.⁵ Thanks to new technologies and improved efficiencies, ethanol yields are increasing. Furthermore, the U.S. Department of Agriculture found that ethanol produces 1.9 to 2.3 units of energy for every unit used in its production. These numbers will increase as technology continues to develop. If EPA is serious about tackling climate change, it should not harm the principle federal policy that is already significantly reducing greenhouse gases in the transportation sector.

Reliance on Foreign Oil

Reducing the 2014 targets will also damage our nation's energy security. Unfortunately, a lot of the oil we import comes from volatile regions of the world. Purchasing foreign oil not only continues to fund undemocratic regimes, it also puts our troops in harm's way as they defend oil supply routes. The RFS is improving this situation. In 2005, the year the RFS was enacted, U.S. dependence on foreign oil stood at 60 percent. The success of the ethanol industry has helped to considerably reduce this number. Today, as ethanol has increased to comprise roughly 10 percent of our nation's fuel supply, foreign oil dependence stands at about 40 percent.⁶

Our nation's reliance on foreign oil is not only bad for energy security, it is also very costly to our nation's taxpayers. The U.S. government spends between \$27 billion and \$137 billion per year on military operations that protect oil supply routes.⁷ Instead of spending money putting America's troops in danger, we should invest that money here in the U.S. on domestically produced, clean-burning fuels.

Conclusion

EPA must increase the targets to the proposals already mentioned. Failure to increase the targets will delay the expansion of commercial-scale cellulosic biofuel facilities and damage the rural economy. The

⁴ Adam J. Liska, Haishun S. Yang, Virgil R. Bremer, Terry J. Klopfenstein, Daniel T. Walters, Galen E. Erickson, and Kenneth G. Cassman. Improvements in Life Cycle Energy Efficiency and Greenhouse Gas Emissions of Corn-Ethanol. 2008.

http://www.ethanol.org/pdf/contentmgmt/Improvements_in_Life_Cycle_Energy_Efficiency_and_Greenhouse_Gas_Emissions_of_CornEthanol.pdf

⁵ Reid Lifset. [http://onlinelibrary.wiley.com/journal/10.1111/\(ISSN\)1530-9290/homepage/custom_copy.htm](http://onlinelibrary.wiley.com/journal/10.1111/(ISSN)1530-9290/homepage/custom_copy.htm)

⁶ U.S. Energy Information Administration http://www.eia.gov/energy_in_brief/article/foreign_oil_dependence.cfm

⁷ Milton R. Copulos. "The Hidden Cost of Oil," and Adam J. Liska and Richard K. Perrin. "Securing Foreign Oil: A Case for Including Military Operations in the Climate Change Impact of Fuels." <http://ethanolrfa.org/pages/ethanol-facts-energy-security#sthash.8hTUMG1z.dpuf>



UNITED TO GROW FAMILY AGRICULTURE

White House has repeatedly stated its strong support for reducing greenhouse gas emissions and improving our nation's energy security. EPA's proposal will move away from achieving these goals. Over the past five years, the EPA has done a lot to try to build rapport with the agriculture community. The proposal to drastically reduce the RFS has already damaged this relationship.

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Roger Johnson", is written in a cursive style.

Roger Johnson
President