Congress of the United States
House of Representatives
Washington, DC 20515

April 27, 2012

The Truth about Ethanol and the RFS

Dear Colleague:

The Renewable Fuels Standard (RFS) has been proposed by industry groups and many politicians alike as a renewable and sustainable answer to energy security, climate change and rural development. However, the RFS has failed to solve any of these challenges. The reality is the RFS is a de facto mandate for corn ethanol, which is damaging our economy, driving up food prices, and degrading our natural resources, without achieving the energy independence once promised. The RFS has not achieved any of the solutions the public was promised, it has just created more problems.

We need to look at the facts of the RFS. Attached is a fact sheet about the reality the RFS has created, demonstrating that this is a broken policy for Americans. Congress created this artificial market and we must provide relief from its unintended consequences.

Sincerely,

Bob Goodlatte
Member of Congress

Jim Matheson
Member of Congress

John Sullivan
Member of Congress

Jim Moran
Member of Congress

The Renewable Fuel Standard: A Broken Policy

The federal Renewable Fuel Standard (RFS) has failed to meet its stated goals. Agricultural biofuels have been proposed by industry groups and politicians alike as a renewable and sustainable answer to energy security, climate change and rural development. However, the RFS has failed to solve any of these challenges. As it stands, the RFS is a de facto mandate for corn ethanol, which is damaging our economy, driving up food prices, and degrading our natural resources, without achieving the energy independence once promised.

The RFS and corn ethanol are failing to build energy independence.

- A National Renewable Energy Laboratory report from 2008 states that studies on ethanol and gasoline prices often fail to account for ethanol's "negative impact on mileage performance" and "the net impact [of ethanol in fuel]...can actually be an increase of the mileage-adjusted cost of gasoline for drivers." [1]
- Without the mandate, in a competitive marketplace, there would be no national market for corn ethanol as a motor fuel outside of its use as an octane booster. Even today, with gas prices reaching all-time highs, mpg-adjusted E-85 is more expensive than traditional gasoline.[2]
- If *every* kernel of corn grown in the United States in 2011 had been used to make ethanol it would have offset national gasoline consumption by just 16 percent.
- From 2005-2009, taxpayers spent a whopping $17 billion to subsidize ethanol. In return, they got a reduction in overall oil consumption equal to an unimpressive 1.1 mile-per-gallon increase in overall fuel economy.[3] EPA and DOE estimate that at current gas prices, a flex-fuel vehicle owner would spend $250 more per year for fuel if he uses E-85 rather than regular gasoline.[4]

The RFS is wasting taxpayer money and harming consumers.

- Today the United States burns over 40% of its corn for fuel, and estimates for the coming year are even higher.[5] More corn goes to the production of ethanol than to either food and seed production or to animal feed.[6]
- Greater U.S. demand for corn due to the RFS has contributed to higher corn prices. Since 2005 and the inception of the RFS, the price of a bushel of corn has risen over 300%.[7] The price per bushel of corn rose from a range of $2.00 in 2005/06[8] to an average of $5.18 for the 2010/11 marketing year, and USDA estimates for the coming year are in the $6.00-$6.40 per bushel range.[9]
- Higher corn prices have led to record low amounts of corn available for feed for animal agriculture. Lower feed availability has meant a 23% meat price increase for consumers due to lower output with significant job losses occurring in the animal agriculture sector because of bankruptcies and downsizing.[10, 11]

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[1] http://www.nrel.gov/analysis/pdfs/44517.pdf
[2] AAA fuel gauge report at http://fuelgaugereport.opisnet.com/index.asp
[3] http://www.ewg.org/files/EWG-corn-ethanol-energy-security.pdf.
[4] U.S. Department of Transportation, U.S. Environmental Protection Agency, New Flex-Fuel Vehicles, http://www.fueleconomy.gov/feg/PowerSearch.do?action=alts&year1=2012&year2=2013&vfuel=E85&srchtyp=newAfv.
[5] World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, Office of the Chief Economist, April 2012, http://www.usda.gov/oce/commodity/wasde/latest.pdf
[6] Feed Outlook, U.S. Department of Agriculture, Economic Research Service, April 12, 2012. http://usda01.library.cornell.edu/usda/current/FDS/FDS-04-12-2012.pdf
[7] http://agriculture.house.gov/pdf/hearings/Meyer110914.pdf
[8] McPhail, Lihong et al. "The Renewable Identification Number System and U.S. Biofuel Mandates." November 2011. Bio-03. Economic Research Service, USDA. http://www.ers.usda.gov/publications/bio03/bio03.pdf
[9] World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, Office of the Chief Economist, April 2012, http://www.usda.gov/oce/commodity/wasde/latest.pdf
[10] http://agriculture.house.gov/pdf/hearings/Meyer110914.pdf

The RFS is driving more people into hunger and poverty domestically and abroad.

- Riots erupted in 30 countries when 100 million people fell into extreme poverty during the 2008 global food crisis. The World Bank and other experts agree that U.S. and EU biofuel policies created a demand shock to global agriculture systems, pushing prices up.[12]
- Because the U.S. controls 50% of the corn export market, domestic and global corn are operating increasingly in tandem. When our prices go up, so do prices for families in developing countries. The global price of corn rose 84% in 2011. In import-dependent Uganda, where families spend over 60% of their income on food the price of corn in local markets rose between 80-122% in the same time period.[13]
- If all global biofuel mandates are met, global food prices could increase 76% by 2020, exposing 600 million more people to the threat of chronic hunger.[14]
- In 2009, the Federal government spent nearly $1 billion in extra taxpayer money in food and nutrition programs due to rising corn prices because of corn ethanol production, as estimated by the Congressional Budget Office.[15]

The RFS is harming our environment and is fundamentally incapable of driving the production of advanced biofuels.

- A recent National Academy of Sciences study found that the RFS is increasing air pollution, increasing greenhouse gas emissions, degrading water sources, and damaging biodiversity.[16,17,18]
- The National Academy of Sciences found that the advanced biofuels industry is unlikely to fill its mandate due to exorbitantly high costs for inputs and production.[19]
- The RFS compliance system (RIN system) is subject to fraud and is under investigation for over $60 million worth of fraudulent credits.[20]

As you can see from this factsheet, the RFS is a broken policy. As Congress continues to the debate the RFS, we hope this factsheet will serve as a stark reminder of the work we must do to make our nation more energy secure, without hurting our economy, driving up food prices, and degrading our natural resources.

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[11] U.S. Bureau of Labor statistics – http://www.bls.gov/data/#prices

[12] Von Grebmer, Klaus et. al, Global Hunger Index, 2011, http://www.ifpri.org/sites/default/files/publications/ghi11.pdf; Babcock, Bruce, The Impact of US Biofuel Policies on Agricultural Price Levels and Volatility, 2011, http://www.iadb.org/intal/intalcdi/PE/2011/08442.pdf; Lagi, Marco et.al., The Food Crisis: A Quantitative Model of Food Prices Including Speculators and Ethanol Conversion, 2011, http://necsi.edu/research/social/food_prices.pdf, HLPE, Price volatility and Food Security, A report by the High Level Panel of Experts on Food Security and Nutrition of the Committee on World Food Security,2011,http://www.fao.org/fileadmin/user_upload/hlpe/hlpe_documents/HLPE-price-volatility-and-food-securityreport-July-2011.pdf; FAO, et.al., Price Volatility in Food and Agricultural Markets: Policy Responses, 2011, http://www.unctad.org/en/docs/2011_G20_FoodPriceVolatility_en.pdf; Wise and Murphy, Resolving the Food Crisis, 2012, http://iatp.org/files/2012_01_17_ResolvingFoodCrisis_SM_TW.pdf

[13] http://siteresources.worldbank.org/INTPOVERTY/News%20and%20Events/22982477/Food-Price-Watch-August-2011.htm

[14] http://www.actionaid.org.uk/doc_lib/meals_per_gallon_final.pdf

[15] "The Impact of Ethanol Use on Food Prices and Greenhouse-Gas Emissions." Congressional Budget Office. April 2009.

[16] Hill, et.al. "Environmental, economic, and energetic costs and benefits for biodiesel and ethanol biofuels," Proceedings of the National Academy of Sciences, 2006: 103; 111206-111210. From page 221 "EPA found corn-grain ethanol...to have life cycle GHG emissions higher than gasoline...thus, according to the EPA's own estimates, corn-grain ethanol produced in 2011...is a higher emitter of GHG than gasoline."

[17] *ibid* from page 11 "the increase in corn production has contributed to environmental effects on surface and ground water, including hypoxia, harmful algal blooms, and eutrophication. Additional increases in corn production under RFS2 likely will have additional negative environmental effects..."

[18] *ibid* from page 253 "monocultures, as is the case of growing corn continuously, threaten biodiversity, as a homogeneity of crop species often leads to intensive farming practices through increased fertilizer and pesticide application and tillage and has been shown to lead to a decline in biodiversity (GAO, 2009)."

[19] *ibid*

[20] http://www.sutherland.com/files/upload/EPAIssuesNoticeofViolationoftheRenewableFuelStandardforGenerationof48Million.pdf