

"The Future is Ours"

Governor and Governors' Ethanol Coalition Chair Mike Johanns

American Coalition for Ethanol

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This morning, I want to talk about ethanol's future. I believe, to a great extent, THE FUTURE IS OURS.

Since the Coalition was formed ten years ago, it has been a growing and important presence on the energy stage. It has been an honor for me to lead the Coalition this year. The organization is a fine testament to the governors who preceded me in the chairmanship. To them, we all owe a great debt of gratitude.

Now, we are 26 members strong. Our membership stretches from the Atlantic to the Pacific and from our northern to our southern borders, and includes international members from Brazil, Canada, Mexico and Sweden.

Why do I think the future of ethanol is in our hands?

Quite simply, the Coalition and its friends have acquired sufficient political strength to offset the historic and overwhelming influence of Big Oil. At nearly every turn, and on nearly every issue, ethanol is winning. You can feel the momentum building.

I am not saying those who oppose the use of ethanol have surrendered. They haven't, and they won't. But the skirmishes are becoming easier. The tasks have become less arduous.

If you pair ethanol's momentum with President Bush's Energy Plan now under consideration, I see a series of opportunities for ethanol in America's future.

Before I discuss those opportunities, let's look at the "big energy picture." Nearly everyone agrees the nation requires a new direction to meet our present and future energy needs.

Last month, even Federal Reserve Board Chairman Alan Greenspan offered his perspective on the impact of energy on the nation's economy – in Greenspeak, of course.

Here's a little of what he said:

* "Of the number of factors that have contributed to the slowing of economic growth in the United States over the past few quarters, the one that has received less attention than it clearly merits is the rise in energy prices. In what may or may not be coincidence, at least the last three recession periods in the United States...were preceded by spikes in the price of oil."

On transportation fuel issues, Chairman Greenspan said:

* "...crude oil supplies are never fully secure because of the unpredictability of events in the Middle East," and
* "...the ability to move gasoline from areas of surplus to areas of deficit is far more limited than it was a decade ago..."

Lastly, Chairman Greenspan offered this guidance to those crafting the nation's energy future:

* "...energy issues present policymakers ... with difficult decisions and tradeoffs to make outside the market process; as always national security and environmental concerns need to be addressed in setting policy."

Now, just what did he say?

- * The nation has energy problems across the board.
- * They are both short-term and long-term and affect supply and demand.
- * Solving any of these issues will not be easy. These issues are very complicated. Achieving consensus will be very difficult.
- * On transportation fuels, the Chairman noted we are in a no-win position: America is reliant on unstable supplies from volatile places at unpredictable prices for a product essential to our economy.

That's a good overview of where the nation stands. But where are ethanol's opportunities? I believe they clearly fall into two main areas:

- * The first is near-term opportunities replete with clear and present dangers like three alligators in a pool.

- * The second is longer-term opportunities.

Let's talk about those alligators first. Nipping at our heels to endangering our lives, these alligators present a range of risks that can't be ignored.

The first alligator is the fallout from the long-awaited decision on California's request for a waiver on the use of oxygen additives in reformulated gasoline. While so many were exulting over the denial issued by EPA Administrator Whitman, they should have remembered the adage "Be careful what you wish for, because you might get it."

After a two-year skirmish over this contentious issue, we've only moved to a different playing field. The denial of the waiver did not resolve oxygenate use as most presumed it would.

We have now learned:

- * California may consider extending the deadline for removal of MTBE from its gasoline.

- * California may turn to the courts to force EPA to reverse the denial.

- * A unified California congressional delegation is seeking legislation to exempt the state from the nation's transportation fuel rules entirely.

- * The federal Environmental Protection Agency has hinted it may abandon its support for oxygen additives in clean-burning gasoline.

None of these options brings the stability and predictability the ethanol industry has sought for so long. In fact, it drives potential investors to reach for antacid tablets – or worse.

No one can predict with certainty the outcome of the issues surrounding the California waiver. I certainly won't try. What I hope we in the ethanol industry convey to our friends in the Golden State is that we are prepared to help them – as we have in the past.

I truly wish state policymakers would follow the approach outlined in a report issued by the California Energy Commission in March on how the state could develop a substantial in-state ethanol industry. The authors estimated at least 200 million gallons of ethanol a year could be produced in California from just rice straw and wood and agricultural waste. The use of more conventional feedstocks to produce ethanol would result in hundreds of millions of gallons more a year.

Soon two million dollars in grants from California's Department of Food and Agriculture will be available for projects that use rice straw in biomass projects such as ethanol production. A recent news item confirmed that the proposed rice straw-to-ethanol plant in the heart of California rice country remains on track to open in 2003.

Ever so slowly, policymakers in the Golden State are edging closer to expanding their fledgling ethanol industry. From this governor's perspective, it's a little frustrating to see one arm of government embracing ethanol while another arm of the same government pushes it away. Nothing would give me greater pleasure than to welcome California into the upper ranks of the nation's ethanol-producing states.

The last thing the ethanol industry needs at this juncture is for any "worst-case" scenario to develop as ethanol replaces MTBE in California gasoline. While California has become ground zero for the nation's electricity problems, no one wants that to happen to ethanol. Nor do we want projections of gasoline price spikes of up to 50 cents a gallon to materialize. To be successful in the long run, the ethanol industry must prove it can be a reliable supplier of fuel at a reasonable price. We must in real life "prove the truthfulness" of all those studies that have been produced over the past months - that reformulated gasoline with ethanol is the cheapest - not the most expensive - solution.

We need to demonstrate that ethanol producers can meet California's needs without price spikes.

Just last week, Governor Davis said the state was on the way to "energy self-sufficiency" as he opened the third electric power plant in three weeks. I wish California policymakers would equally

embrace the Midwestern strategy of "energy self-sufficiency" that uses home-grown ethanol to replace imported petroleum and MTBE.

Despite being the nation's number three oil-producing state and having several in-state refineries, California continues to import up to 10 percent of its gasoline to meet its needs. In-state ethanol production could significantly close that refinery gap. Nothing would do the ethanol industry more good than if California became a major ethanol producer.

The second alligator is on the East Coast. There we have seen the same and yet different issues in the past several months:

- * An estimated two hundred thousand MTBE spills in New York state alone.
- * A Long Island water supplier suing ExxonMobil for 2.5 billion dollars because of MTBE pollution in water supplies.
- * New York, Connecticut and New Hampshire moving to eliminate MTBE use in the state beginning in 2003.
- * New York following the California initiative of seeking an oxygen waiver, and
- * New Hampshire deciding to opt out of the reformulated gasoline program in 2004.

This is the situation we find in the Northeast today. However, despite the appearance of mimicking California, the situation is very different:

- * There are eight states, not one.
- * Substantially more MTBE is used in gasoline in the region than in California.
- * MTBE pollution may be much higher than in California.
- * There may be fewer agricultural options for the indigenous production of ethanol because of the urban nature of the region.
- * Municipal solid waste and other atypical feedstocks would be the likely sources for ethanol production within the region.
- * Currently, no ethanol is produced in the region, and only one 9.5 million gallon ethanol plant is under consideration in New York.
- * The phase-out of MTBE is paralleling California's aggressive schedule.

* A working relationship exists with the governors of ethanol-producing states and governors in New England.

The issues in the Northeast have been overshadowed by the protracted attempt by California to receive a waiver. Yet, the stakes in the region are considerably higher, in part, because the volume of ethanol the region would need is considerably higher than California's.

I believe it is imperative the Coalition and NESCAUM members pursue a joint course of action that could, if properly fashioned, result in a national resolution of the nation's clean air and clean fuel issues. If California wants to be treated as a separate case unto itself we should be willing to consider the issue within the context of a national solution.

I will propose that the Coalition's next meeting be held in conjunction with a gathering of Northeastern governors so that these matters can be pursued.

The third alligator in the pool was vividly illustrated in a recent article in the Chicago Tribune. Under the cover of objective journalism, two Tribune reporters continued a 20-year tradition by this publication of "believing the worst" about ethanol's benefits and repeating inaccuracies and untrue statements. Sadly, this Midwestern publication is not alone. The editorial bias of the coastal media has become obvious as ethanol's reach has extended beyond the traditional producing areas in the Heartland. One need only pickup a Wall Street Journal to read similar views. Candidly, it is difficult to counter the hundreds of media professionals seemingly working on behalf of the oil industry.

While ethanol advocates are prevailing in the marketplace and political arenas, we are frequently losing the media battle. In that arena, we must redouble our fact-telling efforts as ethanol moves into new markets. For too long, we have allowed a few in the petroleum industry to define the arguments to their advantage. That must stop.

Now I want to briefly touch on several long-term opportunities:

* At last count, there are 22 different bills in Congress dealing with issues relating to the nation's transportation fuel supplies. Some are exceedingly narrow and regional, while others strive for bold national solutions. While my Congressional handicapping talents are minimal, I believe only a cooperative approach that crafts a national solution will result in legislative success.

* To accomplish this, we must confront several issues realistically and forthrightly:

* Rightly or wrongly, ethanol has become synonymous with "boutique fuels." We should make certain any national solution reduces the number of transportation fuel formulas and eases the burden on refiners.

* If renewable content becomes a required fuel component, we must address the issue of a perceived mandate – what the oil industry calls an "ethanol mandate." I support national legislation that would require an increasing amount of renewable fuels to be used in gasoline. I did the same at the state level in Nebraska. I truly understand some consumers' desire "not to be told" what to buy at the pump, although for decades – first by industry, then by government – our pump choices have been limited and restricted. A national renewable fuel standard is not any different from previous mandates that added lead, then took it out, added MTBE, then took it out, or added oxygen.

* To those who continue to oppose required fuel additives, my response to them is clear: For decades, big oil "mandated" what could be put in your car. Those "mandates" gave Americans a lethal combination of lead, air pollution and undrinkable water. Over time, government has banned lead, required cleaner burning gasoline and now is moving to eliminate water-polluting MTBE. Government has acted in the past and will act in the future when our citizens' health is at risk. If we as a nation have an opportunity to replace a very small portion of lethal and cancer-causing chemicals in gasoline with clean, renewable ethanol, we must do so.

* Where possible, we must search for a middle ground to the conflict of states' rights versus national priorities. For example, if we allow states to determine the type of gasoline they will use to reduce air pollution, are we adding to the national problem of too many boutique fuels and increasing the likelihood of consumer price spikes?

* We should broaden our efforts to secure the support of environmental organizations. I can't tell you the pain it gives me to see this headline in the Des Moines Register: "Many green groups see harm in ethanol." We know ethanol is good for the environment, but we still haven't convinced many in the environmental community that it is vastly superior to what Big Oil can produce. We know that's wrong, but how do we convince them?

As partners in developing a National Energy Plan, we have a compelling story to tell, and we need to get it out. During the discussion of the President's National Energy Plan, we were frequently reminded that no new oil refinery had been built in 25 years. But we failed to let Americans know the ethanol industry has built dozens of refineries in that same time period. This year, the combined output of those refineries will top 2 billion gallons.

One of the ironies of the effort to increase the nation's domestic oil and natural gas supplies as proposed in the National Energy Plan is a lack of experienced workers. Several weeks ago, we learned the oil industry is experiencing crippling shortages of geologists and chemical engineers. And even roustabouts are scarce. Industry insiders now admit even current natural gas and oil projects are being delayed because of labor shortages. Proposed projects face even longer delays.

Here's a news flash for energy reporters: There is no, I repeat no, labor shortage in ethanol production fields across the nation. Never has been. Rural America can fill all the ethanol jobs the industry can produce.

Ethanol producers don't need to drill in environmentally sensitive areas or national parks. We're America's clean, green energy solution.

In closing, I want to remind all of us, the future can be ours, just look out for the alligators, and keep your eyes on the long-term goal.

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