

As Prepared for Delivery

4th Annual Iowa Renewable Fuels Association Conference

Des Moines, IA

January 25, 2010

Introduction

Good morning everyone. Greetings from the Department of Agriculture. Thank you for the introduction and opportunity to be here with you at the fourth annual conference.

Thank you Lucy Norton for inviting me.

It is a privilege to be here - in a state that leads the country in wind energy and that is on the forefront of ethanol and biodiesel production. I hope to learn a lot from this conference that I can bring back to DC. I was actually talking about Iowa just this past week at an event with Secretary Vilsack and Department of Navy Secretary Mabus when we announced our Department's coordination on alternative energy. I was remarking that at USDA, we are so fortunate to have the knowledge from the Secretary's experiences working with all of you in Iowa. From day one he has made development of renewable energy a top priority for the Department and a critical component of our efforts to rebuild and revitalize rural America.

There are historic opportunities. Whether because of broadband, interest in regional food systems, or community development, the Obama Administration has made historic investments in rural America. In 2009, Rural Development provided more than 3,000 loans and grants creating or saving 87,668 jobs and assisted over 20,000 rural businesses.

And to help rural Americans weather the impact of the current economy, we provided:

- More than \$300 million in loans for 834 community facilities projects.
- Announced both NOFAs for our \$2.5 billion in funds to support the expansion of broadband; and spent
- \$15 million in Rural Business Enterprise Grants (RBEG) for small and emerging private business enterprises.

We also have about \$1.5 billion for Business and Industry Loan Guarantees under the Recovery Act, which only lasts until September 2010. And if we don't spend it we lose it. Additionally, we have about \$770 million for Community Facilities and about a billion left for Single Family Housing Direct loans and Water and Waste.

Regarding energy, the 2008 Farm Bill greatly expanded our ability to help emerging renewable energy technologies become commercially viable. And once commercially viable, accelerate the build out of the advanced biofuels industry. We have \$915 million available over the next four years. And much of the success of our programs so far has been because of the Midwest and Iowa specifically. What I'd like to talk about today is how I believe the Midwest can lead the country in renewable energy while at the same time, play a strategic role in ensuring our competitiveness and prosperity in the years to come.

We know right now the rural economy is suffering. Lenders are reluctant to continue with existing credits, much less extend new credits. Being from South Dakota, I've seen first-hand what it's like to have the large business or plant in your town shut its doors and friends and family out of work. Manufacturing has been hit hard, but it doesn't mean it can't come back again. What we've learned is - we can't rely on just one industry or one pathway to energy. Manufacturing and a green economy can and should go hand in hand. Taking what was learned from the ethanol industry is a good start. Iowa foresaw this. Its Rural Development Offices are leading the country in renewable energy loans and grants because demand is there. I saw in the Des Moines Register Friday that the Energy Information Administration is predicting growth for 2010 and gasoline consumption and demand for biofuels is expected to grow as the economy continues to grow. They're predicting production for ethanol will grow from about 11 billion gallons to 12.95 billion gallons in 2010.

Ethanol

Over the 90's, I was Rural Development's South Dakota State Director. At that time we were successful in building the ethanol industry because we approached it strategically. Our ag producers knew how to efficiently produce corn, the technology for corn starch-based ethanol was there, and increased corn acreage could support greater ethanol output. This was a significant accomplishment and a compliment to our American farmers. The industry grew from meeting 1% of U.S. gasoline supply in 2000 to 7% in 2008.

We can do this again, and with other renewables, but we need to be smart about it. To date, we've had thousands of funded projects, but little effective integration of these efforts across government agencies and no real plan for achieving our target. When Congress passed the Energy Independence and Security Act of 2007, it established a significant challenge to produce 36 billion gallons of biofuels by 2022, to power cars, trucks, jets, ships and tractors. However, only 15 of the 36 billion gallons can come from corn ethanol.

This is a substantial challenge, but we can do it if the technology and lender confidence is there. Biofuel production is an evolutionary process. Like computer technology - the newest version is always ahead of us. Ten years ago, we couldn't buy Windows 7.0, the other versions had to come first. Second-generation biofuel technologies that turn crop residue like corn stover or energy crops like switchgrass into ethanol, and third-generation biofuel technologies that turn feedstocks into advanced biofuels – will need to become commercially viable. Our Research Education and Economics Service does the technology research and my agencies, in Rural Development, put the deals together.

Model

Our current model is oil – ship the oil from the Middle East, to the middle of the United States and use that oil to produce agricultural commodities. Well on my farm, we could grow 200 bushels of corn and produce about 540 gallons of ethanol. It would take no more than 40 gallons to produce the crops and we'd have about 500 gallons left over to distribute to plants and pump into cars. This is a comparison of two models. Secretary

Vilsack has been talking about economic opportunities within emerging local and regional food systems; In the Midwest - we can also talk about economic opportunities afforded by a regional energy system. The production and use of renewables on a regional basis makes the most economic sense and it's a historic economic opportunity for agricultural producers and rural America.

So how do we do this? By working back from our 36 billion gallon target, using a regional supply chain approach. We should focus on a diverse group of dedicated feedstocks. Our researchers have identified:

1. perennial grasses
2. energycane
3. biomass sorghum
4. oil seeds crops and algae
5. woody biomass

On the business side - by using similar models for how we developed the ethanol industry. The way we put capital and projects together for ethanol in the 90's, was by putting out proposals to the public, asking them to participate in the project – and asking for project membership fees. With those fees, we developed business plans and prospectuses to sell stock in the company. If there were enough people willing to invest, we were able to do the project. We could spread the investor risk and the credit risk, as widely as possible.

Public Buy-In

To encourage public support, cooperatives are a great business model. New Generation Cooperatives, unlike traditional cooperatives, are financed through the sale of delivery rights. Delivery rights represent a member's right to deliver a specific amount of commodities to the cooperative.

In Iowa, one of my staff members told me about a New Generation Cooperative for a producer-owned ethanol plant that is producing more than 30 million gallons a year. Within two months of formation, it had more than 400 residents invested and part of the member-owned company. The shareholders are area farmers and the largest suppliers of the corn processed each year in the facility. They're contractually obligated to not only give funds, but to deliver their products to the cooperative. The farmers are invested because they're getting their feed and their fuel from the cooperative. All of the corn that is processed is used in some capacity, whether it's liquid, wet and dry feed for livestock or alcohol for fuel; there's no waste. So whichever way you look at it, the key is to spread the investments widely, with lots of opportunities to limit risks.

Financing

To fund the new plants, my back of the envelop estimate is that current cost of new corn-based ethanol production is about \$2.50 per gallon. New generation plants will likely cost two to three times that. With this assumption, meeting our goal will cost about \$150 billion. About 1/3 of funding will need to come from well capitalized investors, and 2/3

from lenders. Actual gross cost to the federal government will be what is lost over the timeframe of the project.

At USDA, we are keenly aware of today's business environment and how sensitive lenders are to risk mitigation. And we are dedicated to addressing these issues and to get capital flowing again. We've been meeting with lenders, establishing new relationships and building on old ones. As we continue to invest in and develop advanced biofuels technologies; many will become eligible for more conventional forms of financing.

Policy

On the issue of policy uncertainty, whether or not we have cap-and-trade legislation, we must continue technology development and demonstrate to lenders the importance of transitioning to advanced biofuels. There will always be uncertainties. There will always be surprises. Neither markets nor technologies are static. But Congress clearly defined our mission in the 2008 Farm Bill, and we are fully committed to reaching our goal. Our job is to implement legislation. Our responsibility is to support the entrepreneurs that have the initiative and the drive, to go out there and compete in the marketplace to build a new energy future.

Conclusion

Looking ahead, I guarantee our Department will work to ensure that our programs are utilized and implemented as efficiently and effectively as possible, and that biofuels play a key role in providing home-grown energy options and jobs.

Please continue to see what opportunities there are in your communities. You are leaders in rural America and Secretary Vilsack and USDA needs leaders like you at all levels to step up and consider the contribution that you can make toward renewable energy. We must bring all interested parties to the table - investors, regulators and developers. This conference is just the type of collaboration we need. I hope the discussions and ideas coming out of it are made available to the public for consideration.

Thank you again for the opportunity to be here and I'd be happy to take any questions.