Small Business Committee
United States House of Representatives

Hearing on
The State of the Renewable Fuels Industry in the Current Economy

Testimony of

Ron Litterer
Chairman, National Corn Growers Association

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Madame Chair and distinguished members of the Committee, thank you for the opportunity to testify today on behalf of the National Corn Growers Association (NCGA), regarding the state of the renewable fuels industry in the current economy.

My name is Ron Litterer. I farm corn and soybeans near Greene, Iowa, where I also have a hog finishing operation and I appear before you today as the Chairman of the NCGA.

Background

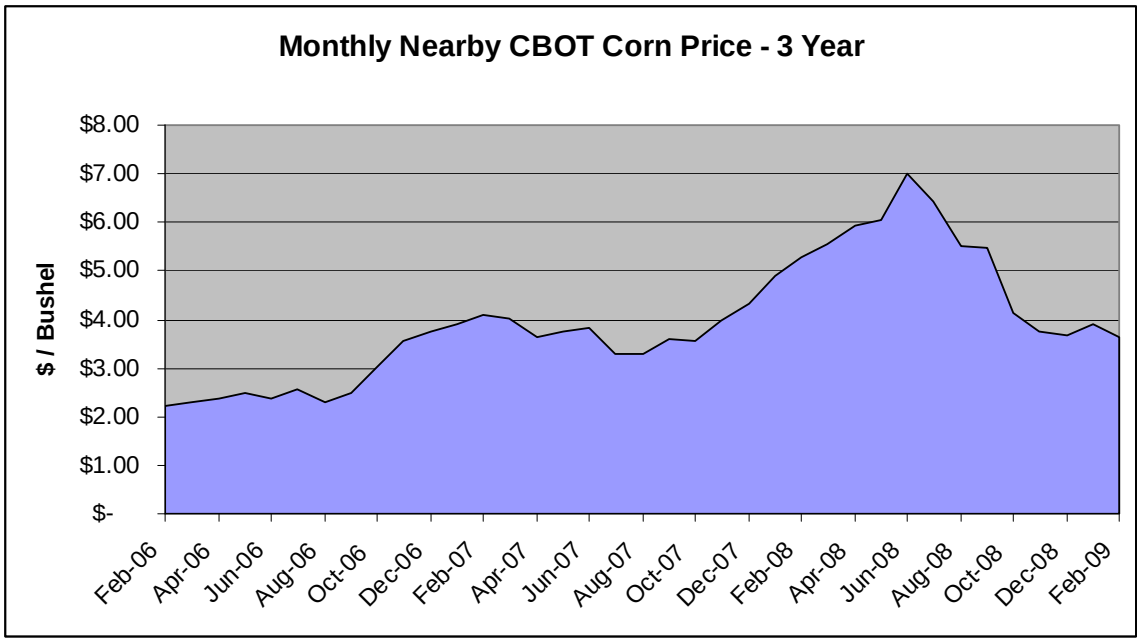
The National Corn Growers Association represents more than 32,000 corn farmers from 48 states as well as more than 300,000 farmers who contribute to corn check off programs and 26 affiliated state corn organizations across the country. The mission of NCGA is to create and increase opportunities for corn growers and to enhance corn's profitability and use.

For more than 20 years, NCGA has worked side by side with farmers, industry and government to build the ethanol industry from the ground up. Through our efforts, corn growers across the country and the ethanol industry have helped America move closer to energy independence. Our industry has been, and is currently a major force in the revitalization of rural America by creating green jobs and by stimulating economic activity in our communities. However, the corn ethanol industry, along with many others, is feeling pressure from the current economic downturn in the U.S. and world economies. It is imperative that, at a time when our country is facing a worsening economic crisis, we recognize the significant role the existing grain-based ethanol industry has in promoting, not only energy independence, but a more stable and prosperous U.S. economy.

The expansion of the U.S. ethanol industry has created significant economic activity across rural America. A recently released study by LECG found that in 2008, the ethanol

industry added $65.6 billion to the nation's Gross Domestic Product, and created nearly 494,000 new jobs in all sectors of the economy. [1]

During these uncertain economic times, corn growers and other agriculture producers continue to face a number of serious challenges. We, along with many industries, continue to face a very volatile marketplace. Over the past three years, the price of corn has seen a dramatic fluctuation. Nearby Chicago Board of Trade (CBOT) prices increased over 213 percent from February 2006 to June of 2008, a space of less than two and a half years. Thus in just 29 months, the cost of corn which accounts for the majority of production costs for a grain-based ethanol plant increased on the average of 7.4 percent per month. This included a period from October, 2007 to June of 2008, where corn prices increased $3.41, or more than 95 percent in 8 months. Unfortunately, the decrease from record highs has been almost as dramatic, with prices falling by $3.37 per bu., or more than 48 percent over the past 8 months.



Another factor that is often overlooked in this debate is the soaring cost of inputs for farmers, including energy for fertilizer, irrigation, powering farm equipment, drying grain and producing ethanol. Though our efficient use of these inputs is constantly improving, the price of energy inputs continues on an upward trend.

Corn input costs are established as much as a year before cash sales take place. At today's market prices, we are well below our production costs.

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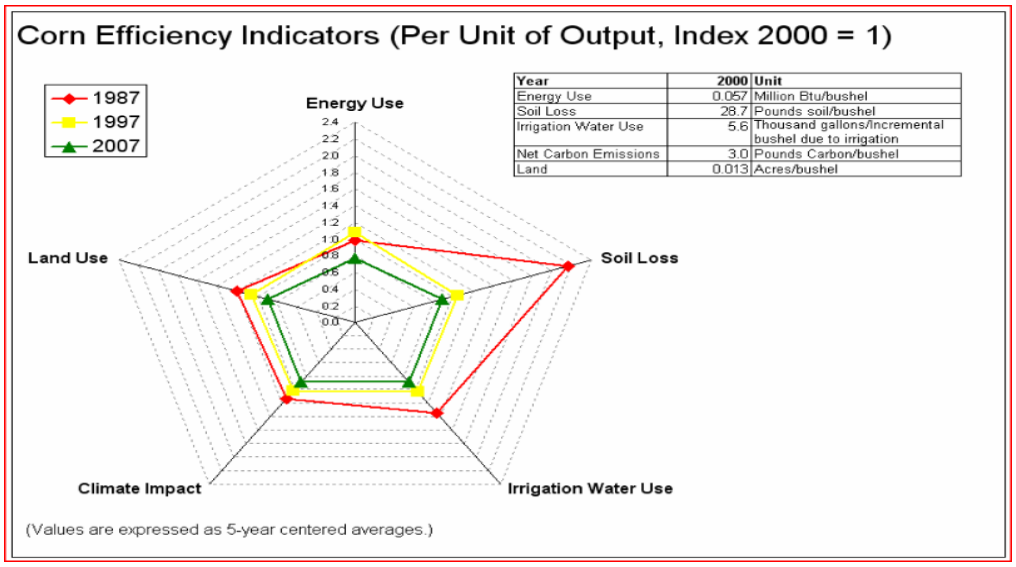
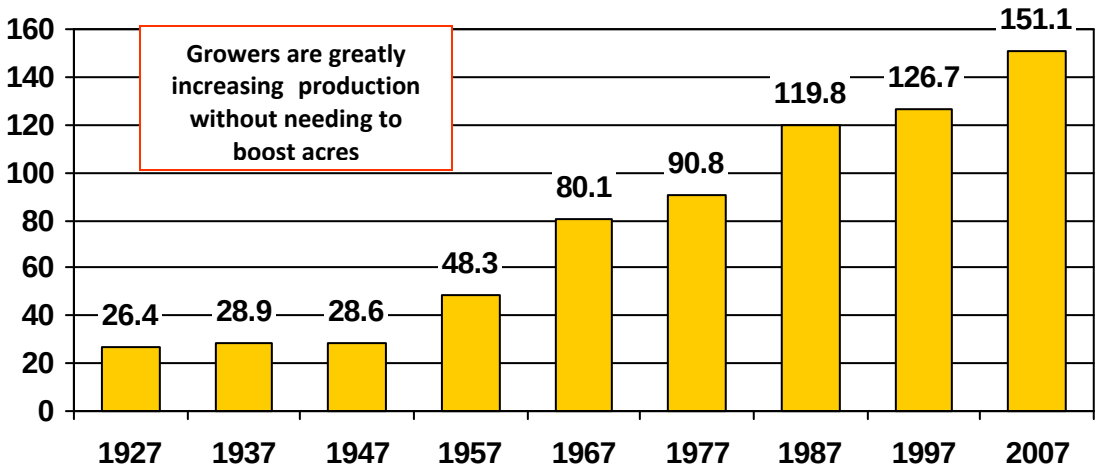
[1] [1] *Contribution of the Ethanol Industry to the Economy of the United States*, Dr. John Urbanchuk, Director, LECG, LLC, February 23, 2009.



Year	2000	Unit
Energy Use	0.057	Million Btu/bushel
Soil Loss	28.7	Pounds soil/bushel
Irrigation Water Use	5.6	Thousand gallons/incremental bushel due to irrigation
Net Carbon Emissions	3.0	Pounds Carbon/bushel
Land	0.013	Acres/bushel

Despite tough economic times, corn production is becoming increasingly more efficient. Today biotechnology enables farmers to apply fewer inputs to produce larger crops on the same land. Currently it takes about 40 percent less land to grow a bushel of corn than in 1987, and energy used to produce a bushel of corn has fallen by an average of 50 percent. According to Keystone Center "Field to Market" Report released in January 2009, the production of corn in the U.S. has made significant measurable improvements in reducing energy, water, land use and carbon emissions. In order to maintain our sustainability improvements at the production level it is imperative that the corn ethanol industry continue to grow and prosper.



Current Economic Condition

Since passage of the expanded Renewable Fuels Standard (RFS) in the Energy Independence and Security Act of 2007, the economic situation for many corn growers and ethanol producers has deteriorated as a result of the current economic crisis. Fewer miles driven, decreased oil prices, and expanding ethanol production are all putting significant pressure on corn and ethanol prices.

Recently, the U.S. renewable fuels industry has been devastated by the scarcity of both short-term credit to finance operations and long-term capital to finance expansion and new construction. With a near complete lockup of the financial markets, existing and future biofuels producers are often unable to secure necessary financing to maintain operations at existing facilities. This tight capital environment has pushed the industry to the brink, with many ethanol plants being forced to shut down, layoff staff and restructure their debt. Many banks which had previously extended credit to these companies are being forced to re-categorize the debt as non-performing and have become reluctant to extend additional credit to keep these businesses operating.

There is no doubt that Rural America, along with the rest of the country, is undergoing a time of tremendous economic challenge. It is for this reason we would like to highlight the important impact that farmer-owned, homegrown fuel production has in bringing opportunity to the Main Streets of rural America. The role of the American farmers is changing, growing to encompass providing food, fiber, feed, and fuel for our country. With the help of the U.S. biofuels industry, our nation's rural economy is providing more opportunities for farmers through homegrown renewable energy development. However, the well-being of our industry is threatened today by the declining state of our nation's economy.

In a November 2008 report by Dr. Cole R. Gustafson entitled "*Financing Growth of Cellulosic Ethanol*," Dr. Gustafson noted that, "Now when the industry is experiencing marginal profitability but requires significant capital to adopt new technology, firms have only modest equity to form a new borrowing base." The continued economic vitality of the U.S. renewable fuels industry is crucial for attracting the investment in research and development of second generation renewable feedstocks and the capital necessary to build the production capacity and infrastructure necessary to meet the 36 billion gallons of renewable fuels by 2022 proscribed by the Energy Independence and Security Act of 2007. For that reason, it is imperative that the existing grain-based ethanol industry and the accompanying infrastructure that has been built around that industry continue to prosper and remain viable in order to serve as the bridge for the next generation of biofuels.

The Future of the Industry

With the expansion of the ethanol industry, we are quickly approaching the maximum amount of ethanol that can be blended into conventional vehicles (commonly referred to as the "blend wall"). To date there is currently more than 12 billion gallons of ethanol production capacity online, with an additional 2 billion gallons under construction. Given the downturn in the economy, ethanol production capacity is quickly reaching the 10 percent (artificial) blend wall. For the first time in years, Americans are driving less than the previous year. U.S. gasoline consumption in 2009 and 2010 is projected to be 6 percent below 2007 levels. This decrease in gasoline consumption will accelerate the coming of the blend wall. It is critical that all public and private stakeholders work together to quickly solve this issue. Moving to higher blends of ethanol is critical to the sustained health and expansion of corn and cellulosic ethanol production in the U.S.

The U.S. currently uses roughly 138 billion gallons of gasoline each year. Given the 10 percent blend wall, this means that it will take approximately 13.8 billion gallons of ethanol to saturate the existing E10 market. In the near term, efforts are underway to increase the amount of ethanol that can be used in conventional automobiles. In the longer term, efforts are being made to rapidly expand to the number of flexible fuel vehicles (FFVs) and higher blends infrastructure to ensure sufficient demand in the United States automobile fleet.

NCGA fully understands and appreciates that with sound science and a transparent process, the U.S. Environmental Protection Agency, together with the U.S. Department of Energy and the U.S. Department of Agriculture, will work with stakeholders in the renewable fuels industry to move toward higher blends of ethanol in our nation's gasoline supply.

In conclusion, NCGA sees the grain based ethanol industry as a critical part of domestic energy security. Its inclusion as part of the nation's energy policy has strengthened and further diversified our nation's fuel supply in a time of global volatility and increasing demand for energy. Finally, despite these trying times corn growers will continue to meet the growing demands of food, feed and fuel in an economical and environmentally responsible manner.

I thank the committee for its time and look forward to any questions you may have.