

National Conference on Ethanol Policy and Marketing
February 23, 1999
MGM Grand Hotel
Las Vegas, Nevada

Making Ethanol the Fuel of Choice in the New Millenium
Nebraska Governor Mike Johanns

Earlier this month, a leading auto expert on fuel cell vehicles, said, "METHANOL is the fuel of the future, capable of fulfilling the requirements for sustainable, environment-friendly mobility in the long term."

When I heard this, I could not believe it. Does this man know something we, as ethanol supporters, do not? Are we riding the wrong horse into the new millenium? Will big oil do to the ethanol industry what John D. Rockefeller did to Henry Ford, who believed his cars would be powered by ethanol? Perhaps that auto expert who predicted a victory for methanol-powered fuel cells should remember one man's sage advice, "We can predict everything except the future."

Do I know anything more about the future than that auto expert? Probably not, but I think as a native Midwesterner -- born on a dairy farm in Iowa, the nation's number two ethanol producer - and having spent the past 28 years in Nebraska, the nation's number three ethanol producer, I have a better feel for the tenacity of ethanol supporters. Midwesterners are passionate about ethanol - the oil of the Heartland.

On the campaign trail as I crisscrossed Nebraska, I saw what a homegrown industry that adds value to the state's crops can do for rural economies. Nebraska's ethanol industry has grown to the point where one of every seven bushels of corn is converted to ethanol. A significant portion of the state's grain sorghum crop is also used in the production of ethanol. Without the ethanol industry, the grain surpluses and low commodity prices we are experiencing today would be significantly worse.

This morning, I hope to challenge all of us to chart a course where ethanol is the fuel of the next millenium. How can we do this? First, we need to focus on near-term opportunities for growth:

* At the top of the list is helping -- not telling -- Californians with the very serious problems that have developed with MTBE contamination of their water. If I were in Governor Davis's position, the last thing I would want is someone telling me what to do. I would want a hand -- or many hands -- helping me find a solution. That is what Nebraska has been doing since this problem first surfaced: Being there as a friend offering help. Last year, the Nebraska Ethanol Board provided valuable assistance and research as California officials assessed the problem and potential solutions.

Many of you gathered here today undoubtedly have advocated a path for California officials to follow. Unfortunately, few in this room can agree on a course of action for California officials: Should remedies be sought at the state level, or at the federal level? Should all oxygen additives be removed from the state's fuels, or just one? Is the problem just leaking fuel tanks, or is there a more pervasive problem? As California officials seek a solution to the present problem, I hope they do not overlook the immense potential the state has for being a leader in renewable transportation fuels. State officials have estimated that replacing MTBE with ethanol would require more than 600 million gallons of ethanol each year.

* As you know, California's problem is not unique. Similar MTBE water contamination problems are being faced in Texas and in eight Northeastern states. I am pleased to note that here again, Nebraska is making a contribution to the solution. One of the nation's ethanol leaders, Todd Sneller of the Nebraska Ethanol Board, serves on the Environmental Protection Agency's Blue Ribbon Panel that was created to help governors in the Northeast come to grips with MTBE contamination problems. We should not overlook the fact that eight Northeastern states consume far more gasoline than California. If MTBE is replaced, that's at least another 600 million gallons of ethanol a year. This is another near-term opportunity and challenge for the nation's ethanol industry.

* Any growth in the nation's production of ethanol can go a long way to resolving the current glutted inventory of corn and low commodity prices. Every new plant that opens can use millions of

bushels of corn grown in the region. For example, Nebraska's seventh ethanol plant will be in production this fall. By the end of this year, Nebraska will be producing in excess of 300 million gallons of ethanol a year.

* Consumer acceptance is another area of near-term opportunity for increasing ethanol use. Last month, a survey by the American Lung Association found that Americans are willing to pay more for cleaner gasoline if it means cleaner air. Almost 70 percent of those who participated in the survey said they would pay up to five cents more a gallon for cleaner gasoline. And 91 percent in the survey said they would pay up to three cents more a gallon. At least on one level, Americans are saying, "tell me your gasoline is cleaner and better for the air and I will buy it, even if it costs a little bit more." Now, it is up to us to tell consumers that gasoline with ethanol is better for the environment and costs the same, or just a few cents more. We must build on our efforts to find greater consumer acceptance.

One of the easiest ways to increase ethanol use is to make consumers more aware of 85 percent ethanol -- E85. Remember, every gallon of E85 sold contains more than eight and a-half times the amount of ethanol in reformulated gasoline or ten percent blends. After years of hard work, the Big Three are now producing America's most popular cars, trucks and vans that can operate on any percentage of ethanol-blended fuel. And best of all, these models come at no extra cost to the buyer. The car and truck makers have delivered a golden opportunity for us. I've even heard that an announcement may be forthcoming from one of the Big Three that beginning in September an additional 250,000 E85 vehicles will begin rolling off the assembly line. Could anyone here predict that in just a few short years, the number of E85 vehicles traveling America's by-ways would leap from a few thousand to about a million? America's carmakers have taken these words to heart: "The best way to predict the future is to invent it." Working together, we have created and invented a future where E85 is the predominate alternate fuel. We have the opportunity to make our future a reality.

We must increase the availability of E85 at American's filling stations. The model cities effort in Minneapolis, Chicago and

Denver and the reorganization of the National Ethanol Vehicle Coalition will help maximize this opportunity.

* In the past few months, a new word has entered our vocabulary: OxyDiesel. This new fuel is a blend of 15 percent ethanol and diesel fuel. Because of the pioneering work done by Pure Energy, the state of Illinois and others, ethanol could soon be powering heavy-duty trucks and urban transit buses without modifying vehicle engines or adding to the diesel fuel's cost. This breakthrough means that if oxydiesel captures as much of the diesel market as the 10 percent blended fuel, more than 750 million gallons of ethanol will be needed to satisfy the diesel engine market.

These are the near-term opportunities I see for increasing ethanol's share of the nation's transportation fuels market. Achieving success in one or more of these near-term opportunities could easily create a market for more than three billion gallons of ethanol, doubling today's current production levels. Can we make the most of these opportunities? I resoundingly say, let's seize the opportunities. "The future belongs to those who dare."

Next, I want to outline several longer-term opportunities where ethanol could become an important player:

* A speech by an executive of one of the world's largest oil companies crossed my desk the other day. Mike Bowlin, the Chief Executive Officer of ARCO, said the world is entering "the last days of the age of oil." Furthermore, he said, "[g]lobal demand for clean energy – natural gas, renewables, electricity and new energy technologies – will grow faster than overall demand for energy, including oil and coal." Bowlin added, "Ten or fifteen years from now the market share for oil will diminish, as the demand for other forms of energy grows." He challenged the oil industry to, "embrace the future and recognize the growing demand for a wide array of fuels; or ignore reality and slowly – but surely – be left behind." Bowlin now joins executives at Royal Dutch Shell and BP Amoco in predicting the end of oil's dominance in energy markets. In my view, here is yet another opportunity. I will ask the Governors' Ethanol Coalition to initiate discussions with these oil companies. If major oil companies see a growing role for renewables in the

world's energy future, we must involve them as partners in the continued expansion of ethanol production and use.

* Over the past several years, many of the governors in the Ethanol Coalition have seen the opportunities in developing international markets and foreign ethanol production. I want to single-out Wisconsin Governor Thompson for his determination in recruiting Canada and Mexico as new members of the Coalition. These nations, plus members Brazil and Sweden, will explore import and export opportunities, increase public awareness of ethanol's benefits and create an economic climate for ethanol's expanded use. As major cities in developing nations such as India, Thailand and China begin to address their air pollution problems, we in the Governors' Ethanol Coalition should help them.

* Most of you already know this: The decisions on the formula for cleaner-burning motor fuels Americans will be putting in their tanks in 2000 are being made now. As the Environmental Protection Agency develops the formula for what is called "Phase Two reformulated gasoline," we need to remain vigilant and continue actively participating in the process as we have done during the past year. What we seek is fuel flexibility that will allow a role for ethanol to be used to achieve the nation's clean air goals.

* Few would call the worldwide collapse of commodity prices and burgeoning surpluses an opportunity. Falling prices of oil and grains are causing economic pain for both grain growers and ethanol producers. The projections for the near-term look equally daunting. Yet it is during difficult economic times that many important gains are achieved. Hardship opportunities make us examine the fundamentals of production and business operations in new and different ways. Many times, efficiencies can be realized. Such an example is the High Plains ethanol plant in York, Nebraska. Over the past two years, the firm has found new ways of operating that have reduced wastewater and related costs, increased plant capacity without expansion costs and is now exploring how fuel cells can cut energy costs and use.

* The last of the long-term opportunities is the most important: Continue to reduce ethanol production costs through genetic engineering, feedstock diversity and technology improvements. For the past several years, energy visionaries have held out the promise

of energy self-sufficiency to even the most resource-impo­verished nations. Though research in this area continues, the march of progress can be painstakingly slow.

* The vision of cheap, inexhaustible biofuels must be contrasted with an equally powerful reality: Billions of dollars are being gambled in a search for oil around the Caspian Sea. To date, oil companies have spent billions even though getting the oil out of this land-locked region may be politically and economically impossible. Hardly a day passes without some major story from these former Soviet states. What the press has rarely reported is the increasing number of dry holes oil companies are finding. Just a small portion of the billions of dollars being gambled in the Caspian could be spent to further ethanol research. That's why we need to encourage cooperative ethanol research and production ventures with forward-thinking multi-national oil companies.

As I conclude my remarks today, I want to challenge all of us to do more. This morning I outlined nearly a half dozen opportunities on the horizon. Making just one of those options a reality could increase ethanol production significantly. Before you leave Las Vegas, I want to ask you to pick an opportunity, where you can make a difference:

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California Fuel Solutions

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The Northeastern States' Fuel Solutions

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Increased Consumer Use

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Increased E85 Use

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Bringing OxyDiesel to Market

And then doing your best to make it happen. As one visionary said, "The future is not a result of choices among alternative paths

offered by the present, but a place that is created – created first in the mind and will, created next in activity. The future is not some place we are going to, but one we are creating. The paths are not to be found, but made?" If we want ethanol to be the fuel of choice in the next millenium, we need to make the opportunities I have outlined this morning a reality.