

“A Green Midwest, A Blue Midwest”
Globalization and the Midwest Conference 2009
Chicago Council on Global Affairs
Chicago, Illinois
November 9, 2009

Introduction

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

It was a privilege to hear from President Marshall Bouton this morning and John Austin, of Brookings. We need leaders like them and the Chicago Council on Global Affairs with the initiative to bring us together to explore the future energy industry. I'd like to thank Juliana Kerr, who I think's on maternity leave, for the invitation and help with planning and logistics.

This conference couldn't have come at a better time, especially with President Obama's recent announcement for smart grid investments, and his reinforcement for the work we all do. I'm the Under Secretary for Rural Development and we've actually been in the business of providing energy assistance to rural areas since the Rural Electrification Act of 1936. President Franklin Roosevelt understood the huge modernizing impact bringing electricity to the grid would make on the lives of rural Americans, many of whom live right around here. Well, that was a long time ago, and it's time we took another look at where our energy comes from. Like anything, with age, it requires maintenance and updates. It's time for a new major investment in the electrification of rural America.

Under the 2008 Farm Bill, part of my Agency's mission is to help emerging renewable energy technologies become commercially viable. And once commercial feasibility is demonstrated, to accelerate the build out of the advanced biofuels industries.

Technologies we fund range from biofuels to wind, solar, geothermal, hydro, ocean and methane digesters.

Midwest Focus

But today we're talking about the Midwest - this administration could probably talk about it for weeks. We've got a President from Illinois, a Secretary from Iowa, I'm from South Dakota and we've got staff from just about every state in every level and agency. And many who worked throughout the Midwest during the Obama campaign. We all had the hard-working culture drilled into us.

We know first-hand what it's like to have the large business or plant in your town shut down and friends and family out of work. Manufacturing has been hit hard, but that doesn't mean we can't bring it back again. One thing we've all learned - is that 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. We need continuous business creation and a variety of energy sources.

Diversify

Biofuels can and will play a strategic role in ensuring our competitiveness and prosperity in the years to come. Many states in the Midwest actually foresaw this, before other regions of the country.

In the Midwest ND, SD, MN, IA, MO, WI, IL and MI all have Renewable Energy requirements. Our state offices in Iowa and Nebraska have led the country in renewable energy loans and grants. And the reason they've been successful is because demand is there, from citizens to elected officials. About 65% of our 2009 Rural Energy for America Program Grants and 50% of funding went to the Midwest.

From Fiscal Year 2001 to 2008, we funded about 2,500 grants and loans nationwide, totaling over \$860 million for renewable energy and energy efficiency projects. More over \$200 million of the funding was investments in biofuels.

Ethanol

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

And we can do this again, and this time with advanced biofuels, but we need to be smart about it. Throughout the Department, we have never before seen levels of funding for new rural business ventures. We can't afford to let this opportunity pass us by.

When Congress passed the Energy Independence and Security Act of 2007, they laid out a significant challenge to produce 36 billion gallons of biofuels by 2022, to power cars, trucks, jets, ships and tractors. This is a substantial goal, but one that we can meet if the technology and lender confidence is there. Only 15 billion of the 36 billion gallons required can come from ethanol produced from grain. So, the rest will need to come from other sources. Second-generation biofuel technologies that turn crop residue such as corn stover or dedicated energy crops such as switchgrass into ethanol, and third-generation biofuel technologies that turn these feedstocks into advanced biofuels – will need to be commercially viable. Our Research Education and Economics Service is doing the technology research and Rural Development is doing the funding. On May 5, President Obama committed to the deployment of advanced biofuels when he directed Secretary Vilsack to make the renewable energy opportunities from the 2008 Farm Bill available within 30 days. We met this directive and our programs are underway. We have \$915 million available - over five years.

Advanced Biofuels

But to meet the Energy Independence and Security Act of 2007's target by 2022, we need to change the way we do business. We need to accelerate the establishment of a

sustainable commercial biofuels industry. It's a historic economic opportunity that; we can't afford to miss, for agricultural producers and for rural America.

Today, the current model is oil – ship the oil from the Middle East, to the middle of the United States and use that oil to produce agriculture commodities. Well as I mentioned, I'm from South Dakota, and on my farm we could grow 200 bushels of corn and produce about 540 gallons of ethanol from it. It would take no more than 40 gallons to produce and we'd have about 500 gallons left over to distribute to plants and pump into cars.

This is a comparison of two models. People talk of the local foods movement; well in the Midwest I'm advocating for the local energy movement. I believe, everything we invest in now, should have a green element to it. Every step of production can be handled on a farm. For example, manure from livestock can be stored and converted into biogas and the result is clean renewable energy, which can then provide electricity and heat to keep our farms and local communities running. There are even benefits in post-energy production. Product is leftover, both liquid and solid and if it's not being used, then it's just a wasted resource. Nutrients that are beneficial to crop growth can be extracted for organic fertilizer, or applied back to the fields. The solid remnants could even be transformed into fiber and replace fibers produced from fossil fuel.

I'm making an argument for the Midwest, that's a more local and I believe, logical approach toward the production of energy. We can make a huge increase in the amount of energy created locally. Because of our geography, what we have to offer in the

Midwest can and should become a green region, serving the rest of the country with green fuel. It's an economy from the Midwest looking out, which makes more sense than a global view looking in. I'm talking making the Midwest an export country

Cooperatives

Now how can this be done? I think a good idea is a cooperative approach. It's a non-traditional business model for renewable energy, but it can be one of the most effective. It's a way of addressing farmers' concerns and to enhance the economic feasibility of projects. Cooperatives offer:

- Improved negotiation strength,
- Technical, installation and operation assistance,
- Management and marketing services; as well as
- Financial guidance.

An existing farm cooperative could provide services to ease the adoption of technology or similarly-situated farmers could form a separate entity to address their specific needs. Often the decision to install a new technology is dependent upon local policies, utilities and regulations. Electricity rates, access to grants and financing are also factors.

However, federal law under the Federal Energy Regulatory Commission requires that utilities buy energy from their communities if possible at the avoided cost of going to a larger company. Eventually utilities will be mandated to buy locally from renewables.

Carbon credits can be sold for the reduction of emissions and split up or negotiated with equitable distribution throughout the participating farms.

Lenders

We know the rural economy is suffering. Lenders are reluctant to continue with existing credits, much less extend new credits. We are keenly aware of how sensitive they are to risk mitigation. Well, we are dedicated to addressing these issues and to grow lending again. If we invest in and develop advanced biofuels technologies; many will become eligible for more conventional forms of financing and we will have fully succeeded when our assistance is no longer needed.

Of course, there is a degree of policy uncertainty that is affecting investment decisions, but whether we have cap-and-trade or carbon credits, we must continue technology development and demonstrate to lenders the importance of transitioning to advanced biofuels. These technologies will pay dividends for decades to come. 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 reach our goal.

Conclusion

As climate legislation is developed, our department will work to ensure that our programs are considered, their benefits for rural America remain and that biofuels play a key role in providing homegrown energy options and jobs.

We'll use our funds to support businesses, but we need you to see what opportunities there are in your communities. You are leaders and I challenge you to consider the role that you can play. Please get to know the Rural Development Business program directors and Energy coordinators in your states. 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.

I encourage you to visit our Web site (rurdev.usda.gov) to see what we're doing.

Thank you again for having me. I'd be happy to take any questions you may have.