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OVERVIEW OF THE RENEWABLE FUEL STANDARD:

STAKEHOLDER PERSPECTIVES, DAY 1

TUESDAY, JULY 23, 2013

House of Representatives,

Subcommittee on Energy and Power,

Committee on Energy and Commerce,

Washington, D.C.

The subcommittee met, pursuant to call, at 9:45 a.m., in Room 2123, Rayburn House Office Building, Hon. Ed Whitfield [chairman of the subcommittee] presiding.

Present: Representatives Whitfield, Scalise, Hall, Shimkus, Pitts, Terry, Burgess, Latta, Cassidy, Olson, McKinley, Gardner, Pompeo, Kinzinger, Griffith, Barton, Upton (ex officio), Rush, McNerney, Tonko, Engel, Green, Capps, Barrow, Christensen, Castor, and

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Waxman (ex officio).

Staff Present: Nick Abraham, Legislative Clerk; Charlotte Baker, Press Secretary; Sean Bonyun, Communications Director; Matt, Bravo, Professional Staff Member; Allison Busbee, Policy Coordinator, Energy and Power; Tom Hassenboehler, Chief Counsel, Energy and Power; Ben Lieberman, Counsel, Energy and Power; Brandon Mooney, Professional Staff Member; Andrew Powaleny, Deputy Press Secretary; Chris Sarley, Policy Coordinator, Environment and Economy; Phil Barnett, Minority Staff Director; Patrick Donovan, Minority FCC Detailee; Kristina Friedman, Minority EPA Detailee; Bruce Ho, Minority Counsel; Ryan Skukowski, Minority Staff Assistant; and Alexandra Teitz, Minority Senior Counsel, Environment and Energy.

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Mr. Whitfield. The hearing will come to order. I will recognize myself for a 5-minute opening statement.

Today we have our second hearing entitled, "Overview of the Renewable Fuel Standard: Stakeholder Perspectives," and we continue our assessment of the Renewable Fuel Standard. Over the course of this year, we have taken a comprehensive and deliberate approach working with both staffs on both sides of the aisle and members on both sides of the aisle to review the RFS, beginning with a series of bipartisan white papers that solicited input from interested stakeholders on major aspects of the program. The response has really been overwhelmingly helpful to the process, and I certainly want to thank everyone for participating and helping us deal with this issue.

Our first hearing on the subject was on June 26. We focused at that time on the government agencies chiefly responsible for implementing the RFS. EPA, EIA, and USDA all agree that many things have changed since the RFS was last revised in 2007. For example, as you all know, we are using a lot less gasoline today than we did then, yet the RFS is still based on the assumptions of 2007 and not the realities of 2013. We know that the RIN prices are going up. We know that cellulosic ethanol production is simply not there at this time. And all three agencies at that hearing on the 26th of June agreed that there were RFS implementation issues that warranted attention, especially as we look to 2014. And we certainly need to pay attention

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to those issues.

Today and tomorrow, we take another important step in the review process by hearing from 16 stakeholder witnesses offering a wide range of perspectives on the RFS. Refiners, renewable fuel producers, environmentalists, automakers, small engine makers, fuel retailers, corn growers, poultry raisers, restaurant owners, consumers, and others will all explain where we are today with the RFS. And we expect that after the hearing today, everyone will be on the same page.

I am pleased to welcome as a part of our second panel today Todd Teske of Briggs & Stratton. That plant manufactures small engines, not only in my district in Kentucky but throughout the country.

Today's first panel is going to focus on the impact of the RFS on fuel production, while the second will focus on fuel sales and use. And then we are having another hearing tomorrow and that panel will address the impacts on the agricultural sector and the food supply.

Despite the differing points of views from which stakeholders come to this issue, it is my hope that with today's hearing, we can at least start the process of consensus building on a path forward for the RFS. This includes potential adjustments to the RFS that align the program with current energy realities. Many businesses and many jobs are at stake from corn farmer to refinery worker to gas station employee to lawnmower maker to ethanol plant worker. And just as important, the interests of consumers are directly impacted by the RFS.

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The end goal of this process is an RFS that works effectively and does not distort the market. And with that, at this time, I would like to recognize the gentleman from Illinois Mr. Rush for a 5-minute opening statement.

[The prepared statement of Mr. Whitfield follows:]

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Mr. Rush. I want to thank you, Mr. Chairman, for holding this timely and important hearing on the overview of the Renewable Fuel Standard, where we will have the opportunity to hear from various stakeholders representing many different sectors of the economy. Over the course of the past year, my office has attended dozens of meetings on this critical topic. And for stakeholders from my home State of Illinois, there are few energy issues as important as the matter of the RFS.

Mr. Chairman, I have always been very supportive of this policy because I believe since its inception, it has achieved many of the goals that it was first enacted to do, including helping to reduce U.S. dependency on foreign oil, enhancing energy security, bolstering the agriculture economy, and addressing the challenges of climate change by reducing greenhouse gas emissions from the transportation sector. Today I believe the RFS has been successful in meeting each of these standards while also helping to drive job creation and economic investment.

For instance, Mr. Chairman, the RFS has played a key role in helping America's ethanol industry support 400,000 jobs nationwide, including 64,000 jobs in Illinois alone. And it has also resulted in over $40 billion in economic activity. Additionally, as the summer driving season reaches its peak and gas prices skyrocket at the pump, Chicagoans are paying among the highest prices in the country,

averaging $4.11 for regular gas last week, which is up from $3.84 just a week before that. So, one of the questions I would like to learn today more about, Mr. Chairman, is, how does diversifying the Nation's fuel sources, as the RFS does, impact gasoline prices for consumers? I also look forward to having the various stakeholders discuss some of the important issues surrounding the RFS in a public and transparent setting where they will have the opportunity to respond and rebut other witnesses so that the members of this subcommittee may gain a better idea of what is, indeed, fact and what is just mere fiction in regards to this debate.

Mr. Chairman, in meeting after meeting, my office has received a host of competing and, in many instances, contrasting information on the RFS, especially in the areas of the gasoline ethanol blend wall, the rate of advanced biofuels development, issues associated with the renewable identification numbers, and the impact of the RFS on agriculture and food prices.

So I am pleased, Mr. Chairman, with the diversity of the panelists and the different industry sectors they represent because I believe this will help lead them to a robust and comprehensive debate. And hopefully, it will help members on both sides of the aisle come to a sensible resolution of this very, very important issue.

Mr. Chairman, I look forward to the public hearing today, the one tomorrow where we can lay out all of the facts, including both the

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opportunity and the challenges to implementing the RFS as currently drafted. And it is my hope that we can work to find bipartisan common ground on this issue as it moves forward. I want to thank you, and I yield back the balance of my time.

[The prepared statement of Mr. Rush follows:]

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Mr. Whitfield. Thank you Mr. Rush.

At this time, I recognize the gentleman from Michigan, Mr. Upton, chairman of the full committee for a 5-minute opening statement.

The Chairman. Thank you, Mr. Chairman. As authorizers, it is our job to review the policies that we establish overseas. And it is a job that certainly I take very seriously as chairman of this committee, as do our members on both sides of the aisle. And since this is the committee where the RFS originated, we have the responsibility to assess how it is working and if it can be improved. And today's hearing continues our bipartisan review of the RFS. And I want to thank Ranking Member Waxman for his collaboration in this process.

Much has changed since the RFS was last revised in 2007, including the exciting new developments that have led to unexpected increases in domestic oil and natural gas production. And while I believe this committee should do all it can to facilitate the domestic gas and natural oil revolution, I also see a continued role for renewable fuels and other alternatives. Reviewing the RFS and how it fits into the changing energy mix is what we are doing today.

We began our assessment with a series of bipartisan white papers that explored key RFS topics, including the compatibility of fuels with the existing infrastructure and vehicle fleet and the impacts on the agriculture sector and the environment. The stakeholder response has

been as extensive as it has been substantive. And the range of viewpoints expressed demonstrates the far-reaching effects of the RFS. On June 26, this subcommittee held its first RFS hearing and invited the Federal agencies most directly responsible for implementing the RFS. The Energy Information Administration, the EPA, and the Department of Ag all made similar diagnoses, that there are real issues with RFS that may come to the surface in 2014. In other words, our review is very timely.

Today we invite stakeholders to continue that discussion. I welcome all of it. And of course, I am particularly interested in hearing from the automakers, knowing its importance to the Midwest and my State of Michigan. Fuels and vehicles operate as a system, and we need an RFS that works well within that system, given the changing dynamics of the current CAFE compliance obligations.

But let me cut to the chase. In my view, the current system cannot stand. I hope that we can start a discussion that considers a host of potential modification and updates to the RFS with the end goal being a system that works best for the American people. And to do that, we need everyone, everyone to come to the table with a commitment to listen and be constructive. I welcome every proposal, all proposals to improve this system and look forward to hearing those ideas from today's witnesses.

I am especially looking forward to hearing what each stakeholder

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is willing to bring to the table to fix and improve the current system.

I am absolutely committed to ensuring that we deliver workable reforms.

I yield back to the chairman.

[The prepared statement of The Chairman follows:]

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Mr. Whitfield. The gentleman yields back.

At this time, I recognize the gentleman from California, Mr. Waxman, for a 5-minute opening statement.

Mr. Waxman. Thank you, Mr. Chairman.

Last year, Americans consumed our lowest amount of oil since 1996. This is good news for the climate and for families' pocketbooks. We are relying less on fossil fuels and are using those fuels more efficiently. Thanks to President Obama, we have vehicle standards that will continue to make our cars and trucks more efficient and less carbon polluting than ever before. These standards are saving Americans money at the pump, enhancing our energy security, boosting our economy, and cutting carbon pollution.

Yet as long as our transportation system relies almost entirely on fossil fuels, we will continue to pollute and drive dangerous climate change. Transportation is the second largest source of carbon pollution in the U.S. Further improvements in fuel efficiency are critical but will not achieve the 80 percent reduction in climate pollution that we need by 2050 to avoid catastrophic climate change.

In my district, scientists at UCLA recently predicted that if we failed to reduce carbon pollution, southern California's snow packs will fall 42 percent by mid century and by more than two-thirds by the end of the century. This is an impending crisis for the 18 million Californians who rely on the snow melt for drinking water, agriculture,

and other economic activities. And with our interconnected economy, even these effects aren't limited to California. Reduced production on California farms introduces uncertainty into our food supply and means we will pay more for our fruits and vegetables.

In recent years, we have seen historic droughts, fires, floods, heat waves, and hurricanes. Climate change is hurting Americans across the country. As President Obama recently emphasized, we must build a 21st century transportation system to address climate change. There are several ways that we can reduce carbon pollution in the transportation system. Fuel efficiency is one, but so are better land use and planning investments and public transportation options at lower costs that protect the environment. Hybrid vehicles and electric vehicles charged with electricity from renewable sources are also a key part of the solution.

In today's hearing, we will look at another low carbon biofuel, which is being developed under the Renewable Fuel Standard, or RFS. For some transportation sectors, including aviation and shipping, low carbon liquid fuels may be the only option to reduce carbon pollution besides efficiency. However, as we will also explore today, not all biofuels are low carbon, and our biofuels policy must be implemented thoughtfully to achieve climate benefits. Today's hearing is the second for this subcommittee in looking at the RFS, which is one of the few laws adopted by Congress that explicitly and directly aims to

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reduce carbon pollution. Last month, we heard from EIA, EPA, and the Department of Agriculture that the RFS has helped launch an entirely new advanced biofuels industry that has the potential to offer real climate benefits and grow our economy. But we also heard that development of this industry has taken longer than Congress had originally hoped and that other challenges have arisen, including the gasoline ethanol blend wall, which may be around the corner. And I look forward to hearing from our stakeholder witnesses today and tomorrow on these and other issues.

In addition to these hearings, over the last few months, Chairman Upton and I have released a series of bipartisan white papers discussing the RFS and soliciting public comments on the law. This process has been helpful, and I appreciate the majority's efforts to work with the Democrats so that we can all better understand these issues.

The RFS has serious matters before it. I welcome the opportunity to take a careful look at this policy through the white papers and through these hearings. And as we move forward, we should continue to evaluate how the RFS could better contribute to a low carbon transportation system that benefits both our environment and our economy. As we consider any changes to the policy, we should ensure that the law's climate benefits are preserved and strengthened.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Waxman follows:]

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Mr. Whitfield. Thank you, Mr. Waxman.

And that concludes the opening statements for the day.

So, at this time, I would like to introduce our witnesses on the first panel. First of all, I want to tell you, we appreciate you getting your testimony to us. We read the testimony. We appreciate you taking the time to give us your expertise on this very important issue. And our witnesses are Mr. Jack Gerard, who is the president and CEO of the American Petroleum Institute. We have Mr. Bob Dinneen, who is the president and CEO of Renewable Fuels Association. We have Mr. Charles Drevna, who is the president of the American Fuel & Petrochemical Manufacturers. We have Mr. Michael McAdams, who is the president of the Advanced Biofuels Association. And we have Dr. Jeremy Martin, senior scientist at the Clean Vehicles Program at the Union of Concerned Scientists.

So thank you for being with us. Each one of you will be recognized for 5 minutes for an opening statement. And at the end of that time, then we will have questions for you.

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STATEMENTS OF JACK N. GERARD, PRESIDENT AND CEO, AMERICAN PETROLEUM INSTITUTE; BOB DINNEEN, PRESIDENT AND CEO, RENEWABLE FUELS ASSOCIATION; CHARLES T. DREVNA, PRESIDENT, AMERICAN FUEL & PETROCHEMICAL MANUFACTURERS; MICHAEL MCADAMS, PRESIDENT, ADVANCED BIOFUELS ASSOCIATION; AND JEREMY I. MARTIN, SENIOR SCIENTIST, CLEAN VEHICLES PROGRAM, UNION OF CONCERNED SCIENTISTS

Mr. Whitfield. So, Mr. Gerard, you are recognized for 5 minutes.

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STATEMENT OF JACK N. GERARD

Mr. Gerard. Great.

Thank you, Chairman Whitfield and Ranking Member Rush and Chairman Upton and Ranking Member Waxman. We appreciate the opportunity as API to testify today to express our concerns with the renewable fuels standard. API represents all sector of America's oil and natural gas industry. We support 9.2 million American jobs, 7.7 percent of the U.S. economy. We deliver more than $86 million a day to the Federal Government. And we are responsible for delivering most of the energy that drives our economy, a responsibility that we take very seriously, which is why we are extremely concerned about the risk the RFS poses to our economy and to millions of consumers.

In 2007, when Congress created the RFS, the energy market and our Nation's energy landscape were very different than they are today. The RFS was designed to reduce greenhouse gas emissions, make our Nation more energy secure and provide a reliable domestic source of energy that would lessen energy imports from less stable regions around the world.

Today we are much closer to achieving these important goals. Unfortunately, it is not because of the RFS. It is because of the oil and natural gas industry's technological advancements and vastly

expanded energy resources. The 21st century energy renaissance has driven our Nation's CO2 emissions near a 20-year low, made us the number one producer of clean-burning natural gas, and put us on a track to become the world's largest oil producer in 7 short years. Put simply, the RFS, while well intentioned, is today completely untethered from reality and unless it is immediately halted will unnecessarily cost our economy and consumers billions of dollars.

In fact, the RFS and its requirements are already beginning to drive up energy production costs. The best example is the price volatility in the renewable identification number or RINs, which refiners must obtain when blending renewable fuels into gasoline and diesel. RINs are becoming increasingly scarce through the impending E10 blend wall, which is the point at which the RFS mandate exceeds the safe limit of ethanol in America's fuel supply. These higher ethanol volumes in America's fuel supply would void millions of car warranties.

Today, RIN prices are near an all-time high which, according to an editorial in Saturday's Wall Street Journal, translates into a 10 cent per gallon ethanol tax on consumers at a total cost of $14 billion to our economy. Other experts, such as the Energy Policy Research Foundation, EPRINC, estimates the program could increase the price of gasoline from 20 cents per gallon to as much as $1 per gallon as early as next year. Further, according to a study conducted by NERA Economic

Consulting, exceeding the blend wall could result in diesel fuel costs rising as much as 300 percent and a 30 percent increase in gasoline cost by 2015. In broad economic terms, the RFS could cause a $770 billion decrease in U.S. GDP by 2015 and would reduce take-home pay for American workers by $580 billion.

And in an "only in Washington" turn of events, the RFS also mandates the use of a fuel that simply doesn't exist. Currently, the amount of commercially available advanced cellulosic biofuels in the market doesn't come close to meeting the arbitrary requirements of the RFS. In other words, RFS mandates the use of phantom fuel that could cost American consumers millions.

All of which leads to the inescapable fact, the RFS isn't just a relic of America's bygone era of energy scarcity. It is a grave economic threat and in our view should be stopped immediately. The real tragedy is that this can all be prevented and can be prevented right now.

To that end, we again call on the administration to immediately waive down the volume requirements to below 10 percent for 2013 and 2014 and for Congress to finally repeal this fundamentally broken law. Because the stakes are simply too high for inaction, which could cost consumers millions of dollars, place at risk small engines and automobiles, and ultimately cause severe damage to our domestic economy. Thank you for your time and attention today. And I look

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forward to answering your questions.

Mr. Whitfield. Thank you, Mr. Gerard.

[The prepared statement of Mr. Gerard follows:]

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Mr. Whitfield. Mr. Dinneen, you are now recognized for 5 minutes.

STATEMENT OF BOB DINNEEN

Mr. Dinneen. Thank you, Mr. Chairman.

Thank you Chairman Upton, Ranking Member Rush and Ranking Member Waxman.

This is an important and timely hearing. And I want to thank you for having a balanced approach, not just with the hearing but with the white papers as well. This has been a process that has allowed all stakeholders an opportunity to get their views across, and we appreciate it.

By virtually any measure, the RFS has been an unmitigated success. It has reduced our dependence on imported petroleum, stimulated investment in new technologies, reduced consumer gasoline prices, created jobs and economic opportunity across rural America, saved taxpayers' dollars by lowering foreign program payments, and is the only program we have that lowers greenhouse gas emissions.

My written testimony and the RFA's responses to the committee's white papers describe many of the benefits of the RFS. Let me focus on one, the success of the RFS in enhancing energy security.

Slide one, please.

U.S. dependence on imported oil has fallen since the RFS was enacted, from 60 percent in 2005 to 40 percent today. But it is important to note that this measure includes net imports of both crude oil and all other petroleum products. If just crude oil is considered, import dependence was 57 percent in 2012, meaning that the most significant reduction has been in petroleum products that is finished gasoline. That is the RFS at work. That is ethanol.

Now Mr. Gerard suggests that our dependence on imported oil has fallen because of oil. And indeed, we are fracking more and producing more. But 62 percent of the new energy production since 2005 has been ethanol, 38 percent oil. It is ethanol that has driven that number down. Now my friends in the oil industry want you to repeal the RFS and have pointed to the blend wall as a major reason they can't meet the RFS obligation.

So let's take a look at the blend wall.

Slide two, please.

The green bar is the RFS requirement. The 13.8 billion gallons of corn ethanol that has to be blended this year. We will sell close to 13.4 billion gallons of ethanol into E10 markets, meeting the obligation for 133 billion gallons of fuel. We will also sell more than 150 million gallons of ethanol for E85 for flex-fuel vehicles, meaning that there is just 280 million gallons of gasoline above the blend wall. That is what the fuss is about.

The requirement above the blend wall this year represents less than 0.2 of 1 percent of the U.S. gasoline market. The 3,000-plus E85 retail outlets in operation today would only need to sell an average of 15,000 gallons per month to scale the 2013 blend wall. With ethanol prices today about 60 cents less than gasoline, E85 sales are spiking. And some stations are reporting E85 sales close to 50,000 gallons a month. And with almost 16 million FFBs on the road today, there is enough potential E85 demand for 8 billion gallons of E85. What blend wall? All we need is market access for E85, E15, and other blends, access that is being denied today by an incumbent industry intent upon holding onto its monopoly.

Well, they say ethanol, the RFS and RINs are driving up the price of gasoline. No.

Slide three.

Again, ethanol is less expensive than gasoline. The RFS is saving consumers at the pump. And there is absolutely no correlation between retail gas prices and ethanol RIN prices. RINs are free. Let me repeat. RINs are free. Ethanol producers are required to give RINs to refiners and gasoline marketers when they purchase a gallon of ethanol. Buy a gallon of ethanol, get a RIN for free. There is a rather thinly traded and opaque market for RINs as oil companies trade them amongst themselves. But if they don't like the price, they can always blend more ethanol and get more free RINs. They don't have to

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short the U.S. gasoline market. And if they do, shame on them.

There is no truth to the notion that ethanol and the RFS are driving up food prices.

Slide four.

In fact, food prices have actually fallen as the RFS has been implemented, with the lowest food price inflation in the past 50 years, 1 percent occurring in 2010. There is no correlation between food prices and growing ethanol production.

So what is driving food prices? It is the skyrocketing price of oil, of course.

Slide five.

Now there is a near perfect correlation. When oil prices spiked to $140 a barrel in 2008, so, too, did food prices. Energy drives the cost of all food items at the grocery store because of transportation, refrigeration, production, and marketing. That is why the RFS is so important. It is the only policy we have to moderate gasoline prices at the pump. Congress did an excellent job crafting the RFS, building in a great deal of administrative and market flexibility to deal with the issues as they arrive. As a result, there is nothing wrong with the RFS that can't be fixed with what is right with the RFS. And there is no need to legislate changes to a program that is working as designed, even if the incumbent industry bristles at losing market share. Thank you.

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Mr. Whitfield. Thank you, Mr. Dinneen.

[The prepared statement of Mr. Dinneen follows:]

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Mr. Whitfield. And Mr. Drevna, you are now recognized for a 5 minutes opening statement.

STATEMENT OF CHARLES T. DREVNA

Mr. Drevna. Thank you Chairman Whitfield, Ranking Member Rush, Chairman Upton, and Ranking Member Waxman of the full committee.

In 2007, Congress enacted energy legislation which in essence delivered a contract with the American people that promised significant steps toward energy independence and national security and added environmental protections. A major component of that contract known as the RFS called for massive amounts of renewable fuels to be blended into the Nation's transportation fuel supply.

In 2013, we now know that the RFS is a program based upon erroneous market assumptions, obstacles that prevent the safe consumption of ethanol at increasing mandated levels, and many other unintended negative consequences. These critical flaws in combination with the resurgence of domestic energy production have led us to one unquestionable conclusion. It is now abundantly clear that the RFS has systemic problems that Congress must address immediately and decisively to avoid severe economic harm to individual consumers and to our Nation's economy. Ironically in a free market, as opposed to a mandated market, which somehow we have a monopoly on, consumer choice

and economics would drive the safe and efficient introduction of biofuels.

However, mandates are not the free market, and the reality is the RFS will raise prices for virtually all consumer goods, possibly leading to a consumer backlash against renewables generally, just not the mandate. We believe this is not the result Congress wants to achieve. So, in short, Congress should declare the contract with the American people vis-a-vis the RFS null and void and repeal the RFS. The flaws of the RFS are numerous, and they are here now.

First, perhaps the most pressing issue this year is the onset of the E10 blend wall. As opposed to previous statements, the E10 blend wall represents the maximum amount of ethanol that can be blended safely into existing infrastructure without damaging both vehicle and other engines. U.S. consumers are projected to use about 133 billion gallons of gasoline this year, meaning the E10 blend wall is at 13.3 billion gallons. The RFS requires 13.8 billion gallons of corn ethanol alone. As outlined in detail in my written statement, E15 and E85, in spite of dramatic protestations, are not viable due to vehicle infrastructure incompatibility and more importantly or just as importantly the lack of consumer acceptance.

Complicating matters further, refiners are not the entities actually blending the ethanol into the fuel, meaning the refiner must go into the open market to purchase a compliance credit, known as a

RIN, so when you purchase something, it is not free. When the fuel supply contains a maximum amount of fuel it can handle, no more RINs can be generated for the refiners to achieve compliance. When refiners are unable to purchase sufficient RINs for compliance, they are left with only bad options, which force them to reduce the fuel supply to the U.S. market.

Likewise, importers of gasoline also look elsewhere to market their products. These economic consequences, also detailed in my written testimony, could be staggering. Meanwhile, the harmful impacts of the approaching blend wall have already begun. One example is the dramatic increase in the market price of ethanol RINs. Prior to the onset of the blend wall, RINs traded at 4 to 7 cents. However, as the market anticipates the scarcity, RIN prices rose to as much as $1.48 just last week. A refiner that purchases all of its RINs now faces an implied 15 cent per gallon premium to sell fuel in the United States.

Trade press is already reporting that importers are turning to gasoline imports to other countries to avoid this RIN tax. Much of my time has been spent talking about the impact of the blend wall. By doing so, I do not want to underemphasize the other negative impacts, including that on food and feed supply. And as we also know, from EPA's own data, the RFS is actually undermining its environmental goals. There are many additional problems created by the RFS, which are

detailed in my written statement. Before concluding, however, let me be clear, AFPM is not anti-ethanol or anti-biofuels. Both can and will play a significant role in the fuel mix. But they must be safely integrated into the fuel supply and accepted by consumers. AFPM does oppose mandates and subsidies because they limit consumer choice, stifle innovation, and in the case of the RFS, are ultimately harmful to the consumer. In short, this unworkable law should be repealed. Thank you for your attention, and I look forward to fielding any questions you may have.

Mr. Whitfield. Thank you, Mr. Drevna.

[The prepared statement of Mr. Drevna follows:]

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Mr. Whitfield. And Mr. McAdams you are recognized for 5 minutes.

STATEMENT OF MICHAEL MCADAMS

Mr. McAdams. Thank you, Mr. Chairman, Chairman Upton, Ranking Minority Rush, Ranking Minority Member Waxman, and members of the committee. It is an honor to be with you today on behalf of the Advanced Biofuels Association.

The Advanced Biofuels Association represents more than 40 of the leading technology innovators in the advanced and cellulosic biofuels space as well as a number of the agriculture biomass to energy feedstock producers. In the past 3 months, the Advanced Biofuels Association has responded to four of your white papers and is currently preparing a fifth. We congratulate the committee and your staff for this bipartisan, thoughtful, and substantive approach. Given that ABFA has provided the committee detailed answers on the RFS, I would like to take a step back this morning and try to accomplish three things.

First, I would like to set a context around the RFS. Second, I would like to call the impacts of the debate into focus. And lastly, I would like to offer a solution set for your consideration. Congress expanded the RFS to stimulate an advance in cellulosic biofuels industry to encourage larger greenhouse gas reductions and to develop

more energy dense drop-in fuels. Many of these new advanced biofuels are hydrocarbons, and they are compatible with the existing pipelines, refineries, planes, trains, and automobiles. ABF members are delivering on that vision today. Today's hearing is largely about concerns surrounding the blend wall. Simply stated, it is the mismatch between the number of gallons of gasoline the U.S. market is demanding and the number of gallons of ethanol the RFS calls to be mixed into that gasoline.

With a 10 percent limit on the ethanol to gasoline ratio, there is a mismatch this year of roughly 500 million gallons. However, the RIN bank carryover provisions in the law allow the RINs from 2012 to meet the proposed targets in 2013. And they are enough this year to easily achieve the proposed mandate. The RIN market makers, however, they question whether this will be the case in 2014 and 2015. This year, the United States of America will use 213 billion gallons of fuel. And of that, about 15 billion gallons will be renewable fuel. The 500 million gallon mismatch represents 1/30th or 3.3 percent of the entire production of renewable fuels in the United States and 0.2 percent of 1 percent of the amount of fuel we use in America.

Additionally, much has been made about the shortfall of the cellulosic gallons. I would argue that the recent court case that my colleagues on the panel here were victorious in has adequately addressed the phantom fuel issue. And this year, we will see

significant gallons in the cellulosic pool, which began to be placed on the EMTS system last month. Calling for the full repeal of the RFS over a short-term issue impacting less than 1 percent of all the fuels we use in America doesn't make a lot of sense as a public policy solution.

For ABFA's members, the debate over repealing the RFS is having a chilling impact on the investment community and is restraining the growth and ability of our members to move forward. Despite this, many of them are making real gallons of cellulosic gasoline and diesel today as well as renewable diesel and other RFS approved fuels. In the last 6 years, U.S. businesses in the private sector have spent $14.72 billion in pursuit of the policy goal you collectively laid down in this committee. According to Bloomberg New Energy Finance, $33 billion has been invested worldwide in this sector. That means we are almost half of the world's investment.

These numbers represent people and jobs all over America, jobs in rural America planting and cultivating the best new energy crops, jobs building and operating biorefineries, technology and engineering jobs and laboratory jobs researching new feedstocks and enzymes and many more. To repeal the RFS would pull the rug right out from under them and change the rules in the first half of the game. This confusing policy signal is a benefit to the incumbent players in the fuels market and is a significant disadvantage to those trying to finance and build

new innovative technologies.

A potential short-term solution can be found in EPA. When Congress passed the RFS II in 2007, it provided EPA with significant flexibility and authority to address issues which could arise from hurricanes, droughts, and unforeseen economic factors. Much of what is difficult about the RFS today is the uncertainty surrounding the obligations on a yearly basis. ABFA and others on this panel and panels after this one have called for EPA to release the renewable volumes obligations for 2013 and 2014 as quickly as possible. Providing an additional year of clarity with a framework for the 2015 RDOs would help rapidly diffuse much of the economic pressure those of us on this side of the table are feeling.

The committee should encourage EPA to explore a combined 2014-2015 framework. A clear signal from EPA given to the stakeholders in advance would be a huge step forward in adjusting EPA's procedure to help all the markets work more smoothly. Thank you for the opportunity to testify with you today. And I look forward to your questions.

Mr. Whitfield. Thank you, Mr. McAdams.

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[The prepared statement of Mr. McAdams follows:]

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Mr. Whitfield. And Dr. Martin, you are recognized for 5 minutes.

STATEMENT OF JEREMY I. MARTIN

Mr. Martin. Thank you very much, Chairman Whitfield, Ranking Member Rush, Chairman Upton, Ranking Member Waxman, and members of the subcommittee.

Thank you for the opportunity to testify about the Renewable Fuel Standard. My name is Jeremy Martin. I am a senior scientist working on biofuels policy at the Union of Concerned Scientists. USC is the Nation's leading science-based nonprofit, putting rigorous independent science to work to solve our most pressing problems. I have been asked to address the environmental impacts of the RFS. But we need to start with the challenge the RFS was designed to address, cutting U.S. oil use.

Despite increased domestic production and new unconventional oil resources, the problems caused by our oil use continues to mount. Oil prices remain high and unstable. Oil-producing regions remain critical security threats. Oil spills continue, as do extreme weather events made more damaging by climate change. The need to reduce oil use remains just as important today as it was 5 years ago. The RFS is an oil saving policy based on smart goals, not just more biofuels

but better biofuels and biofuels that go beyond food. The RFS supports increased domestic production of clean, low carbon biofuels.

Together with improved efficiency, electric vehicles, and other innovative technologies, biofuels can cut our projected oil use in half over the next 20 years and reduce the problems oil use causes to our economy, to our security, and to our climate. But despite having smart goals, neither the RFS nor its implementation to date have been perfect, and there are significant challenges that need to be addressed.

The rapid expansion of food-based biofuels over the last few years is unsustainable. It is putting pressure on other users of corn, affecting global food markets, increasing water pollution caused by corn farming, and accelerating deforestation.

In contrast to the problems of the food-based fuels, the opportunities to expand production of cellulosic biofuels are substantial. Based on our analysis, the $16 billion target for cellulosic biofuels in the RFS is definitely achievable. And because cellulosic biofuels have low fossil fuel inputs and low lifecycle emissions, the potential greenhouse gas mitigation is large. But while the resources to make cellulosic biofuels are substantial, converting them into clean fuel requires a massive scale-up of biorefineries. The first commercial scale cellulosic biorefineries are starting up now in Florida and Mississippi. Several more are under construction in Iowa and Kansas. And this is a major milestone. And

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it wouldn't happen without the RFS.

But clearly, it is behind the schedule laid out in 2007. It will take time to scale up a new fuel industry, as it did for both the oil and corn ethanol industries. However, the mismatch between the schedule laid out in 2007 and the actual scale up creates some ambiguity about the road ahead which needs to be thoughtfully resolved. Fortunately, the RFS was designed with a great deal of flexibility, especially with regard to the second phase of the policy that shifts from food-based fuels to nonfood-based cellulosic biofuels. Many critical analyses of the RFS are based on an assumption that the EPA will ignore this flexibility, ignore the flexibility that Congress provided them and will expand mandates from just over 15 billion gallons in 2012 to 20 in 2015 and 36 in 2022.

But this assumption defies common sense. EPA has a clear authority to cut the rate of mandate growth in half between now and 2015 and to reduce the 2022 target from 20 billion gallons to what -- from 36 billion gallons to 20 billion, plus whatever quantity cellulosic biofuels produce. Adopting a more gradual approach will substantially reduce the challenges facing RFS implementation in coming years. I have provided more detail on our advice in this regard in comments to the EPA and in my written testimony. EPA needs to seize this opportunity and reset expectations for the next phase of the policy from now until 2022 and develop a roadmap that delivers on the important

goals of the RFS but is realistic about the competing uses of agricultural commodities and the rate at which cellulosic production can scale up and the constraints in our vehicle and fueling infrastructure. But making legislative changes to the Renewable Fuel Standard at this time would not reverse the problems caused by the rapid scale up of corn ethanol over the last 10 years. Instead, it would lock in place the status quo of 90 percent gasoline and 10 percent corn ethanol and chill investments in cellulosic biofuels, just as the first commercial facilities are starting up.

For this reason, we do not support legislative changes and suggest that making course corrections through an administrative process will do more to realize the oil savings and refinement goals of the RFS.

We are not moving forward as fast as we hoped to be in 2007. But the RFS is still pointing us in the right direction. To keep moving forward, we need to provide the regulatory stability that will protect early investments in the advanced biofuels industry and support further investment to bring the technology to larger scale.

Thank you again for the opportunity to be here today. I would like to request that the USC reports that I alluded to on biomass resources and the comments we submitted to EPA on the 2013 rulemaking be submitted for the record. And I look forward to any questions that you may have.

Mr. Whitfield. Without objection, they will be entered into the

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record.

Mr. Martin. Thank you.

[The prepared statement of Mr. Martin follows:]

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Mr. Whitfield. I thank you all very much for your testimony. At this time, I recognize myself for 5 minutes.

As I am sure all of you know, the American Petroleum Institute filed a lawsuit in Federal court against the EPA on the 2012 cellulosic number mandate.

And, Mr. Gerard, you all won that lawsuit. Is there anyone on the panel that would disagree with the principle that if EPA sets a mandated number for, like, cellulosic ethanol, and it cannot be produced, that refiners should be forced to buy the RINs anyway? Do any of you disagree with what the API did in that situation? In following the lawsuit.

Mr. McAdams. Mr. Chairman, I would say that the lawsuit was very specific in the way the opinion was written. What the lawsuit specifically said, which Mr. Gerard and Mr. Drevna should have enjoyed hearing, was specifically EPA could no longer put its thumb on the scale. And so to the extent anyone could make the assertion previously that what EPA was trying to do was stimulate our industry, by driving a number that was unrealistic, that lawsuit makes it directly clear that they can no longer do that. In terms of talking to the folks that run the program at EPA last night, I am confident that what we will see is a revision in the 2013 cellulosic number which takes into account the court direction to more closely align what the actual number is with the actual gallons that would be made.

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Mr. Whitfield. And all of you would certainly agree with that principle, I am assuming.

Mr. Drevna?

Mr. Drevna. Chairman Whitfield, we absolutely agree. However, we have to look at what the reality is as compared to the rhetoric. EIA projects by 2022, that there will be 0.5 billion gallons of cellulosic. Mr. Chairman, with all due respect, I have been sitting in these hearings on both sides of the of Congress since February of 2008, short 2 months after this bill was passed. And I have been hearing for 7 years now that cellulosic ethanol is just around the corner and all we need is another mandate and people will invest. Well, people will invest. But you know if the technology doesn't work, it doesn't work.

Mr. Gerard. Mr. Chairman, I would just add, part of the dysfunction of this particular statute is that within a week or 10 days after we prevailed in that lawsuit, the EPA came out with their renewable volume requirement for 2013 and added back a number higher than the one they had the previous year that we prevailed on in the lawsuit. Now if you are concerned about what the market is seeing out there, again, the judge said, You can't put your hand on the scale, as Mr. McAdams said. But the EPA immediately turned around and raised it from 8 million to over 11 million. And once again, there is not that in the market. Our expectation, our understanding to date is we

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have got about 5,000 gallons so far this year. We are halfway through the year. And the mandate in the statute is a billion. They narrowed that down to about 11 to 14, depending upon how you interpret that. But once again, the market sees this as no action being taken. That is why this is so important on the part of this committee and the EPA. They send a signal to the market, you are going to correct this problem.

Mr. Dinneen. Mr. Chairman, if I could, two quick points. One, this actually demonstrates that there is incredible flexibility within the program, within the statute for EPA to do the right thing. They have reduced the cellulosic number more than 98 percent in each of the 3 years that the RFS has been in place with the cellulosic requirement. That is because of the flexibility that this Congress, this committee gave to the agency to do the right thing.

Now the court said, You can't be aspirational. And we all agree with that. They all ought not have their thumb on the scale. But they do need to be accurate with how much cellulosic and other advanced biofuels are going to be produced.

And that is my second point. The fact of the matter is, cellulose and advanced biofuels are here today. If you wouldn't mind, I would like to introduce into the record a pamphlet that was put together by the Advanced Ethanol Council that demonstrates exactly where cellulosic investments are being made today.

Mr. Whitfield. Without objection.

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[The information follows:]

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Mr. Dinneen. And you do have commercial sized facilities being built in Kansas in Florida, in California, all across the country. And if we pull the rug out from under these facilities today, none of that investment moves forward. And my friends on either side of me get what they want, and that is a continued stranglehold on the U.S. gasoline marketplace.

Mr. Whitfield. Dr. Martin, do you all have any figure in mind for cellulosic production in the future? Right now, total gasoline is about 213 billion. I mean, do you all have a number you are looking at?

Mr. Martin. Well, certainly in terms of -- I mean, we have been looking at the impacts of the different choices more broadly. And I would say what we have learned over the last few years is that impacts on the underlying feedstocks, on whether it is corn or vegetable oil or biomass, it is important. And there is plenty of biomass to meet the 16 billion gallon target. I think it is clear that that is not going to happen in 2022. And it is likely to take us closer to 2030. The date that that happens is not an external factor. It depends a great deal on the policies that are set here, which will determine how quickly people make investments and what that date is finally.

Mr. Whitfield. Thank you very much.

Mr. Rush you are recognized for 5 minutes.

Mr. Rush. Thank you, Mr. Chairman.

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I have a question that I would like to have all of the panelists respond to. I would like you to be brief in your response. I only have 5 minutes. I need some initial questions to be answered.

The U.S. has globally compared electricity prices in large part because we have diverse fuel choices -- nuclear, coal, gas, wind, solar, hydro, geothermal, and biomass all used to generate power. However, in the area of transportation, we are almost entirely reliant on petroleum. What more diversity in the transportation fuel sources such as renewable fuels also provide consumers and the economy more protection from price shocks?

I will start with you, Mr. Gerard. Please be brief.

Mr. Gerard. Okay. I will. Thank you very much for the question.

In the broader context, diversity is good. We see that natural gas has become a major player in electricity generation, as you know, in helping drive down the carbon emissions in this country. The important thing to remember though and the thing we will emphasize here is you have to look at the costs related to consumers. We have been using gasoline for many years in this country. It is affordable, reliable in the context competing other fuels. So diversity is good. But always look at it in the context of what it actually costs the consumer.

Mr. Rush. Mr. Dinneen.

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Mr. Dinneen. I absolutely agree with the premise. I think diversity is critical to driving down cost. I would suggest that my friends in the oil industry believe diversity means we get oil both from the Gulf of Mexico and the Baakens. But that is not diversity. And that is not going to help consumer gasoline costs. In fact, if gasoline or oil were to fall below $90 a barrel, none of those investments in the Baakens make any sense economically. So the only way you are going to help consumers and drive down the cost of gasoline is with domestic renewable alternatives and renewables.

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RPTS HUMISTON

DCMN SECKMAN

[10:44 a.m.]

Mr. Rush. Mr. Drevna.

Mr. Drevna. I will agree that we can have a diversified fuel supply, but a couple items, Mr. Ranking Member.

One, the oil and refining industry does not control the transportation infrastructure to get the product to the consumer; 95 percent of those service stations are owned by private individuals.

Number two, the idea that we -- that the refiners and those relying -- you know, producing a product that is efficient, reliable and abundant to the American consumer is somehow detrimental to the economy boggles my mind.

Number three, when the cable industry looked around and saw there were only three options for television viewers, they bellied up to the bar, they invested lots of money, and right now, over 60 percent of the households in this country have cable TV.

I ask my colleagues to the left and right of me, if it is so good, invest. You don't need a mandate.

Mr. Rush. Thank you.

Mr. McAdams.

Mr. McAdams. I agree with your assertion, Congressman.

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Mr. Rush. All right.

Mr. Martin. I think the best way to protect the consumers from the price of oil and gasoline is to use less, and biofuels are a part of the diverse set of strategies to accomplish that, and, of course, there is a great diversity of biofuels that contribute to that.

Mr. Rush. Thank you, Dr. Martin.

And you get an A for the diverseness of your answer, and because you were so great, I want to give you another question.

Mr. Martin. Wonderful.

Mr. Rush. In your testimony, you acknowledged the RFS is not perfect. Is it your opinion that EPA has the tools and the authority to deal with challenges as they arise, or does the Congress need to actually modify the law?

Mr. Martin. It is -- it is -- after having studied this at some length, it is my belief that the EPA has the tools it needs in the statute as it is written to address the immediate challenges and to set a long-term path. I think it is important that EPA be aggressive about demonstrating its intention to use that flexibility and in convening a stakeholder process. And I agree with Mr. McAdams that not just doing, you know, one year at a time, but really looking further down the road and laying out, you know, how these decisions will be made over a multi-year time frame will provide all the players the support, the certainty and the anticipation they need to make smart investments.

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Mr. Rush. Well, I thank you, Mr. Chairman. I have 10 seconds left, and I want to reserve my 10 seconds.

Mr. Whitfield. The gentleman reserves his 10 seconds.

At this time, I recognize the gentleman from Louisiana, Mr. Scalise, for 5 minutes.

Mr. Scalise. Thank you, Mr. Chairman.

I appreciate you having this important hearing and all of our panelists, both the first and second panel that are going to be testifying, because there are a lot of important components of the RFS that need to be brought to light, and consumers are starting to have a lot of serious questions, as they should. I think when you look at the assumptions that were made back in 2007, many of those predictions didn't come true and we are starting to see the problems that that creates.

One of the reasons that I support full repeal of the RFS is because, number one, it is not workable. And we have had many hearings, including people within the Obama administration, EPA, EIA, USDA and others that talk about all of the problems that are coming both near term and long-term, and so when you look at these problems, they are very real problems, you can't just gloss over it, but when you look at the fuel projections alone, I mean, the usage is down and the revolution that some of you have talked about that has brought so many more forms of American energy to market to bear have not been

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recognized.

And so I want to start off, if I may, when you look at Mr. Gerard and Mr. Dinneen and Mr. Drevna on the panel and hearing each of you, very, very conflicting testimonies that have been given, so I want to give you an opportunity to expand a little further on some of the things that you have all said.

I will start with you, Mr. Dinneen. You said RINs are free. And, you know, any time somebody's talking about something from the government being free, you usually check your pocket book first and start getting real concerned. When you talk to people about the RINs and the dramatic fluctuations in the price, this was something that was sold as a stability force. And the RINs are in fact not free. They started off at a very low price and have gone dramatically higher. Can you address the fluctuations in the price of RINs, which are not free, but in fact are much more expensive today than when this legislation was passed in 2007.

Mr. Dinneen. Sure, Congressman, but understand my point is the ethanol industry, when we produce a gallon of gasoline, we by statute and by regulation have to give that credit to the oil companies. They get them from us for free, without any question. Now, there is a -- as I said --

Mr. Scalise. But is it just them that are getting them? Because one of the questions is, you know, do you have some of these Enron-type

players that are getting into the marketplace buying up RINs to help jack up the price to help make it an Enron trading commodity instead of something that was established to bring stability to fuel?

Mr. Dinneen. The oil companies wanted the RIN system, wanted a credit trading program to bring flexibility to the RFS, which I believe it has done, but as they raised --

Mr. Scalise. Is it just the oil companies that have these RINs?

Mr. Dinneen. I am sorry?

Mr. Scalise. Is it just the oil companies that have these RINs?

Mr. Dinneen. No. They --

Mr. Scalise. They have some --

Mr. Dinneen. -- marketers.

Mr. Scalise. And I apologize. My time is very limited. Mr. Gerard, if you could touch on this as well.

Mr. Gerard. Yeah, as refiners, we are the obligated parties, so we are the ones that have to produce the RINs. We don't get all the RINs, and we certainly don't get them for free, because in many instances whoever is blending that fuel and gets that RIN, we have got to go buy that RIN to meet our obligation, because we are the obligated party.

The more fundamental issue here, as you know, Congressman, is the E10 blend wall. The market sees it coming, it sees it head-on, there is pressure out there from those of the obligated parties to make sure

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they have got enough to meet their requirements under the RFS. That is what is driving that cost, that is what the experts say the problem is. That is that we have got to deal with that blend law.

Mr. Scalise. And you mentioned on the -- I know Mr. Dinneen talked about the EPA having flexibility in the law to address the numbers. I agree EPA has the flexibility. They have not exercised it. We sure haven't seen them doing the things they ought to be doing in the short term. In the long term, I agree, though, that Congress does have to address it for the long term.

Mr. Drevna, you had something?

Mr. Drevna. The essence of the problems with the RINs emanated with the EPA, when the first EPAct 2005was written, and it was only seven and a half billion gallons by then. Of course, before the ink was dry, it went up to 36 billion in years.

We suggested to EPA that, you know, we should be able to trade freely with the credits. They said, No, we want a free market. Our response was, it is a mandate, folks, so there is no free market. They didn't buy that.

Then they said, okay. Refiners and importers, you are the obligated party. And we said, Wait a minute, if we can't trade the RINs among ourselves, how are you going to -- how are you going to have this market work? And we said, It wouldn't work.

And right now, not only are there RINs that are expensive and not

free, there are 140 million fraudulent RINs out there that we still have to deal with, and who knows how many more, because -- and I understand the FBI is still investigating some of the biodiesel folks.

Mr. Scalise. Absolutely. And I know I am out of time, and I have more questions I will reserve for the second panel, but I appreciate that, Mr. Chairman. I will be happy to yield back.

Mr. Dinneen. If I could just -- one quick point, because I think you are going to like it, because I will acknowledge that there is an issue here, and that is we need to have more transparency with the RIN market. And I do think EPA could help this situation by letting us know who is making the trades, how many trades, what the price is. Right now, there is no transparency whatsoever.

Mr. Scalise. All right. And unfortunately, they have not been willing to do that either. Thank you. I appreciate it.

Mr. Whitfield. At this time, I recognize the gentleman from California, Mr. McNerney, for 5 minutes.

Mr. McNerney. Well, I thank the chairman. Wow, what a diverse set of testimony, and I want to thank you all for your passion on this issue. It is an important issue, and it is a -- it should be a bipartisan issue. So, again, thank you for testifying.

Dr. Martin, you suggested that the EPA should produce a realistic roadmap for introducing biofuels into the market -- I see Mr. McAdams was shaking his head yes -- using the flexibility that is built into

the statute. What do you think are the chances that the EPA will do that? I mean, how likely is it that they are going to come through with something like that?

Mr. Martin. Oh, well, I am quite optimistic about that. I mean, it is a challenging process to -- especially to do a multiyear process, and I think they have been, you know, going through one year at a time, and it has been quite a lot of work, but I think all the parties would be better served by providing at least a framework for multiple years.

Mr. McNerney. Well, they have the flexibility to do that, but last year's drought caused real problems, there were 150 Members of Congress and Governors that asked them to waive the ethanol mandates, and they didn't. How do you feel that that came about and what is your response?

Mr. Martin. Sure. Well, we supported making adjustments last year to the mandate in light of the drought, but I would say that the kind of flexibility in the second phase of the policy, and in particular sort of, you know, how quickly we get to 36 billion gallons, this isn't the same waiver process with a real relatively high bar. It is an entirely different process, and really, it is -- it is just a discretionary matter. So, in some respects, I think it actually makes more sense to describe the 2022 target as 20 billion plus, sort of 20 billion gallons plus however much cellulosic gets produced, and EPA has discretion to go higher, but they have no obligation to go higher,

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and so I think, in some respects, analyses which are based on the assumption that we get to 36 billion in 9 years are flawed, because that assumption is just not a realistic assumption anymore.

Mr. McNerney. Okay. So you think they are showing flexibility in some ways and not in others?

Mr. Martin. Well, they haven't shown flexibility up to now. And so, as I said, we encouraged them to do that last year. Last year, the circumstances were very different, as has been alluded to several times. I mean, when there were petitioned last year, RIN prices were very low, and that, you know, without any fancy economics is a demonstration that obligated parties were not trying to buy their way out of complying with the standard. And so EPA's analysis said, look, if we reduce the standard, not much is going to happen. And I think you have other panelists later who will address this in more detail. Obviously, with RIN prices where they now, the circumstances are quite different, and so what I understood from EPA is that they don't view those past decisions as providing the framework for future decisions, and they recognize the need to be flexible.

Mr. McNerney. Well, thank you. You also mentioned in your testimony that the -- or you acknowledged anyway the cellulosic biofuels have not lived up to their potential. Do you see that happening? I mean, how do you see that happening, or what has been the roadblock so far?

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Mr. Martin. Well, certainly, you know, the law was passed at the end of 2007 and based on some presumptions about how quickly capital could be raised. And 2008 and 2009 were tough years for raising capital in all industries, and that was certainly a setback.

I think a case can be made that the numbers were always optimistic. And, frankly, the structure of the law, which essentially says that this is the maximum, not the minimum level for the standard, you know, reflected an understanding that this wasn't something that could be counted on, but was an aspirational --

Mr. McNerney. So, with the current trajectory, you believe that we can meet -- what I think you said, we can cut our oil by 50 percent in 20 years. Do you think that is realistic, then?

Mr. Martin. Yeah. Not solely on the basis of biofuels. I mean, if we look at cutting our oil use, efficiency has a big role, electrification, we need to do all of these things to make those kind of deep reductions, but biofuels definitely have a key role in a kind of comprehensive strategy like that.

Mr. McNerney. Thanks.

Mr. Dinneen, you had some pretty striking data that you showed on your graphics, and I think -- and I didn't -- I am not sure I got the numbers exactly right, but 60 percent of new oil -- or new fuel production is from ethanol and only 38 percent is from oil? Were those the numbers?

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Mr. Dinneen. 62,005, correct, 62 percent of 38 percent, because you got to remember through 2005, 2006, 2007 and 2008, oil production in this country, it continued to fall. It wasn't until 2009 that oil production had begun to increase, which is a good thing, and we are happy about that. I am just pointing out that you can't say that the reduction in energy dependence that has occurred since 2005 is because of oil. It is not -- 68 percent of it -- I am sorry. 62 percent of it is because of a growing ethanol market.

Mr. McNerney. Well, I have run out of time, Mr. Chairman.

Mr. Gerard. Mr. McNerney, if I could just comment. We would strongly --

Mr. McNerney. If the chairman will allow it.

Mr. Whitfield. The gentleman's time has expired, but I will let you all briefly respond; not very long, so --

Mr. Gerard. I will be very brief. Thank you. We would say that clearly our import reliance has gone down considerably because we increased oil production. We have increased over 2 million barrels a day in our production the last 4 years at the same time ethanol production has increased about 250,000 gallons per year, so there is a big disparity. It is a very different equation.

Mr. Whitfield. Mr. Dverna, did you want to make one comment?

Mr. Drevna. It is not the oil industry saying it, it is the Energy Information Administration saying in testimony before the Senate last

week that the impact of ethanol production on oil imports is minimal.

Mr. Whitfield. Okay. Mr. Barton is recognized for 5 minutes.

Mr. Barton. Thank you, Mr. Chairman.

You know, it is too bad you couldn't get a few more witnesses for this hearing. We are certainly going to have the most comprehensive hearing record.

Mr. Whitfield. If anybody in the audience wants to testify.

Mr. Barton. Yeah. I have been on both sides of this issue. Obviously, in 2005, the original mandate was in the Energy Policy Act, which I was one of the chief authors of. I voted against the 2007 act, which took what we did in 2005 and basically increased it by order of magnitude five times.

We are in a situation now where what appeared to be a good political compromise and maybe even a market compromise, you know, 8, 9 years ago, doesn't appear to be working, not because of its good intentions, but because the marketplace has changed. We thought that gasoline consumption in the United States was going to continue to go up. Well, it has not. It has gone down considerably. And while I don't have the exact number, I believe this year the difference between the projection and what we think is going to be reality is 30 to 40 billion gallons of gasoline. That is a significant discrepancy.

So the question before the committee is, what do we do? And you have got three options: One is do nothing, which Congress is very good

at. Just let the mess keep going. The second option is to repeal the renewable fuel standards, and that is where I am. I think with all the good intentions in the past, basic principle is when all else fails, go back to basic principles, which is let the market operate. And then the third option be to modify the renewable fuel standards. And my guess is a majority of the committee is probably at that option, modification, take the middle road, but I am for full repeal.

So my first question would be to my friend from the renewable fuels association, who has I think done a fairly eloquent job of putting the best face on this, what would happen if we repealed the renewable fuel standard to the ethanol industry? Would it go away, would it continue to flourish, or would it be somewhere in between?

Mr. Dinneen. Thank you, Congressman.

First of all, let me compliment you again on crafting the 2005 RFS, because you really did craft a good piece of legislation with lots of flexibility for EPA to address the situations, and it has.

If the RFS were repealed, though, Congressman, I think that you would first of all devastate investments that are being made in next generation biofuels. All of the progress that is being made today would go away, and I think that would be a terrible thing.

Mr. Barton. It would -- the harm would be to Mr. McAdams' group, not necessarily to the pure corn-based ethanol.

Mr. Dinneen. Actually, that would be the first impact. There

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absolutely would be an impact to the existing industry as well, however. Back in 2007, when we were holding hearings on the RFS, there was a member of the oil industry that was asked, if we didn't have this program, how much ethanol would you use? And that person had indicated, well, you know, we would still want to use ethanol for its octane, but we would probably use about 5 billion gallons of ethanol. That was a candid moment, and I think that is what you would see. You would see a dramatic reduction in the use of ethanol in fuel as they replaced it with their own petroleum. These folks are in the business of through-putting hydrocarbons, not --

Mr. Barton. My time is about to expire, and I do want to give the other side a chance, since I am actually with the other side.

Mr. Dinneen. But you were with us at one time, Congressman.

Mr. Barton. No. I am not against you, not against you.

But, Mr. Martin or Mr. Gerard, if we repealed the ethanol mandate, if we repealed the renewable fuel standard mandate, since ethanol right now does cost less per gallon than gasoline, wouldn't the oil industry continue to use ethanol and blend it in because it is less expensive?

Mr. Gerard. Well, a couple things. First, we are pleased with your conversion.

The second thing is ethanol, let me just say this, on a BTU basis, does not cost less than gasoline.

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Mr. Barton. Okay. On a BTU basis.

Mr. Gerard. So that is an important consideration, because you have to compare energy to energy, not gallons.

Mr. Barton. Okay.

Mr. Gerard. First thing. EIA testified last week, as did the Department of Agriculture, that it is likely that where current production isn't, current blending would remain. In fact, they believe there would be very little change, because of the octane values and other things that are part of the blending process.

Mr. Barton. And, Mr. Chairman, could I ask Mr. McAdams a question, or I would be happy to yield back, because I know my time has expired?

Mr. Whitfield. Yeah. Did Mr. McAdams want to make a comment or --

Mr. Waxman. I ask unanimous consent that our former chair --

Mr. Whitfield. Mr. Waxman asks unanimous consent that you ask one additional question.

Mr. Barton. Well, I appreciate Mr. Waxman for being nice to me for -- I almost said for a change, but that would be not cool.

But cellulosic has always been portrayed as the great hope, that we knew that ethanol from corn was somewhat inefficient, but we were told that if we could ever get to the cellulosic era, that it would be very efficient and very cheap. It hasn't happened yet. What is

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the realistic expectation of the ability to get ethanol from cellulosic -- cellulosic sources? Is that still 10 years down the road or are we close to --

Mr. McAdams. No, sir. While I sit in front of you -- thank you for the question, Mr. Chairman. I appreciate the opportunity to answer this.

As I sit in front of you today, there is a facility in Mississippi, in rural Mississippi, by the name of KiOR. It is a pyrolysis facility. It is crushing pine trees. And it is not making ethanol; it is making gasoline and diesel. And Mr. Gerard's and Mr. Drevna's clients, Chevron, and Hunt Petroleum have made 100 percent of the off-take purchases of that fuel. That plant came online in March. It is a new innovative plant. It is now a full capacity, running flat out and the RINs have gone on the market, effective this month for July. There are other plants, Dupont has one in Iowa. POET has another one.

There is a range of cellulosic technologies that are coming into being now on a commercial basis. They are being funded commercially. There are about five or six of them that is in the book that Bob has put onto the record.

The other thing I want to say is, don't overlook the advanced biofuels technology. I had the opportunity to witness the F-18's fly off the deck USS Nimitz using a hydro-processing technology in Louisiana, making 45 million gallons of renewable diesel.

So you are seeing both advanced biofuels and cellulosic biofuels come. And I agree with your assertion. If you repeal the RFS, the guys that get hurt the most are the members that I represent.

Mr. Barton. Okay. Thank you very much, Mr. Chairman.

Mr. Whitfield. At this time, I recognize the gentleman from California, Mr. Waxman, for 5 minutes.

Mr. Waxman. Thank you, Mr. Chairman. I would like to explore how the RFS aims to reduce carbon pollution, how well it is working and whether there are ways to strengthen its climate benefits.

Mr. McAdams and Mr. Dinneen, how do you -- do you agree that reducing carbon -- do you agree that reducing carbon pollution through the use of low-carbon renewable fuels is a critical goal of the RFS?

Mr. McAdams. Absolutely. As we move to 9 billion people on the world and other -- other places around the world other than America increase their use of energy demand --

Mr. Waxman. You agree.

Mr. McAdams. -- having sustainable fuels -- yes, sir.

Mr. Waxman. You agree.

Mr. Dinneen. Without a doubt. Absolutely it is. And, in fact, the amount of carbon removed as a consequence of ethanol production last year is the equivalent of taking about 9 million vehicles completely off the road. The program is working.

Mr. Waxman. Dr. Martin, how does the RFS derive climate

benefits?

Mr. Martin. Well, my colleagues here have spoken to the current status. I would like to look to the future and say that the largest potential source of benefits from the RFS comes from the next generation of biofuels, where we have the opportunity to substantially -- I mean, first of all, to see fuels with very low greenhouse gas impacts, including very good integration with agricultural systems so that we see less competition with food crops, but also it is both the reduction per gallon and the number of potential gallons, and because the scale that is available to make cellulosic biofuels is very large, the greenhouse gas mitigation potential is also very large.

Mr. Waxman. Mr. McAdams and Mr. Dinneen, without the RFS, are we likely to see the investments we need to develop new low-carbon renewable fuels in this country?

Mr. Dinneen. Sadly, no, you will not. And the consequences is without the RFS, you are going to see more oil production in this country and the --

Mr. Waxman. The --

Mr. Dinneen. -- profile of oil is getting worse while biofuels is getting better.

Mr. Waxman. Okay.

Mr. McAdams. It is the main driver for our industry.

Mr. Waxman. There are concerns, however, that the RFS has some

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unintended consequences that may significantly reduce its climate benefits. For example, ramping up production of biodiesel may boost palm oil production.

Dr. Martin, could you please explain how large increases in the demand for advanced biodiesel could drive further production of palm oil, and what are the concerns about palm oil production?

Mr. Martin. Yes. Thank you. So the -- I think RFS allocates a different bucket with regard to -- with some consideration of, you know, what is available underneath them. And the -- you know, biodiesel is -- you know, there are some sources of biodiesel that are very low carbon, but the scale that those resources are available are limited. So, for instance, when you make a biodiesel or a renewable diesel or renewable jet fuel out of waste animal fat, then this seems like a very good low-carbon fuel, but there are other users for that, and so if the scale of those mandates exceeds what is available in that market, people aren't going to produce more chickens, because of that demand, and so you will end up driving more demand for vegetable oils. And the lowest-cost source of vegetable oil coming into the global market is palm oil, and so that is the basic concern.

Mr. Waxman. And palm oil production is linked to severe deforestation, land degradation and habitat destruction abroad and increases carbon pollution. Is that right?

Mr. Martin. Yes, that is absolutely right.

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Mr. Waxman. I would like to enter into the record a statement from the Clean Air Task Force on this point, Mr. Chairman.

Mr. Whitfield. Without objection.

[The information follows:]

******** COMMITTEE INSERT ********

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Mr. Waxman. As we consider any changes to the RFS, we need to think about how to minimize unintended consequences and assure that we are actually getting the promised climate benefits. And there may be ways to structure the RFS to provide incentives for additional reductions in carbon pollution.

When the RFS was amended in 2007, existing corn ethanol plants were grandfathered, exempting them from the law's greenhouse gas requirements. These facilities produce most of the ethanol, and overall, the net effect of their fuel may be to increase carbon pollution, rather than reduce it. Some grandfathered facilities have reduced their carbon pollution through operational changes, such as fuel switching from coal to natural gas, but there is no requirement for such improvements.

Dr. Martin, do you think it would make sense to require all grandfathered facilities to improve their operations and reduce carbon pollution over time?

Mr. Martin. Yes. Absolutely. And if --

Mr. Waxman. I only have a few seconds left. Even for the newer facilities that were not grandfathered, the standards to reduce carbon pollution are fairly limited. Once a facility produces a biofuel that meets the greenhouse gas requirements, the RFS does not give that facility any incentives to do better.

Dr. Martin, would it also make sense for the RFS to encourage

additional improvements, such as by giving additional credit to fuel producers that exceed the minimum emission requirements? Yes or no?

Mr. Martin. Yes.

Mr. Waxman. The renewable fuel standard is critical in developing next-generation low-carbon biofuels, but it appears that it could be improved to better achieve the intended climate benefits.

Thank you, Mr. Chairman.

Mr. Whitfield. The gentleman's time has expired. At this time, I recognize the gentleman from Illinois, Mr. Shimkus, for 5 minutes.

Mr. Shimkus. Thank you. I think we lost the mike on this side.

Mr. Whitfield. Do we have anyone that is technically attuned?

Mr. Terry. Barton's works.

Mr. Shimkus. Imagine that. Oh, the irony. And I was all organized. So -- he is a munchkin, too.

All right. Thanks, gang. It is great to -- it is great to be with you. So palm oil. That is a new one on me. Our diesel production is mostly soybeans, beef tallow and the like.

And I think we will talk about biodiesel in the next panel, but other than the RIN fraud, which is being investigated, biodiesel really isn't part of this debate. I think most people, it is dropped in, it is -- there is no retail issues, it is across the market, and I just want to put that on the table. And that was kind of testified in the last hearing.

So, folks, we could have had this hearing in January, and I would have gotten the same freaking answers out of you all in January that I got today. And so the point is, as Chairman Upton said, listen and be constructive. Maybe we are getting -- we got your sides. We know what they are. That is not really being constructive, because we have some issues we have to address, and so we would respectfully request that you come in and be constructive, because I think if -- as you are learning, as much as we are, because you are hearing the members ask questions; you don't have enough for repeal. You do have enough for some reforms. So we better get in the room and get it done, which will help everyone. It will send the market signals to the next generation. It will keep the regular guys in. And it will address the price disparity, or I call it the risk premiums on the RINs, based upon producing something that is really not available or accessible at this time.

You all represent associations. And the members of your associations are not in line with your opening statements when they come in individually and talk to us. So, you know, good for you guys for towing the party line. We have to find, and we are committed to move on a fix, and it would be helpful for you all to start negotiating in good faith to get this done, because as the media was successful in reporting last time, I have got two refineries in and around my district. I have got ethanol refineries all over southern Illinois.

I have got as much corn as you want. I have got crude oil production. I have got fracking. I have got it all, and I am standing squarely with a foot in both bodies, and it is my goal and desire to get to a solution that benefits us all, not one side over the other.

So let me go to the crux of the -- and I think I lost it when I moved over here -- the -- so we have advocation of the repeal of the RFS. I think that has been clearly stated today. Obviously, my friends in the RFS are saying don't do anything.

Can I get you all to commit to at least exploring something that is in between, in between full repeal and keeping as in with no change? Can I get you all to say, we are going to meet with you and try to make this happen? You can do yes or no or answer a question, but I would like to go down the table. I would like to start with Mr. Gerard.

Mr. Gerard. Mr. Shimkus, I think you know we will work with you always, and we are happy to have those conversations. Let me make one brief point, if I can.

Mr. Shimkus. Be brief. I have got a minute left.

Mr. Gerard. I will hurry. First is, though, the reason we call for repeal first and foremost is this statute is fundamentally broken. It is not working. It is --

Mr. Shimkus. Okay. We are back to the same thing, because now Bob is going to say it is perfect.

So, Bob, would you work with us? Jack, I don't -- no.

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Mr. Gerard. We will work with you --

Mr. Shimkus. No. Jack --

Mr. Gerard. -- but let's address the question --

Mr. Shimkus. No, Jack.

All right. Bob?

Mr. Dinneen. I believe to the extent that there are issues associated with the RFS, and I will acknowledge that there are some concerns that need to be addressed, they can be addressed administratively, but I would like to work with you to determine how we can make that happen.

Mr. Shimkus. Okay. Charlie.

Mr. Drevna. Absolutely, Congressman. If we all agree what the facts are and not what the bombast is.

Mr. Shimkus. Well, that is --

Mr. Terry. That means no.

Mr. Shimkus. Okay.

Mr. McAdams.

Mr. McAdams. We recognize our -- maybe if they recognize it is the committee's jurisdiction and legislative authority, we would welcome the opportunity to work with you.

Mr. Shimkus. And, Dr. Martin, I don't have to -- I mean, you can chime in if you want. I mean, you would be willing to help, I am sure.

Mr. Martin. Absolutely. Happy to help.

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Mr. Shimkus. Okay. But let me end on this premise, the government has established by law, and you have all heard me say this before, procedures to refine either traditional or next generation. We have moved, because of our Federal law position, have moved capital into these positions.

You all can't advocate us repealing a thing that shareholders would lose billions of dollars and that the promise of the investment made by Mr. McAdams in future cellulosic, that we walk away from a government-mandated law that moved capital in these refineries.

You are not advocating that we walk away from that and cause them to lose their private sector investment? Would -- Jack, you wouldn't want us to do that to the refinery sector.

Mr. Gerard. No, we wouldn't, but what I would suggest, the second part of what I was going to say earlier is we need to define what it is we are trying to accomplish.

For example, when Mr. Waxman was asking questions about carbon emissions, he asked the future, particularly from the people that Mr. McAdams represents, they are much less carbon-intensive than some of the other fuels. However, the National Academy of Science points out that the current corn-based ethanol we are producing is more greenhouse gas --

Mr. Shimkus. All right. Let me stop you. My time's expired. Let me just go back to say you all need to come to the room, because

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if you keep these positions, no one is going to be happy and nothing's going to get done.

I yield back my time.

Mr. Whitfield. The gentleman's time has expired.

And we are happy to know that all of you are going to graciously come and work with us on this issue.

At this time, I recognize the gentlelady from California, Ms. Capps, for 5 minutes. Not you? Okay. Who is it? Who is it.

Mr. Green. Me.

Mr. Whitfield. Okay. Mr. Green from Texas, you are recognized for 5 minutes.

Mr. Green. Thank you, Mr. Chairman.

Although I would defer to my colleague from California, but I just love following my colleague from Illinois. Congressman Shimkus and I are good friends and over the years, but we also understand we come from different geographical locations.

And I am frustrated as anybody else with the RFS, and I voted for it in 2007. A number of us from my part of the country did, but what we have seen in the last number of years is, whether either with the RINs fraud, the gaming of the system, and I think some of us have gotten to the point where if we are going to have an RFS, it only should deal with things that are not edible. And I know that is some concern with Bob and your group. Corn and soybeans, obviously, you can raise the

prices for everything. And coming from Texas, I first realized the problem was back in 2007 or 2008, and I got calls from all my neighbors saying our deer corn went up, whey they were buying it in October to fill up their deer feeders.

So there needs to be -- and I agree with my colleague from Illinois. I would probably vote for repeal of the RFS, but I just don't see where we are going to get there, but we need to see what we can do to make sure it is quality.

And a lot of people know I represent a lot of oil-based refineries, but I also have some biofuel facilities that are relatively small. And we actually have one that reopened because of market conditions and things like that, but I would like to sit down with that group in the room and see what we could do to make it workable.

But let me ask a few questions before my time runs out.

Mr. Gerard, can you tell me more about the Coordinating Research Council on the E15?

Mr. Gerard. Yes. The Coordinating Research Council is an institution, collaboration, if you will, research, to retest fuels, particularly in automobiles. It has been around since 1942. And we have come together over time, collaborated with government, particularly DOE and EPA, to test the potential impacts on the fleet, if you will, from bringing new fuels into the marketplace.

Most recently, and the reason this probably came up, is we have

tested the E15. And what it concluded after testing on a few models, after designing the test program with EPA and DOE, I might add at their direction originally, we have found that it has significant impact. And as all the auto makers have now indicated, they will not warranty their cars under E15 and the current existing fleet.

Mr. Green. The EPA and the DOE were aware of this research?

Mr. Gerard. They participated in it. In fact, in about 2006 and 2007, they helped us devise it. And the testing that we did was actually -- part of the creation came from the EPA and what they felt needed to be tested to look at these questions.

Mr. Green. Okay.

Mr. Dinneen. Congressman, might I suggest --

Mr. Green. Well, let me ask you a question, and you might be able to answer it any way you want. You stated in the public documents that oil companies have blatantly ignored the law and refused for more than 5 years to make any meaningful investments in infrastructure would allow the sales of E85 or blends above E10. Can you respond to the type of investments in renewable fuels that oil and natural gas has made?

Mr. Dinneen. Sure. But, first, on the CRC test, I would ask that DOE's critique of that test be included in the record, because they had a great number of problems with the test fuels that we used. They were not indicative of what is out in the marketplace. And, in fact,

one of the vehicles that failed actually failed on nothing but straight gasoline. So if you are going to live by that test, maybe we ought not be using gasoline in this country.

Mr. Green. Okay.

Mr. Dinneen. With respect to the investments that the oil companies have made, frankly, they have made precious little, but more importantly, they have prevented gasoline marketers from making those investments and offering fuels to consumers. For example, Phillips 66 has a franchise in Kansas, ARCO 66, that for years had been offering E85, and Phillips 66 was okay with that, and it was an important part of his business. He then wanted to offer E15 and did. He was the very first E15 marketer in the country.

Mr. Green. Okay.

Mr. Dinneen. And Phillips wasn't okay with that.

Mr. Green. I am going to run out of time unless I get a chance --

Mr. Dinneen. So what they did is they changed their franchise agreement --

Mr. Green. Let me ask a question.

Mr. Dinneen. -- to prevent that from happening.

Mr. Green. Let me ask, Mr. Gerard, if Congress were to cap ethanol blending at 10 percent and match the cellulosic requirement with the progress of the technology, how would you respond and API respond?

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Mr. Gerard. Well, we would have to look at how you do that in order to the fuel mix across the country. We are happy to work with you on that.

If I could respond quickly, the oil and natural gas industry are the leading investors in zero-carbon-emitting and low-carbon-emitting technologies. From 2000 to 2010, the Federal Government spent $43 billion in this area. We spent $71 billion. The rest of all the private sector spent 74. We are leaders. We are trying to find the breakthrough in technologies. What the RFS attempts to do is mandate technological change, and it has now demonstrated that you can't do that with statute.

Mr. Green. Well, Mr. Chairman, I know I am out of time, and I wish I had more time for the whole panel, because we have a bunch of questions.

Mr. Whitfield. The gentleman's time has expired. At this time, I will recognize the gentleman from Nebraska, Mr. Terry, for 5 minutes.

Mr. Terry. Thank you, Mr. Chairman.

And I want to associate myself with Mr. Shimkus's statement. It has been frustrating to just hear the same old entrenched, "you are either in or you are out," "nothing needs to be fixed," "it is either totally right or totally wrong." So it doesn't leave us a lot of options here for this committee to look at if that is where we are.

Now, I am interested in some of the more advanced biofuels. And,

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Mr. McAdams, I have been informed or told for over the last several months about exciting new advanced projects going to commercial state now. Could you give an update here?

Mr. McAdams. Sure. Be happy to do that.

Mr. Terry. There are comments that there haven't been any going commercial from pilot projects. So have there been?

Mr. McAdams. I am happy to do that. Let me just take a myth off the table here. We have been able to hit the advanced biofuels numbers in 2011, in 2012, and we will hit them in 2013. It took the ethanol industry 20 years to produce the first 2 billion gallons, and in 2012, we delivered 2.25 billion gallons of advanced biofuels to the American public. Now, the largest portion of that 2.25 billion came from America's biodiesel industry. That was 1.1 billion. And the way the statute works, it receives a 1.5 to 1 energy dense multiplier. So if you can do the math, that is about 1.6 billion gallons that goes towards the 2.25 billion gallon target.

Second myth I would like to take off the table is that Brazilian ethanol fills the bulk of the advanced biofuels pool. That is simply not correct. Because of the nesting requirements in the RFS, you have biodiesel and renewable diesel, its new little brother, coming online filling the bulk of that target.

Just so the members understand the difference, renewable diesel is a pure hydrocarbon that hits the same exact ASTM spec as if you made

it from a barrel of oil. That is what we flew the F-18's on; that is the F-76 we put in the USS --

Mr. Terry. Let me interrupt you there, because that was the next question I have. I have also read stories about aviation fuel as an advanced biofuel, that it is not just being used as an experimental fuel within the Navy or Air Force, but also in commercial. Can you update me?

Mr. McAdams. I have had -- I actually got to fly on the first flight from Seattle to Washington, D.C., last year. The first flight in the United States was a United flight from Houston to Chicago. One of my members has flown over 1,100 flights in Europe on a renewable jet fuel.

We have a number of technologies that have given the gallons to the military and have been certified on most of the military air frames. And then we have the hope of alcohol-to-jet, which is now moving through the process.

So, again, it is not just about cellulosic, it is about a whole variety of advanced technologies. We have one, two renewable diesel facilities in the State of Louisiana now that are running. We have several other smaller --

Mr. Terry. Well, if you could submit the rest for the record, I would appreciate that.

Mr. McAdams. Sure. I would be glad to do that.

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Mr. Terry. So with my last minute 20, I want to ask, starting with Jack going to my right, I have been a supporter of biofuels, not just because I am from the Cornhusker State and that is economically important to Nebraska, but been a rabid supporter of a variety of fuels to offset imports.

So, Mr. Gerard, Jack, if you could start, do we need diversity in our fuel portfolio?

Mr. Gerard. Diversity is always good, as I mentioned to Mr. Rush.

I would say what is happening today, of course, is we are providing more and more domestically, which is getting us off the foreign import question.

Mr. Terry. Is that a yes or a no?

Mr. Gerard. Yes. Diversity is always good.

Mr. Terry. Sorry.

Mr. Dinneen. Yes, Congressman, it is critically important. And thank you for your leadership on this issue over the past several years.

Mr. Drevna. Diversity is always good as long as ago it has a positive impact on the consumer, including costs.

Mr. McAdams. I practice it in my 401 every day.

Mr. Martin. Yes. Absolutely.

Mr. Terry. Thank you.

I yield my time, yield back my 5 seconds.

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Mr. Whitfield. The gentleman's time has expired.

At this time I am recognize the gentlelady from California, Ms. Capps, for 5 minutes.

Mrs. Capps. Thank you, Mr. Chairman, for holding this hearing. And I appreciate the witnesses' testimony today. We all have a range of perspectives on RFS, but I hope we can agree on the importance of the policy's primary goal to develop a cleaner, more sustainable fuel supply. Developing reliable renewable fuels were reduce our dependence on oil, much of it foreign, strengthen national security and create quality local jobs.

There are a variety of Federal policies to help us move in that direction. Some are direct investments like tax incentives and research funding, and some, like the RFS, set public policy goals for private industry to work toward. I think both approaches play an important role of fostering growth of renewable fuels, but the RFS in particular is vital to creating some stability in an otherwise uncertain and volatile marketplace.

As we know, some are calling for the complete repeal of RFS due to concerns about the ethanol blend wall. I agree there are some issues with RFS that do need to be addressed, but a complete repeal would have far-reaching negative impacts, go far beyond the blend wall.

So I am going to ask Dr. Martin a couple of questions. You point out in your testimony that repealing RFS would lock in the status quo

by more or less ending the development of advanced cellulosic biofuels. Can you elaborate on this? How would repealing the RFS impact our ability to develop viable new advanced fuel resources?

Mr. Martin. Yes. Thank you very much. I think it has been mentioned several times that the investment in the next generation of biofuels are -- you know, really does rest on understanding what the goals of the fuel policy are and the objectives that we are trying to meet. The RFS sets those goals and the companies have made investments and are starting to produce fuel.

I think something that sometimes gets lost in the sense of, you know, how much progress have we made, isn't this a failure already, is that we have moved from laboratories to commercial production, and we have done that in a relatively short amount of time, but the fuel industry is enormous, and so the amount of time to go from one commercial facility to 16 billion gallons is, of necessity, will take some time.

Mrs. Capps. Thank you. To continue, a key part of the RFS process is evaluating the total reductions in life cycle, greenhouse gas emissions for a given biofuel. In your testimony, you also state that the -- and this is a quote from your testimony, the implementation of the RFS to date has had at best a limited positive impact on greenhouse gas emissions.

Can you explain why this is the case and how increasing the use of cellulosic biofuels would impact this assessment?

Mr. Martin. Right. Absolutely. We are very much looking to the RFS as a policy to reduce greenhouse gas emissions from the transportation sector and from fuels, but we think the biggest opportunity there is in the cellulosic biofuels and because of the competition with food in particular. And so I think it makes a lot of sense that the RFS, after scaling up the biofuels that were available in the beginning of the policy, is shifting to other resources and we think that -- and that is where the big opportunities are going forward.

Mrs. Capps. One final question. I have a little time. And I see some others nodding, so if there is time to get a comment from others as well, but the RFS has played and will continue to play a critical role in accelerating the development integration of advanced biofuels that we need in order to reduce our dependence on oil, but there is so much more that we can and should be doing. That is maybe the subject for another hearing.

Dr. Martin, other than the RFS, what more could Congress be doing to accelerate the development of a cleaner, more sustainable fuel supply?

Mr. Martin. Yes. Absolutely. I think there are a lot of opportunities outside of this policy, in particular in the Tax Code, because the cellulosic -- the delay in cellulosic has been all about investment, and certainly there are policies that could support more rapid investment.

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Mrs. Capps. Mr. McAdams or others, would you like to comment as well?

Mr. McAdams. I wholly agree. The Tax Code has several options that would be very helpful. That is an area to look at.

Mr. Drevna. Congresswoman Capps, the advanced biofuels, I think we have to differentiate on the cellulosic. What is -- what is cellulosic ethanol, we are still going to have the 10 percent blend wall, with cellulosic drop-in biofuels that my industry is doing a lot of research on, so we are having this cross-section of definitions here, but all cellulosic is not cellulosic. The ethanol, we are still going to have the 10 percent blend wall, the cellulosic drop in biofuels are still years away.

Mrs. Capps. Any other comment?

Mr. McAdams. Ms. Capps, I am going to send Mr. Drevna some of the drop in gasoline made from pine trees so he has got some.

Mrs. Capps. There you go.

Mr. Gerard. Ms. Capps, I would suggest maybe this might be a way -- an area that you might look at for those who are looking for the middle ground. As Mr. McAdams said, cellulosic and advanced in those areas, which are less greenhouse intensive, versus what we have today. If you look at the E10 blend wall we have today, driven heavily by corn ethanol, which is driving us to that brink, that is why we argue we should repeal that, and then if we want to look at another agenda

or another policy down the road, those are the areas we should look at.

I think, as Mr. McAdams said, when you look at the advanced fuels that are still way down the road, there might be a better way to do this than have a mandate like the RFS that brings us to the point of crisis and has very adverse impacts on consumers.

Mr. Whitfield. The gentlelady's time has expired. At this time, I recognize the gentleman from Texas, Mr. Olson, for 5 minutes.

Mr. Olson. I thank the chair and I thank the panelists for joining us this morning. This issue is slightly controversial, with some passion. That is a little attempt at some humor, something I learned from the ultimate Texas humorist, William Philip Graham, otherwise known as United States Senator Phil Graham, who I worked for 4 years. And Phil Graham always taught me to seek the truth, and he said, by something very simply, Boy, facts are a little persistent "thangs." And that is a crummy Georgia-Texas, accent, but that is what I am here to do today, is find out the facts.

Here are the facts I took away from the discussion of last month's hearing before this committee. The RFS was designed for a U.S. energy future that no longer exists, that a peak oil and increasing gas demand. The mandate will be met this year by using most of the older excess credits in the system. In future years, if unchanged, will be much more difficult. Compliance costs are spiking, especially for small

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refiners who don't blend fuels and generate their own credits.

The RFS has helped increase corn prices, and that has hit consumers back home, at Kroger's, at Safeway and HEB, and, yes, at Wendy's and even Whataburger. With all due respect to some of the panelists who said that there is not an impact on food prices, RFS does have that impact. Wendy's came into my office a month ago, wanted to talk about Federal issues. You think they want to talk about Obamacare, increasing taxes, all sorts of things? No. They wanted to talk about RFS corn-based ethanol and how it has increased their cost of doing business.

And I want to have a disclaimer, too. I am not, not opposed to corn farmers or ethanol. I have gotten blisters on my hands throwing a hoe in my uncle's farm there in south central Wisconsin cutting down the weeds in his corn fields, so I know how important corn is in that part of the country.

I do have some questions. I want to dig deeper on the RINs issue, so I have some questions for Mr. Gerard and Mr. Drevna, on its impact on small refineries. Large refineries, as we have seen, are able to generate many of their own RINs, however, many small refineries lack the distribution network and blending operations to do that. Can you please explain what this has meant for small refineries as RINs prices rise?

Mr. Gerard. Well, thank you. Go ahead.

Mr. Drevna. Okay. I am sorry. First of all, thank you, Congressman Olson, but I think that the issue is just -- it transcends all refineries whether you are large or small, because not all refineries blend, not all refiners own blending facilities. Most do not. But it is a great question, because in response to your question, I can also comment on Mr. Shimkus' thought about not wanting to take away investment and have people suffer in the marketplace. Back in -- when the RIN prices first skyrocketed, when the market saw that there wouldn't be enough RINs either for 2013 or 2014, they shot up at that time to a modest 60 cents. Huh. The refiners, the independent refiners lost $2.5 million of market capitalization in one day. So that is what this RIN thing has done. And that is over and above them having to pay for the cost.

Last week, Bill Klesse, chairman and CEO of Valero, testified on the Senate side that Valero, a very large independent refinery, is going to be spending between 6 to 7 -- $500 million to $700 million on RINs. And, oh, by the way, they are the third largest ethanol producer in the country. They produce more ethanol than 97 percent of the above-the-knees members. So that is the reality. This is a market-skewering, economically disastrous kind of policy that needs to be addressed.

Mr. Olson. Mr. Gerard?

Mr. Gerard. Mr. Olson, the impact on whether they are small or

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large is fundamentally the same. Let me bring us back to the focus. The real culprit here is the E10 blend wall. Charlie and others have mentioned for many years, those RINs were in the 2 cent to 3 cent range, and it wasn't a concern.

What has happened is the market are seeing the mandate under the renewable fuel standard and say, we are going to force you or mandate you through to essentially where we have options to either create an unsafe fuel, but the auto manufacturers say, we are not going to warranty our cars if you do that, or go to fuels like E85, where consumers are already telling us they don't want to buy the fuel. Why? Because it has less energy content in it. There is about one-third less energy in a gallon of ethanol than there is in a gallon of gas.

So when you look at the price differentials, the cost of pure ethanol has always been higher than a gallon of gasoline. Consumers are figuring this out. That is why even with flex-fuel vehicles, they are not buying E85, even though it is available. Minnesota is a good example. They have actually increased the number of filling stations in Minnesota, and the demand for E85 is going down. Consumers understand it is all about energy; it is what you have to pay for to get from point A to point B.

Mr. Whitfield. The gentleman's time has expired.

Mr. Olson. Yeah. I am sorry, Mr. Dinneen. My time --

Mr. Dinneen. I thought the search for the truth would include

both sides.

Mr. Olson. Well, I mean, the chairman's got the gavel there, so --

Mr. Whitfield. At this time, I recognize the gentlelady from Florida, Ms. Castor, for 5 minutes.

Ms. Castor. Well, thank you, Mr. Chairman.

And thank you to all the witnesses for your testimony today.

I am certainly open to some reform of the RFS, but there are some overriding issues that I think have to keep in mind. In 2007, the Congress updated the RFS with the explicit purpose of reducing carbon pollution from the transportation sectors. The Congress at that time was looking for different strategy among different sectors of the American economy. The Congress said, here in the transportation sector, we have got to reduce greenhouse gases being generated in the sector and also to help Americans across the country avoid the impending high costs that are being brought about by climate change.

So the two primary ways in which the RFS aims to deliver these reductions are in the mandate for advanced biofuels, which must cut carbon pollution by at least 50 percent on a lifecycle basis, compared to petroleum fuels, and the mandate for cellulosic biofuels, which must cut carbon pollution by at least 60 percent. I know Congresswoman Capps was able to ask Dr. Martin about the greenhouse gases.

Mr. McAdams, what role do you see -- how is it going? Are we

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really achieving the targets that we have set? You represent many of the companies that are developing and producing these advanced and cellulosic biofuels. What kind of greenhouse gas reductions are we actually seeing?

Mr. McAdams. Well, by law, all of my members have to deliver a 50 percent greenhouse gas reduction over a 2005 baseline gasoline or diesel standard. And we delivered 2.25 billion gallons last year. And when you think about that -- and the rules of the RFS were not even implemented until July of 2010. I defy anybody to say to stand up an entire industry in less than 3 years is a pretty decent performance, and we are probably going to be at 2.75 billion this year or above and over 3 next year. So we have done very well in the diversity of technologies that are coming online. These were all new, innovative technologies. This is -- unlike the oil industry, who has depreciated their refineries, because they haven't built one in the last 40 years, my members have built three new refineries in the last 18 months. That is a heck of an accomplishment for America, and that diversifies our portfolio. So I am proud of the progress we are making, and you will see a lot more between now and 2016.

Ms. Castor. Well, I do believe they are replacing a significant quantity of petroleum with these low-carbon biofuels could result in climate change benefits and help. And the cost equation, you have to think about it on both sides. And coming from the State of Florida,

I am particularly sensitive to this, because we are asking local taxpayers now to fund plans to address sea level rise, what is happening to our infrastructure along the coast. And unless we have some provable, evidence-based strategies going forward, we are just going to flail around and probably waste a lot more money.

The development of cellulosic biofuels, however, hasn't been as quick as Congress wanted. We are impatient. Plus corn is problematic. Is it raising food costs? Based upon what I am hearing from folks back home, they certainly believe so and they are providing evidence to back that up.

Last year, however, we saw the first cellulosic gallons produced in the U.S. The Energy Information Administration predicts the sector will grow substantially in the coming years.

Mr. McAdams, as I said, we are impatient. What else can we do? What else constructively in the RFS can we do to move this along? I know you talked about tax benefits, but this is the Energy and Commerce Committee and not Ways and Means. And if we are going to draft any legislation, what should it include?

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[11:45 a.m.]

Mr. McAdams. Well, one of the things I would encourage you to consider is the point that Dr. Martin referred to, which is, from a performance-based standard, we have many companies that build a fuel now that exceed the 50 percent threshold. Yet, under the RFS, it is just a 55-mile-per-hour line. They don't get any extra credit for it. You could actually see companies that have facilities that are less than the 50 percent threshold that might be encouraged to make further upgrades, like combined heat and power or switch their fuel sources to natural gas, that would actually increase their GHG coefficient if they were to get something for it, which would encourage them to do that. That is not currently in the RFS.

Ms. Castor. Okay. And, Dr. Martin, I think you mentioned a new Florida company that has come online. Could you reference that for me, please?

Mr. Martin. Absolutely. I had a chance last year to visit the INEOS refinery in Vero Beach. And they are starting up a process using vegetative waste that would otherwise be headed to the landfill to make not just biofuel but also renewable energy. So it is really exciting to see these commercial facilities come up. And when you understand

the time frame that that went from a laboratory to a pilot plant to commercial production, I think it is hard for them sometimes to understand -- if you only look at the number, like how quickly is it going to be half of gasoline production, you miss these huge improvements as you go from, you know, milliliters to gallons to 1,000 gallons to 1 million gallons to 10 million gallons. We need to get to 10 billion or more gallons. But we have made tremendous progress to get to where we are now.

Ms. Castor. Thank you very much.

Mr. Whitfield. The gentlelady's time has expired.

At this time, I recognize the gentleman from Colorado, Mr. Gardner, for 5 minutes.

Mr. Gardner. Thank you, Mr. Chairman. And thank you for convening this hearing on a very important issue for my congressional district.

The Fourth Congressional District of Colorado is the 11th leading agricultural district out of the 435 districts in Congress. We have corn growers. In fact, my home county has in the not-too-distant past been the number two or number three corn-producing county in the United States. And we produce livestock, the fifth largest cow calf operation in the country. We boast thriving oil and gas production. In fact, the State of Colorado ranks fifth in the United States in terms of natural gas production. Many of the groups who are represented here

today and tomorrow do have different opinions regarding the Renewable Fuel Standard. And I thank the committee for what is a deliberative and systematic process in this debate. And I appreciate the witnesses for being here today.

So I will first direct my questions to Mr. McAdams. You discussed a need for certainty for investors and makers of advanced biofuels. I have an ethanol plant currently in my district that is looking to make cellulosic ethanol from bark beetle-killed wood. How would the development of this project be impacted if Congress made changes to the RFS?

Mr. McAdams. I addressed that directly, Congressman, in my opening statement. The largest single problem we have is certainty. Both in the Tax Code, where the provisions are on one year and off another year and now in the debate as to whether we are going to repeal the RFS or not repeal the RFS.

Mr. Gardner. Affecting your investors?

Mr. McAdams. It is the number one concern of the CEOs that I represent.

Mr. Gardner. In your testimony, you discuss short-term solutions to issues raised today that would give EPA more flexibility. Do you believe Congress can fix this problem and give the EPA the flexibility it needs?

Mr. McAdams. I am unclear as to whether they can. But I know

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that the EPA, because I have spoken to them on a consistent basis, is trying to deal with this RVO issue in the short term.

Mr. Gardner. Do you think they have the authority make changes within the RFS currently?

Mr. McAdams. Yes, sir, I do.

Mr. Gardner. To Mr. Dinneen, we are going to hear tomorrow from representatives -- and I will give you a little time to respond to the comments made earlier. We are going to hear tomorrow from representatives of the livestock industry. As someone who hails from an agricultural district, I represent both the farm side and the ranching side. Can you discuss how the coproduct from ethanol production distiller's grain, how they impact livestock operations?

Mr. Dinneen. Thank you very much, Congressman. Absolutely. We are only using the starch in the production of ethanol. What is left behind is a very high-protein, high-quality feed that is then going to poultry and livestock markets across this country and, indeed, across the globe. In fact, the amount of DDG, distillers' dry grains, that our industry produced last year is enough to produce the hamburgers to give everybody a quarter pounder a day for the next 8 months.

Mr. Gardner. And I will ask a similar question at tomorrow's hearing with that panel because we have got group that is on the opposite side of that question tomorrow. How would you respond to the issue of higher feed and operating costs?

Mr. Dinneen. Well, look, one of the reasons that the RFS was passed was to stimulate economic opportunity across rural America; $2 corn was not sustainable. And the Congress was having to pay farmers not to grow. What they wanted was a value-added market for farmers. One of the purposes of the RFS was to increase farm income, increase the price of corn. And it has done that. And as a consequence, this Congress can now contemplate a farm program that is significantly different than what you otherwise would do. And farmers are getting more of their income from the marketplace, not from the mailbox. And that is a good thing. But even so, our industry is using less than 3 percent of the world's grain supplies and none of its food grains -- like rice or wheat. So we think that the impact on food is negligible to nothing.

Mr. Gardner. I will give you a couple additional seconds if you want to respond to comments made earlier because I do have some questions for Mr. Gerard.

Mr. Dinneen. I appreciate that.

Earlier, the issue was whether or not small refiners or large refiners that don't have downstream blending opportunity, they can't get the ranch. Well, we sell a lot of ethanol to major refiners. But regardless, these companies have more market power than anybody in the universe. And in their contract negotiations, they can make sure that the RINs are returned to them for ethanol that is blended with gallons

that they are providing. And for Valero in particular, the third-largest RIN producer in the country, if they can't find RINs, they have got a problem. But that problem is not with the RFS. That problem is with their own internal operations. It isn't doing what it can to capture the RINs that it is producing.

Mr. Gardner. Thank you, Mr. Dinneen.

Mr. Gerard, I am going to ask two quick questions. We may not have time to get to them. Can you discuss how you believe RINs translate to consumer costs. And number two, outline the risks you see associated as you have done so with blending higher volumes of ethanol in your opinion.

Mr. Gerard. Great question. I will try to be brief here, but I would like to provide you a lot of material.

EPRINC just did a study and released it a couple of days ago which pointed out that they believe because of the E10 blend wall -- keep in mind that is the culprit here that drives the RIN price increase. Because of the E10 blend wall, when companies like ours, obligated parties, now try to comply with the Renewable Fuel Standard, it is arbitrarily and unfortunately driving up those costs. So when we try to comply, we have very few options. We can go out and quit producing, which we are trying to avoid doing. We can produce the fuel if the auto manufacturer says don't put it in our cars; and by the way, we have liability if we do for not having the appropriate product. Or

we can try to push a larger blend, an E85 blend which the market has already shown won't take. What this report concluded is it shows over the next couple of years this will drive the cost of gasoline from 20 cents to $1 a gallon. That is just one of three reports we have. The Wall Street Journal editorial last Saturday said, they expect it will drive the cost of gasoline at least 10 cents a gallon and will cost the economy $14 billion.

The real injustice here, this is all avoidable. We can address this question if we will deal with the E10 blend wall and make sure that mandate is taken away. And that is why we support repeal. This law is fundamentally broken. And it is driving us to the brink of crisis for no reason other than the fact that we just haven't dealt with it.

Mr. Gardner. Thank you, Mr. Chairman.

Mr. Whitfield. The gentleman's time has expired.

At this time, I recognize the gentleman from New York, Mr. Engel, for 5 minutes.

Mr. Engel. Thank you very much, Mr. Chairman.

I am very pleased that we are holding these hearings on the Renewable Fuel Standard. A program as important as this should be reviewed by Congress and any possible issues addressed. I believe that the Renewable Fuel Standard is an important tool in promoting U.S. energy security, an issue that I have been promoting for several years.

When it comes to the RFS, much has been said, both good and bad during the last hearing and in testimony today. However, I believe, it is important to remember that this program reduces our greenhouse emissions and reduces our dependence on foreign oil. And both of those are very important. I believe that the EPA has the authority to deal with issues discussed today, such as the so-called blend wall. And the levels of advanced biofuels that are mandated. It is also important to remember that many of these new technologies aren't exactly new. So it is premature to judge their success or failure. There are things we can do to strengthen the RFS. I have recently introduced the Open Fuels Standard Act, which I believe is a complement to the RFS with my colleague from Florida Representative Ros-Lehtinen. This legislation would require auto manufacturers to build cars that can run on alternative fuels. In addition to gasoline, it could include ethanol, methanol, natural gas, electricity, biodiesel, hydrogen, or some new technology. It would empower our consumers to make a choice about what fuel is best for them. I urge this panel to take up the Open Fuels Standard Act.

Let me ask, Dr. Martin, in your statement, you spoke about the motivation behind the expansion of the RFS which was to cut U.S. oil consumption. I believe that the evidence shows it has moved the U.S. toward that goal. Can you speak to how adoption of the Open Fuels Act might help us toward furthering that goal?

Mr. Martin. Certainly. I think reducing the use of oil is good for the country. And I guess I have heard in today's discussion some comments that, you know, things were -- the predictions in 2007 were wrong. And because we are using less oil now than we were in 2007, I think it is important to note that that is a positive sign. That is good for the country. Using less oil is the solution to the problems that oil causes to our economy. With respect to the open fuels standard, I think we have had some discussions in the past with your staff, and we have some detailed concerns about the best way to provide incentives for vehicles that use more -- that they use cleaner alternatives. And so I think we definitely support those goals. And I think our approach to cutting oil use is not just a biofuels approach but relies on, as the open fuels standard emphasizes, reducing oil use with better biofuels but also with electric vehicles and a later variety of technologies.

So while we are happy to continue to work on details and the best way to implement that, I think is moving forward with oil-saving solutions across the economy is the right way to address the problems that oil causes.

Mr. Engel. Thank you. I might also add that in the various Appropriations bills, I have gotten amendments in those bills which would implement the President's executive order that in the Federal fleet of cars that they would all be flex-fuel cars.

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Let me ask you again, Mr. --

Well, let me ask Mr. McAdams or Mr. Dinneen, would either of you comment on how the increased ability of consumers to choose their fuel as they would with the adoption of the OFS would affect the so-called blend wall? And can either of you address how more consumer demand of biofuels would help the industry grow more quickly?

Mr. McAdams. Well let me just make one comment, and I then will defer to Bob.

A number of my members -- in fact, the majority of my members actually make a drop in hydrocarbon molecules which doesn't need an open fuel standard. It can compete directly with the hydrocarbon fuels today. So I will let Bob pick up the other piece.

Mr. Dinneen. Thank you, Congressman.

We do support the open fuels standard, and we appreciate your leadership over the years on that issue.

I will tell you that greater E85 sales is absolutely a way around the blend wall. The blend wall this year, as I testified to earlier, is less than tow-tenths of 1 percent of the U.S. gasoline market. You can meet that with greater E85 sales. If the 3,000-plus E85 stations today were offering E85 and selling just 50,000 gallons a month, we would meet that standard. And you can most certainly do that.

Certainly, as the price of gasoline has increased and ethanol prices have been coming down, consumer use of E85 is increasing

specifically. And I can give you some specific data from the State of Minnesota that has shown since May there has been a spike in E85 use because the economics today are just compelling. And that is ultimately what is going to move this market.

Mr. Engel. Thank you. If you could get that to me, I would appreciate it.

Thank you, Mr. Chairman.

Mr. Whitfield. The gentleman's time has expired.

At this time, I recognize the gentleman from Kansas, Mr. Pompeo, for 5 minutes.

Mr. Pompeo. Thank you, Mr. Chairman. Thank you all for being here today. There has been a lot of discussion about the RFS protecting investments or being good for a particular industry, corn growers, bad for cattle guys. It seems to me those are the wrong discussions. It seems to me this is about consumers, providing them the independent energy at the source that they demand and that they want. It seems like that ought to be everybody's focus. A lot of nodding heads, but I haven't heard much talk about it today. So I want to try to get to that.

Mr. Gerard, a moment ago you said -- but I will ask everyone to try to give me a yes or no. Yes or no, does the RFS today impact the cost of transportation energy for consumers in the marketplace today?

Mr. Gerard.

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Mr. Gerard. It does. It clearly impacts it, but it is not in a downward fashion.

Mr. Pompeo. You think it goes up.

Mr. Dinneen.

Mr. Dinneen. Yes, it impacts it.

And because ethanol is less expensive than gasoline, it is helping consumers today.

Mr. Drevna. I respond in the affirmative to what Jack said.

Mr. McAdams. I think it is helping consumers because it is giving them a diversity of choice.

Mr. Martin. It is having a limited but positive benefit at the present time.

Mr. Pompeo. So you think it makes a gallon of gas cheaper?

Mr. Martin. It is hard to say. I don't have actually a specific analysis.

Mr. Pompeo. And Mr. McAdams, you think it makes it more expensive. But you think it is worth it because of the diversity?

Mr. McAdams. I think, over the long haul, the return on the investment is good.

Mr. Pompeo. My question is today. If you drive up to a pump, is it costing you money --

Mr. McAdams. -- compete with today's market. And my members are doing that.

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Mr. Pompeo. Mr. Drevna, one of the responses to the RFS potentially is that refiners will export products to solve this challenge that they perceive, at least, with respect to RINs. Is there evidence of that happening already today?

Mr. Drevna. I am sorry. I didn't catch the last part of the question.

Mr. Pompeo. The question is about exports. The question is, is there evidence that refiners are exporting refined products today as a result of the RFS, that they would not have absent that?

Mr. Drevna. Right today, I can't say definitively yes. But I can guarantee you, if this blend wall product isn't solved, refiners are going to -- they have a couple of options to address the RIN in a blend wall. One is to cut runs, which will limit the supply of gasoline and diesel overall; and two is to export more, which would also limit their obligation. Another thing you have to take into consideration is the import of either gasoline or gasoline product to be blended here in the United States. There is evidence that shipments of gasoline and gasoline components have made a u-turn to go somewhere else because of the high cost of those free RINs.

Mr. Pompeo. Mr. McAdams, you talked about an F-18 you saw flying off the deck with this new and improved product. What did that cost compared to what it would have cost the taxpayer?

Mr. McAdams. I am not familiar with the exact price. I would

be happy to try to find out for you.

Mr. Pompeo. If I am saying it is 10 or 15 times as much, would you dispute that?

Mr. McAdams. I just don't have the information.

Mr. Pompeo. Thank you.

If it was 10 or 15 times, would you still think it was a good idea?

Mr. McAdams. Over the long frame and depending on the number of gallons, it might be a great bet.

Mr. Pompeo. Mr. Dinneen, you talked about RINs being free. The gentleman who runs Valero said its RINs are going to cost $500 million. Why is he wrong?

Mr. Dinneen. Because he is the third largest ethanol --

Mr. Pompeo. But why is he wrong? I understand what he does. Why is he factually wrong? It is about facts. We are trying to create policy from facts. Tell me why he is wrong about what he is going to have to report under Sarbanes-Oxley next year for the cost of his RINs.

Mr. Dinneen. By regulation, ethanol producers have to give a RIN to the purchaser of the ethanol. So they are free. If they are out on the marketplace looking for RINs, looking for credits, it is because they have made a decision not to invest in E85 infrastructure, not to allow more ethanol to be used, and to go to the marketplace elsewhere.

Mr. Pompeo. I want to get to that. I appreciate that. You said, it is because they hadn't invested. Is there any lawful

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requirement for these companies to invest in this infrastructure? You posted on your blog -- and I want to make sure I get the language exactly right, quote, "oil companies have blatantly ignored the law, refusing more than 5 years to make any meaningful investment in infrastructure that would allow the sale of E85 or blends above E10." What law is it that they were violating in not making those investments?

Mr. Dinneen. Well, what they are ignoring --

Mr. Pompeo. No, no. What law? I am just trying to figure out what statute, what U.S. Code. I assume it was a Federal law. What law did they violate?

Mr. Dinneen. The point is they are ignoring the RFS, which sent a very clear signal to everybody that we are going to be using more renewable fuels. The auto companies responded by producing more FFVs. Our ethanol responded by investing in new technologies. The oil companies responded by deciding not to allow consumers access to these other fuels.

Mr. Pompeo. So many more questions, but Mr. Drevna, go. I will see if the chairman will bear with me.

Mr. Drevna. I have to respectfully disagree with Mr. Dinneen. We have no control over what the 95 percent of the independent gasoline operators do. It is up to them. It is up to them. If they want to make the investment to sell E85, which the consumers don't want, have at it. If Mr. Dinneen's members want to invest in E85 stations, my

members would be more than willing to sell him the 15 percent gasoline.

Mr. Dinneen. The franchise agreements is how they control what is sold. And in Kansas, in particular, we have seen what they do.

Mr. Pompeo. I know the story very well. Did any of those franchise agreements under penalty of death? Or did they enter those franchise agreements voluntarily, do you know?

Mr. Dinneen. I am not privy to the franchise agreements, but I wouldn't say no to anything. All right? That is all I am saying.

Mr. Whitfield. The gentleman's time has expired.

At this time, I recognize the gentleman from Texas Mr. Hall for 5 minutes.

Mr. Hall. I knew when Barton turned it off on Shimkus it would come back. And your suggestion that they instruct or inform and help us reform, Mr. Shimkus, is probably one reason he whacked it off.

I am going to take a chance on that and ask some of the same questions that have been asked because just about everything has been covered.

Mr. Drevna, in your talking points, I guess American Fuel & Petrochemical Manufacturers' white paper is a good bit about the advanced biofuel shuffle. And I am told there is no difference between corn ethanol and sugarcane ethanol for fuel blending. The shuffle occurs only because of the RFS advanced biofuel requirement. So let me maybe go to Mr. McAdams if I might. And first, I want to thank the

chairman for the hearing because I haven't attended a more important hearing, a more divisive hearing, or a hearing where men like you five could get together and really give us some good work if you could get together in the future. There ought to be some answer to this other than the Congress having to make an answer.

And how to proceed with RFS and issues with blend wall are very important to our energy future. I am not sure what our best path is right now where all of you come in. Hopefully, by the end of this hearing, we will have a better idea of how to move forward in the future.

So, Mr. McAdams, the blend wall, probably the most pressing concern to the renewable fuel standards and specifically an ethanol issue. But the RFS is designed to include advanced biofuels other than ethanol, including so-called, as some of you mentioned, the drop-in fuels that don't contribute to the blend walls and, in fact, may be the solution to it.

Mr. McAdams, are there currently any fuels being made that avoid the blend wall and take pressure off the use of ethanol? And are you concerned that unless the blend wall is addressed, it could sink the entire RFS, including the advanced biofuel provisions? Do you have that figure?

Mr. McAdams. Thank you Chairman Hall.

Let me first answer the question about the biofuels. Yes, there are a number of fuels that are drop-in biofuels that are currently being

used in the d 6 or the conventional pool. When you originally designed the RFS, I don't think most of the folks in the committee understood that other fuels could be compliant with the D6 pool, which was originally set up for the ethanol industry. With the advent of the rise in the RIN price for the D6 pool, we have seen a number of renewable diesel gasolines and some biodiesels actually come into the D6 pool. If you take Mr. Dinneen's testimony at his word that there is a 280 million gallon gap in terms of the number of gallons of gasoline to put the ethanol in, we may actually see 100 million gallons of renewable diesel this year used in the State of California because the State of California wanted the enhanced greenhouse gas reduction of those fuels back out the blend wall issue to some degree. Now I am not suggesting to the committee it is the panacea moving forward as the size of the cellulosic number grows.

But I do want everyone to be aware that there are a variety of flexible drop-in fuels that are now helping take the pressure off the blend wall. And yes, the blend wall issue has created a great firestorm, as you have witnessed today. And it is had a negative impact on my guys being able to build these innovative plants to find financing.

Mr. Hall. Mr. Gerard, would you like to comment?

Mr. Gerard. Yes, I would, Mr. Chairman. Thank you.

What Mr. McAdams says is probably true and important. Let me

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just add, though, and I think we talked about this before the issue. It is an incremental pressure. And what I mean by that, it still doesn't resolve the entire problem. Keep in mind the challenge we have with the blend wall today is only for this year. Next year, the volume goes up. The following year, the volume goes up yet again. And so this continues to escalate into the future. So while we are getting some incremental improvement in some biofuels and others, diesel, that is terrific. It is assisting, but none of it is sufficient to offset the pressure and the crisis we have in the blend wall. That is why we have got to come back and address the blend wall issue.

Mr. Hall. Thank you for that.

Mr. Drevna, I wish you would address the advanced biofuel shuffle, the import of sugarcane ethanol from Brazil and the exporting of corn ethanol from the U.S. to Brazil. What is happening and what ought to be done to fix this? And let me just say this because I think my time is probably almost gone. I know most of you there that have invested and have built companies and are relying on a reasonable well-thought-out answer to this problem. You might feel like the button people felt when the zipper guy came along. But for your knowledge, the button companies are still going, and the zipper companies are all going together. So we need to work something that is satisfactory to all five of the folks you all represent there. That is a big job.

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And I will yield back my time.

Mr. Whitfield. The gentleman yields back the balance of his time.

It is time to recognize the gentleman from Louisiana, Dr. Cassidy, for 5 minutes.

Dr. Cassidy. Thank you. One of the advantages of going last is that you get to hear your colleagues and get a sense of where they are going. Some of you I know would like to totally repeal the RFS. But if Mr. Hall from Texas is saying that the buttons and the zippers are going to list, I am a little bit of a vote counter, and I don't think that there are, frankly, votes to repeal it. It is not -- because I have been kind of sounding my colleagues as they walk out to get a sense of it.

Now, Mr. Gerard, you just suggested that -- I am not committing you to searching for -- I am a practical guy. So if we have got to come up with something that is going to keep the most deleterious effect of this from happening and if even Mr. Hall from Texas is going to say that we have to coexist, then I am going to kind of accept his lead and ask you guys, if there was something that we could do to at least ameliorate the negative effects. I gather we would start with the blend wall. Keep it from escalating. Can I just go down the line and ask each of you, if you can concede that there would be something that we could work on, what would that be?

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Mr. Gerard. Clearly, the blend wall is the crisis right now. I would suggest, Mr. Cassidy, that the first thing we have got to do is to define what we are trying to accomplish. What I mean by that, I hear conversations about greenhouse gases. I hear import reliance. I hear a variety of other things involved. I think we need to define it because fundamentally today, the market is very different than it was in 2007.

Dr. Cassidy. I accept that. As I listen to everybody and have read your testimony, it seems like the major concern that will keep all those guys voting against repeal would be greenhouse gases. Now I gather there is a confusion of experts on that. There just is. But also gather that for some folks, it is something which is going to be accepted as holy scripture, and they are not agnostic.

Mr. Gerard. Well, if you look at the panel today, there might be a distinction between Mr. Dinneen and Mr. McAdams because the National Academy of Sciences has concluded that the corn-based ethanol --

Dr. Cassidy. I accept that. I am a practical guy. And they are going to believe it no matter what. And there are going to be some others who, for some other reason, decide they want to stay with the renewable fuels standard. I am not arguing either side. I am just telling what you I have observed. So when we start with the blend wall, perhaps prevent the escalating sort of demands of it, is there anything

else that you would suggest, Mr. Gerard?

Mr. Gerard. Well, I think we need to do that first, and then again, I would suggest we go back and look at the foundation of the fundamentals. What are we trying to do?

Dr. Cassidy. So walk down the aisle.

Mr. Dinneen. Congressman, as I indicated before, I will acknowledge that there are issues that need to be addressed. But I do believe strongly that EPA has the authority to address some of those issues. I, for example, believe that the agency ought to be looking at transparency in the RIN market.

Dr. Cassidy. Let me first say, our side doesn't trust EPA, okay? And I think if there is some legislative vehicle that could give assurance to both, that might be preferable. We can argue for the world view which we would like to have. I am just listening to my colleagues and getting a sense of what the world view is up here. So aside from relying upon the beneficence of the EPA, what else would you suggest?

Mr. Dinneen. Well, the suggestion was that this blend wall is creating a crisis. I am a practical guy, too, Congressman. I just happen to believe that two-tenths of 1 percent of the U.S. gasoline market that is represented by the blend wall this year is not a crisis. And it can be addressed.

Dr. Cassidy. But it escalates, as the other panel has said. So even though we may be able to mitigate it this year, in subsequent years,

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it will become more difficult. And as your neighbor just pointed out, there may be tanks of gasoline going elsewhere.

Mr. Dinneen. The ethanol requirement increases by 600 million gallons --

Dr. Cassidy. I feel like we are battling --

Let's work down the aisle.

Mr. Drevna. Congressman, thank you. I think you have to look at what was anticipated, what were the directives, how they have played out, and a lot that hasn't been talked about today and we tried to bring it up, what is the ultimate impact on the consumer? What is the ultimate impact on the overall American economy, not this segment or this segment or this segment. Look at the thing holistically. Is, has it worked? Where has it failed?

Dr. Cassidy. I accept that. I totally accept that. I think you have very compelling testimony. That said, I don't think that we are going to repeal the RFS. And so, keeping in mind that our primary thing should be the working family of the United States of America, is there anything incrementally that we could do that could improve that?

Mr. Drevna. Well, incrementally, you know, I don't think if a problem is unworkable at its core or at its nucleus, that tinkering on the outer electrons isn't going to get the job done. And that is why we are for repeal. And as Jack said earlier, you repeal it, we are still going to use 10 percent ethanol. Mike's gang is still going

to get advanced biofuels. We are we will progress, not digress. I have maintained, Congressman, if we keep this law as it is, we are going to digress.

Dr. Cassidy. Next?

Mr. McAdams. I would say immediately the committee should in a bipartisan way send a letter to the EPA because it is of no loss to you. And call on them to immediately release the 2013 RVO. And I think you will be surprised you will actually see a decrease in the cellulosic number from the preproposed rule. And ask them whether or not they could do the 2014 and 2015 framework by November 31. I would do that irrespective of what your decision is with respect to legislation. I think you should do both.

Dr. Cassidy. Dr. Martin?

Mr. Martin. I think moving forward with flexibility and also recognizing that the pace of expansion of biofuels over the next few years is going to be lower but putting a complete halt to it or trying to put it in reverse is going to have a very negative consequence. So moving forward at a deliberate but not excessive rate is the best solution.

Dr. Cassidy. I yield back. Thank you.

Mr. Whitfield. The gentleman's time has expired. And there are no further questions for this panel. So I want to thank you all very much for --

I know it is frustrating for all of to you listen to the other side of the issue. But we look forward to working with you as we move forward to make some determination.

Mr. Rush. Mr. Chairman, I have one question that has been kind of percolating in my head.

Can't we all just get along?

Mr. Whitfield. Why are you asking me that question?

Well, listen, thank you all. And we do look forward to working with you. We appreciate your testimony.

I would like to call up the second panel at this time: Mr. Tom Buis, who is CEO of Growth Energy; Mr. Joseph Petrowski, who is CEO of the Cumberland Group, on behalf of the Society of Independent Gasoline Marketers of America and the National Association of Convenient Stores. We have Mr. Shane Karr, vice president of Federal Government affairs, the Alliance of Automobile Manufacturers. We have Mr. Todd Teske, who is chairman and CEO of Briggs & Stratton. We have Mr. Robert Darbelnet, who is president and CEO of AAA. And we have Mr. Joe Jobe, who is the CEO of the National Biodiesel Board.

So if you would all have a seat. We thank you for being with us today. Thank you all for joining us today. And we do look forward to your testimony because many of you are quite affected by this renewable fuels standard. And I am sure you have some practical thoughts and ideas about it.

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STATEMENTS OF TOM BUIS, CEO, GROWTH ENERGY; JOSEPH H. PETROWSKI, CEO, THE CUMBERLAND GULF GROUP, ON BEHALF OF SOCIETY OF INDEPENDENT GASOLINE MARKETERS OF AMERICA AND NATIONAL ASSOCIATION OF CONVENIENCE STORES; SHANE KARR, VICE PRESIDENT, FEDERAL GOVERNMENT AFFAIRS, THE ALLIANCE OF AUTOMOBILE MANUFACTURERS; TODD J. TESKE, CHAIRMAN AND CEO, BRIGGS & STRATTON CORPORATION; ROBERT DARBELNET, PRESIDENT AND CEO, AAA; AND JOE JOBE, CEO, NATIONAL BIODIESEL BOARD

Mr. Whitfield. So Mr. Buis, we will recognize you first.

Each one of you will be given 5 minutes. And on the table, there are a couple of boxes that will turn red when your 5 minutes is up. So if you can stay within the time limit, we would appreciate it. We do have your testimony though.

So, Mr. Buis, you are recognized for an opening statement for 5 minutes.

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STATEMENT OF TOM BUIS

Mr. Buis. Thank you, Mr. Chairman. I appreciate the opportunity to testify, and I do appreciate --

Mr. Whitfield. Do you have your microphone on?

Mr. Buis. There we go. Thank you, Mr. Chairman and members of the subcommittee. I appreciate this opportunity to testify today. And I would ask that my written testimony and the charts and data that we have submitted be submitted into the record.

Mr. Whitfield. So ordered.

Mr. Buis. Thank you very much. I am Tom Buis. I am CEO of Growth Energy. We represent 79 ethanol plants and 81 associate members and about 40,000 grassroots supporters at Growth Energy. Our plant members utilize grain, corn, and sorghum to make biofuels. But they have also invested very heavily in what we call next generation production, both cellulose. We have a plant that is currently under construction in Iowa that will use farm waste, corn stover to produce cellulosic ethanol that should be online the first of next year.

We have another plant in Iowa that is actually capturing carbon from the corn ethanol plant and feeding it to algae bioreactors. That is about a 20-acre bioreactor process that can be seen there. And we have others that have invested in the use of woody biomass.

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So the first generation of ethanol producers, which we primarily represent, are all invested in next generation, both to meet the greenhouse gas emissions targets and the targets of the RFS. The RFS, in our opinion, is an overwhelming success. You know, it has injected much needed competition and consumer choice into the fuel markets. We are only a little over 5 years since the passage of that law and only 3 years since the rules were finalized.

And already we are producing 10 percent of our Nation's gasoline supply. It has lowered the price at the pump. It has created American jobs. It has revitalized rural America, including farm income. It has improved the environment and made our Nation more energy independent.

Some want to see this policy fail, as we have heard today and elsewhere. But keep in mind not only are we producing 10 percent today in a very short period of time because of the RFS but we can do more in the future. With oil approaching $110 a barrel and gasoline nearing $4 a gallon, does anyone believe we don't need a less expensive competitive alternative to oil? That was one of the purposes of the RFS originally. We have that competitive product today.

And despite what some on the first panel have said, ethanol is the cheapest fuel in the world. We are 67 cents a gallon cheaper than clear gasoline. And even when they challenge or come back with the BTU unit, they are not counting the value of octane in the refining

of that fuel. And our efficiency keeps improving. Energy use and water use keep declining while yield and productivity is increasing from every pound of feedstock we use.

Despite this data, some are trying to blame biofuels for driving up gas prices. It is just another scare tactic to try to eliminate what I consider the best energy law passed by Congress in the last 40 years. RIN prices are not the cause of higher gas prices. There are 2.6 billion surplus RINs that can be used in the marketplace for this year.

We are going to produce about 13 billion gallons of ethanol and biofuels. Last year, the same situation with a short crop and a short production, RIN prices were 2 or 3 cents a gallon. And we still had high gasoline prices. So all this doesn't square. The real cause of higher gasoline prices and RIN prices is self-inflicted by the obligated parties who refuse to blend higher levels of ethanol. The real cause of higher gas prices is unrest in the Middle East, refinery outages, speculation, and increased demand.

Ethanol's competitive price is why Growth Energy led the way in asking the EPA to approve the use up to 15 percent ethanol fuel. That is how you break the blend law. That is how you solve all the controversy that we were hearing today. We could see it coming, Mr. Chairman. One of the reasons to go on to E15 is, even with the rosy scenario laid out in 2007 on fuel consumption, we were going to have

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to go to higher blends. That is why we filed it. That will allow the marketplace plenty of space for next generation biofuels.

The RFS and the E15, as I just mentioned, go hand in hand. E15 is the most tested fuel in the history of fuel changes. DOE performed a comprehensive test, using 86 different vehicles a total of 6 million miles. They found no harm to emissions equipment and no issues with engine durability, the two requirements for granting a waiver under the Energy Independence and Security Act.

By contrast, the CRC study that gets mentioned by our critics only tested eight vehicles, two of which had known engine issues. They did not test these engines on E10 and only tested three of the eight on ethanol-free gasoline and even one of those failed. It was a flawed test designed to make a political point to eliminate the cracking of the Berlin Wall. The E15 waiver is only approved for light duty vehicles built after 2001 and flex-fuel vehicles. It is not approved for off-road vehicles, small engines, motorcycles, or marine engines. In fact, it is illegal for those vehicles to use it, and it is stated so on the label that must be acquired on any station offering E15. The stations that have been offering E15, the results are pretty amazing. One of the myths that is perpetuated by the oil industry is that consumers don't want higher blends. Well, how do they know if they have never been offered them? Where they have been offered them, we are seeing volumes go up significantly. In one case from a retailer

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that testified at a congressional briefing last week, his volumes quadrupled in a year. They have not had access to that marketplace. So let's let the consumer have a choice.

I would also add that over the past 2 and a half seasons, NASCAR, which has quite a bit of its reputation staked on the durability and performance of its race cars has put 4 million miles on those cars without a problem. They got increased horsepower and increased performance.

Mr. Whitfield. Mr. Buis, I have let you go over about 2 minutes. If you could summarize, please.

Mr. Buis. All right. I would like to summarize, Mr. Chairman, by saying that to repeal the RFS to me is unnecessary. To reform it is also unnecessary. We feel that there is enough flexibility within the law that all of these issues can be addressed. And if we want to get beyond the problem, let's crack that blend wall.

Mr. Whitfield. Thank you.

[The prepared statement of Mr. Buis follows:]

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Mr. Whitfield. Mr. Petrowski, you are recognized for 5 minutes.

STATEMENT OF JOSEPH H. PETROWSKI

Mr. Petrowski. Thank you, Mr. Chairman.

I am Joe Petrowski, the CEO of the Cumberland Farms Gulf Oil Group. We deliver gas to 3,000 locations over 29 States. We operate almost 900 company owned and operated convenient stores in 13 States. We are not a refiner. We are not a producer. We don't have any investments in ethanol. We are out there dealing with the customers. We have over a million transactions a day selling fuel. All we want to do is sell the fuel that our customers want in a legal and lawful manner. And we do believe that it is demand that generates supply. We will sell what our customers want.

Now I, too, don't believe the RFS should be repealed. I think it has achieved much of what Congress intended which was a diversity of supply, a domestic source of fuel, and has, I believe, on balance brought down the price of fuel to the consumer. With RINs trading at $1.50, for a blender that is almost picking up 15 cents a gallon on a 10 percent blend and with ethanol at 60 cents under, that is another 6 cents; that is 20 cents a gallon. But with RINs at $1.50, we are subsidizing exports and taxing imports, which has an effect of increasing prices. Just recently, a refiner who bought a refinery in

Hawaii announced that when they invested in the refinery and got product up to levels, they would export to China rather than California or use it locally really to generate the RINs because an exporter get that RIN and an importer has to pay that RIN. So there are some deficiencies in the RFS, which Congress could never have anticipated. Driving is down, which is somewhat a demographic -- online shopping, an older population. CAFE standards are up, which was mandated by Congress and was done effectively. But we are using less fuel than we did when the law was first put in. You cannot mandate to pour 14 ounces of fluid into a 12-ounce cup, which is essentially what we have done. Our suggestion is that the EPA in concert with the DOE set the standards of what should be blended forward, taking the realities of the marketplace. We think that is the right solution.

We are also going forward going to have more alternate fuel vehicles. So we do believe -- there are other things I would like to see Congress -- and maybe this is discussion for another day. It is cheaper because of the 1920 Jones Act for product in Louisiana to be shipped to Venezuela and Mexico than it is to Boston or New Jersey. Along with getting the RIN for being an exporter, that is giving a great incentive as we ramp up domestic production and ethanol production that we are exporting the product rather than using it domestically to lower costs for consumers.

If we have a bias at Cumberland Farms and Gulf Oil is we want lower

energy prices for our customers because we have just noticed the discretionary spending in our stores is just much higher when the consumer is not spending it on fuel. So we might be rare among oil companies that we like lower oil prices. Now that is not altruism. It is the simple fact that we are not a producer or a refiner. We are a retailer.

That is it, Mr. Chairman. I have used my time.

Mr. Whitfield. Thank you very much.

[The prepared statement of Mr. Petrowski follows:]

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Mr. Whitfield. Mr. Karr, you are recognized for 5 minutes.

STATEMENT OF SHANE KARR

Mr. Karr. Thank you, Chairman Whitfield, Ranking Member Rush, and members of the subcommittee.

I really appreciate the opportunity to testify here today on behalf of the alliance and our 12 member companies. We represent companies headquartered all over the world that make roughly three out of every four new vehicles purchased each year, so a broad breadth of manufacturers representing a very sizable portion of the marketplace.

We, first of all, want to say we appreciate the thoughtful review of the RFS, and we have responded to several of the white papers, as other stakeholders have, and think that this has been a great process. The alliance didn't take a position on RFS II in 2007. And frankly, I can't tell you how many gallons of renewables the market is going to produce by a date certain. Of course, neither can any of the other 15 witnesses that you are hearing from over the course of these 2 days.

Frankly, we are all here because a number of the assumptions that were made in 2007 have proven inaccurate in 2013. And the first panel spent a lot of time talking about the decline in overall fuel use and the slow emergence of cellulosic biofuel. So I am not going to spend time on those. Rather, I would like to talk about another faulty

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assumption, if you will, and one that is actually embedded in the name of the standard. The assumption was that renewables would, in sufficient quantities, become a stand-alone alternative fuel. And it kind of went like this: Renewable producers would make billions of gallons and auto companies would make FFVs capable of running on fuel that was composed of 85 percent renewables and be sort of done and done. No blend wall issues, no compatibility problems. In the right vehicle, gasoline is largely displaced by a competitor that is almost all biofuel based, right?

It was a great vision. It has proved to be totally wrong.

Instead, the better way to think about biofuels might be as an additive. And that is not pejorative. It is just an attempt at an accurate description. It is effectively the tack that Growth Energy took when it petitioned EPA to increase the national blend from E10 to E15. To their credit, the producers were among the earliest to attempt to address the issue.

But the fact is that even as an additive, implementation has turned out to be very complicated and problematic, as the witnesses at the table will attest. We can make vehicles that can run on virtually any fuel. So I want to emphasize that. But there are a lot of competing policy priorities that we have to navigate.

So taking seriously, you know, Chairman Upton and Chairman Shimkus and Chairman Terry's -- there are a lot of

chairmen -- admonition to come to the table with something, I will say to you that these would be our key watch words for moving forward, how we should look at biofuels policy:

One, prospectively, prospective, not retroactive policies with appropriate lead time for manufacturers.

Two, definitively, we need certainty about the fuel specs. The more precise the spec, the better we will be able to optimize all aspects of vehicle performance.

Three, comprehensively. Making the fuels important and having vehicles that can use the fuel is important. But it turns out distribution is absolutely critical as well, and we seem to have forgotten about distribution in 2007.

And finally, holistically. There are a number of ways to achieve energy security and our environmental goals. Biofuels are an important path, but they are just one. My members are giving consumers choices, and ultimately, the market will decide which one works.

If there is a lesson in the last 5 years, it is that we should be humble about our ability to see the future and committed to working together to overcome the challenges that arise. We appreciate the opportunity to appear. And again, I want to reemphasize we are committed to working with the committee going forward.

Mr. Whitfield. Thank you Mr. Karr.

[The prepared statement of Mr. Karr follows:]

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Mr. Whitfield. Mr. Teske, you are recognized for 5 minutes.

STATEMENT OF TODD J. TESKE

Mr. Teske. Chairman Whitfield, Ranking Member Rush, and the distinguished members of the committee, thank you very much for soliciting our viewpoint on this. This is a very important issue for Briggs & Stratton. Briggs & Stratton is located in Milwaukee, Wisconsin. We are the world's largest manufacturer of air-cooled gasoline engines that are used in outdoor power equipment. We also manufacture the same equipment. So we have knowledge, obviously, on the engine side and the application side under various brand names. We operate in about 100 countries. So we are global. We have 6,200 employees throughout the world, of which, most of them, 5,300, are here in the U.S. We are primarily a U.S.-based manufacturer. We have 85 percent of our manufacturing is done here in the U.S. And we are really proud to be celebrating our 105th anniversary this year.

I would like to first take the opportunity to commend the committee on their workmanlike efforts in terms of these issues. There are a lot of different issues we have been following. Obviously, the white papers that the committee has put out through the Outdoor Power Equipment Institute. I am currently chair of that group. But I really am here today on behalf of Briggs & Stratton to give you an idea of

small engine manufacturers. And the issue isn't just unique to Briggs. It applies to others in the industry as well, the issues that we have with the RFS and specifically with E15.

I would also like to recognize the EPA. We have over the years worked an awful lot with the EPA in terms of emissions regulations. Their career employees are just very professional people, and we have found them to be fair and balanced as we go through finding regulations that both protect, obviously, the environment but also make sure that the consumer is protected along the way.

So let me talk a little bit about the affect of ethanol on our engines. Our engines are currently designed to run on blends of E0, so zero percent ethanol, all the way up to E10. They are calibrated as such. The materials that we use will withstand E10. And when the partial waiver came out with regards to the EPA introducing E15 into the marketplace, they excluded offroad engines, which were excluded. So the EPA really recognizes that there is an issue with regards to our types of equipment. The problem is, it introduces the fuel into the marketplace. Part of the partial waiver also included a misfueling mandate that was out there to make sure that people don't misfuel. Because I think the EPA recognized that, in fact, there will be misfueling. That can and will occur.

So the issue along the way is when you get to E15 -- let me just give you a little bit of background when you get above E10. It degrades

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the engine components very quickly. And the engine itself will achieve premature failure. So our concern is really those consumers. There are 80 million engines out there in the U.S. today that Briggs & Stratton has made. And we want to make sure that those consumers get the value they deserve as we go along. So it is really the legacy equipment and also moving forward.

So the misfueling, we anticipate -- and there are a lot of studies that have been done that misfueling misfueling will occur. Currently, the misfueling mandate really calls for a label on a pump. And we have all been to the pump and filled up our cars. There is a lot of information there and this small very small label is not going to deter someone from basically putting fuel in their 5 gallon can or the 2.5 gallon can and taking it home and putting it in their piece of equipment, small engine. Also, when you look at it, studies have shown that because the cost, as we talked earlier today, the cost of ethanol, higher blends of ethanol is cheaper. People will migrate towards that fuel. There is also just simply a lack of knowledge out in the marketplace. Just yesterday I was talking with a CEO friend of mine in Milwaukee, and he was telling me about his boat. And I said you don't put even E10 in your engine. He said E what? He doesn't understand. The fact is, people don't understand these things. They will misfuel. And it will lead to premature failure with regards to their engines. They will not get the value they need.

So we at Briggs, we are not against renewable fuels at all. We believe renewable fuels are important. We want to make sure that there are renewable fuels that can be used in not only equipment that we make into the future but also equipment that we have made in the past that is out in the field, the legacy equipment. We are really very much for a drop-in fuels. We have tested isobutanol at our own expense. We have worked extensively with a company named Gevo in the past. We have found that the isobutanol as an example is a fuel that could be used as a drop-in fuel for our equipment, again, both legacy and going forward.

We would suggest that the committee rescind E15, the partial waiver because there will be misfueling that will occur.

And finally we would recommend at a minimum that the amount of ethanol that is blended into the national fuel supply be capped at 10 percent ethanol. So our engines can handle 10 percent. We would suggest you cap it at 10 percent.

So, again, thank you very much for allowing us to be here. And we look forward to your questions.

Mr. Whitfield. Mr. Teske, thanks very much for your testimony.

[The prepared statement of Mr. Teske follows:]

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Mr. Whitfield. Mr. Darbelnet, you are recognized for 5 minutes.

STATEMENT OF ROBERT DARBELNET

Mr. Darbelnet. Thank you. My name is Bob Darbelnet. I am president and CEO of AAA.

Mr. Whitfield. Would you move it a little closer to you, Mr. Darbelnet?

Thank you.

Mr. Darbelnet. We represent 54 million motorists in North America and appreciate this opportunity to share with you our concerns both relative to the premature introduction of E15 and what I think, in due course, you are going to be required to do, and that is to adjust the RFS standard.

But dealing with E15 first, we have -- in our view, there are three prerequisites for the introduction of the new fuel. And the first one is that there be adequate testing to ensure safety. And in our view, that has not occurred. Granted, the EPA did extensive testing. But it was focused predominantly on emission controls. Industry testing, however, revealed real concerns, some of which have already been mentioned relative to premature engine wear and fuel pump failures. For that matter, even the Renewable Fuels Association, which is a great advocate for ethanol, advises retailers to be aware of the damage to

their underground fuel systems that can be caused by E15. So if it is not safe for their tanks, it makes us wonder why it would be safe for our members' tanks.

The second requirement is that there be coordination between regulators, fuel retailers, and auto manufacturers. In our view, that has not occurred either. A number of the retailers are opposed to the sale of E15, and virtually all the significant auto manufacturers in this country have advised that E15 is incompatible with 95 percent of the vehicles that are on America's roads today.

And then, the third requirement is that there be outreach to consumers to mitigate the risk of misfueling. And that has not occurred either. We did some polling recently that indicated, much to the point that Mr. Teske made, 95 percent of Americans don't know what E15 is, let alone whether they ought to put it in their vehicle. And the EPA ceded to pressures to tone down that very small label that is required on pumps, such that it reads "attention" rather than "warning," which might have been the more advisable term, albeit, as noted, it is unlikely that that small label -- by about 3 inches by 3 inches -- is going to be detected in all the other messages that are on today's pumps. If you pump your own gas, you know what I am referring to.

But let me be clear, AAA is not opposed to the use of ethanol for automobiles. E15 is compatible with most vehicles, and it would allow

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for the reduction of our dependency on fossil fuel and offer motorists a choice as to what they purchase. So we are not opposed to ethanol. We are comfortable with E10. But we are certainly opposed to E15 under the current circumstances.

Allowing it to continue to be sold is irresponsible, and in our view, it should cease until adequate testing allows for the regulators, the retailers, and the people who manufacture the cars to reconcile their views, agree on which vehicles it can safely be used for, and adequately inform consumers.

Now as to the issue, which I know you are quite interested in, which is what to do with the RFS, for the moment, we are not calling on you to revoke or even modify the RFS requirement. We do believe that you are going to find yourselves confronted with the obligation to make some adjustment. And we certainly believe that it should be adjusted if we find ourselves in a situation where the only way to achieve it is to allow the continued sale of E15. If that were the only way to meet the requirement for 2014, it would definitely need to be adjusted, and I commend you for addressing this issue before it becomes much larger than it already is.

Thank you very much.

Mr. Whitfield. Thank you.

[The prepared statement of Mr. Darblenet follows:]

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Mr. Whitfield. Mr. Jobe, you are recognized for 5 minutes. Turn your microphone on.

STATEMENT OF JOE JOBE

Mr. Jobe. Thank you, Chairman Whitfield, Ranking Member Rush, and members of the committee.

It is good to see you again. I want to thank you for the opportunity to come and testify on behalf of the U.S. Biodiesel Industry.

My name is Joe Jobe. I am the CEO of the National Biodiesel Board. And I hope to leave you today with two important messages. First, under the RFS, the advanced biofuel and the biomass-based diesel categories programs are working. And second, with the help of the RFS, biodiesel is reducing consumer prices at the pump.

As a brief background, biodiesel is a renewable low-carbon diesel alternative made from an increasingly diverse mix of resources, including agricultural oils, recycled cooking oil, and animal fats. It is the first and currently the only EPA-designated advanced biofuel that is produced on a commercial scale with plants in virtually every State and was the first to reach a billion gallons of annual production.

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DCMN SECKMAN

[12:48 p.m.]

Mr. Jobe. NBB is the national trade association representing the biodiesel and renewable diesel industries. Our 200-plus member companies have produced the vast majority of the advanced by biofuel pool under the RFS, and we are pleased to be welcoming a new 137 million gallon renewable diesel member located in St. Charles, Louisiana.

Our industry has exceeded the biomass diesel category in every single year of the program, and we are on track to do so again this year. This is a tremendous success story. It has created over 50,000 jobs. It is diversifying and actually improving the domestic fuel supply, and it is reducing pollution.

A few positive things about biodiesel to point out. Our industry has added decentralized renewable refining capacity. It is diversifying the transportation fuel supply, which will ultimately help stabilize prices to the consumer. It is improving the -- it is actually improving the quality of the nation's diesel fuel supply. Biodiesel blends have premium diesel characteristics. It is an oxygenated fuel, has high cetane, high lubricity, zero sulfur, and there is no fuel economy or horse power penalty. In fact, the diesel land speed record was set using B20. Biodiesel significantly reduces

virtually all regulated emissions, including 57 to 86 percent carbon reductions.

One of our main feed stocks is recycled cooking oil. It helps keep waste out of the sewer systems, landfills, waterways and prevents costly infrastructure repairs.

Another important feed stock is animal fats, which means biodiesel is giving livestock producers new markets for waste, fats and oils, increasing the value of cattle by $10 a head, $1.25 for hogs, and 30 cents for poultry.

Additionally biodiesel is saving consumers money at the pump. With the help of the RFS, fuel distributors are purchasing wholesale biodiesel and offering it to consumers at a discount to diesel fuel. The mayor of Gadsden, Alabama, recently announced that his city is saving $100,000 annually by using 20 percent biodiesel in his fleet. Additionally, Navy Secretary Ray Mabus, stated in testimony in April that the Navy is saving an estimated $0.13 per gallon currently by use B20.

Now, the biomass-based diesel category is structurally different than the other sections of the RFS. Primarily there is no automatic mandate on the annual volume requirement. There is an EPA rulemaking each year to determine the appropriate volume for the following year. This is a robust and comprehensive process that is open to all stakeholders. Last year, that process resulted in a very conservative

increase from 1 billion to 1.28 billion gallons, and we estimate that we are on track to exceed 1.5 billion gallons this year.

Before I close, I want to discuss briefly the issues -- the issue of fraudulent RINs. In 2010 and 2011, the biodiesel industry experienced a few cases of criminals generating and trading fraudulent RINs. Our industry took very aggressive measures working closely with EPA and the petroleum industry to address the fraud head on. We developed and deployed a robust and comprehensive RIN integrity program that has effectively addressed the problem. This was a private sector solution that we developed and deployed. Two of the three cases of fraud were resolved in court and two criminals are sitting in jail. The third case is pending.

We also worked with the EPA and the petroleum industry to put in place a new regulatory framework that defines quality assurance plans, which gives obligated parties the opportunity for an affirmative defense. With these measures in place, we are confident that the issue of RIN fraud for biodiesel has been effectively addressed.

In conclusion, we believe that the RFS was the right policy when President Bush signed it in 2005 and again in 2007 with overwhelming bipartisan support, and it remains a sound policy today. My industry is fully committed to working diligently with this committee, with the EPA, our partners in petroleum and anyone else willing to work with us to make the RFS an unqualified success.

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Thank you for inviting me to testify, and I look forward to answering your questions.

Mr. Whitfield. Mr. Jobe, thank you.

[The prepared statement of Mr. Jobe follows:]

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Mr. Whitfield. And thank all of you for your testimony. And I will recognize myself for 5 minutes of questions.

I think all of us have appreciated the additional capital investment that has gone in for ethanol and has gone in for biofuels and other technology, so that we know that we can produce these fuels. And those people who are most concerned about climate change, they are very excited about it as well. And I am really glad that Mr. Petrowski, Mr. Karr, Mr. Teske, Mr. Darbelnet are testifying today, not that I am not pleased to hear from Mr. Jobe and Mr. Buis, because we hear from those people frequently, but the one group of people out in the country that really do not have a voice is the consumer. And frequently, we don't focus on the consumer because we know that the overall policy is supposed to be a good policy, everyone is supposed to benefit from it, but the reality is when you get down to the independently-owned gas station, the automobile manufacturers, the small engine manufacturer, representative of millions of drivers, you do run into liability issues, you do run into expenses for putting in the new equipment that is compatible with what the mandate -- government is mandating, and I am assuming you also are exposed to liability issues, because somebody's going to be sued if something goes wrong.

So, to the four of you, I would just ask, on a scale of 1 to 10, 10 being you are most concerned about it, how concerned are you about the cost to your consumers, the cost to you personally in your business,

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the liability issues, how concerned are you that there really will be problems if there is not some adjustment made in some way to this? So 10 being, I am really very much concerned; or 1, I am not really concerned about it at all. You can just let it go. We think it'll be okay.

So can we start with you, Mr. Petrowski?

Mr. Petrowski. I would say ten, Mr. Chairman.

Price is the number one driver for consumers at all times, but especially in hard economic times that we have been in. So I would say 10. Price is -- is the driver for our business.

Mr. Whitfield. So you are saying by this that if we don't do something, you are as concerned about it as you can be?

Mr. Petrowski. Well, I would not scrap the RFS. Today I would --

Mr. Whitfield. Yeah. I am not talking about scrapping. I am talking about adjusting.

Mr. Petrowski. Yes, I would be concerned if we don't address it, bringing the price of RINs down to something cheaper that we are going to translate to higher pricing, even though today I would just love to blend more ethanol. 5 percent ethanol with a 60 cent discount earns me 3 cents more, which I either can keep as profit or put -- lower the price 3 cents on the street, which increases traffic to my facility, but I cannot put 15 percent in if we do not have liability relief on

the automobiles, if we don't have the right labeling, if my equipment is not insured for 15 percent, pumps, dispensers and tanks, so I would love to lower the -- anything I can do to lower the price to my consumer is wonderful. But $1.50 RINs is subsidizing exports and taxing imports, which in the long run, will lead to higher energy prices in the U.S., which I don't want to see.

Mr. Whitfield. Okay. Thank you.

Mr. Karr.

Mr. Karr. It is a little bit difficult to pick the right number, but I am going to go with eight. I think, you know, look, we have very serious concerns about the potential problems with E15 and the legacy fleet. Having said that, there are F50's out there. We -- some of my companies are already certifying and warranting vehicles to E15, so, you know, we are -- again, we are committed to, we are able to adjust, but we have these issues with the legacy fleet, and we need to think about how we transition going forward.

Mr. Whitfield. Mr. Teske.

Mr. Teske. Ten. And I would go higher if you'd let me.

Mr. Whitfield. Okay.

Mr. Teske. Yeah. The fact is, is there is going to be misfueling, and it will cause premature failure of these engines, and whether somebody bought their engine 20 years ago or 20 weeks ago or 2 weeks ago, they are not going to get what they expected, and it is

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going to come right back at us.

Mr. Whitfield. Okay. Thank you. Mr. Darbelnet.

Mr. Darbelnet. I would say, for our organization, so for us or our company, if you will, it is probably a two, because while we have thousands of vehicles on the road, I think we can educate our drivers to make sure that they don't put E15 in the tank that shouldn't absorb it, but thinking about our 54 million members, I would say it is a 10, because there is a great likelihood that they will damage their vehicles.

Mr. Whitfield. Right. Okay. Thank you all so much. My time has expired.

Mr. Rush, you are recognized for 5 minutes.

Mr. Rush. I want to thank you, Mr. Chairman.

You probably have noticed that there are a lot of cameras in the hearing room today. And there are many Americans who are at home today, and some of them are probably viewing this hearing, and they are hearing all the testimony and all the questions, and I am sure that there are -- far too many of them are at home watching this because they are out of a job. And they have not heard any commentary on jobs and the impact of the RFS on jobs.

I think that it would be really a shame, really, if we had this 3-hour hearing and did not even utter the word "jobs" and -- so I just want to ask each of you, if you would, what is the impact of the RFS

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on jobs, and what do you see the future of jobs in relation to RFS? Mr. Buis?

Mr. Buis. Thank you very much, Congressman Rush.

The impact currently of the number of jobs that the ethanol industry has created, both direct and indirect, is around 400,000 jobs. When we filed what we called the green jobs waiver to EPA to increase the blend rate from 10 percent to 15 percent, the job assessment that was included with that waiver request says moving to E15 would create 136,000 new jobs, jobs here in America, jobs that can't be outsourced.

Mr. Rush. Mr. Petrowski?

Mr. Petrowski. Thank you, Congressman Rush.

I feel very passionately about the solution of jobs is to lower overall energy prices in this country. And it is not about jobs in the ethanol industry or jobs laying pipe. It is about manufacturing jobs, lowering the cost of energy. The average consumer, both in their heating bills and driving, uses about 1,500 gallons a year, so if we can lower the price by a dollar, we have put that back into the consumer's pocket. And discretionary consumer spending is a driver to the economy and jobs, so I think the focus of Congress should be on lowering energy prices however we can do it, domestic production, having the right facilities to move product from where it is to where it isn't. And I think -- I think, you know, the RFS has been very helpful in creating an additional motor pool supply of fuel and a

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diverse supply of fuel, so I think it has been very positive.

But I am not looking at ethanol jobs or pipeline laying jobs; I am looking at low energy prices and more consumer spending, and that is where I think we will pick up the jobs.

Mr. Rush. Thank you very much.

Mr. Karr, do you have anything you want to add?

Mr. Karr. I am not an expert. I have no reason to dispute Mr. Buis' numbers.

Mr. Rush. All right.

Mr. Karr. I assume they are probably accurate.

Mr. Rush. Mr. Teske?

Mr. Teske. Thank you, Congressman Rush. The RFS itself, obviously, we are not against renewable fuels, and so to the extent that there are drop-in fuels and they can create jobs, that is great.

The one comment I would make, though, is there are 5,300 people that work in our U.S. facilities.

Chairman Whitfield, there are 1,000 jobs in Murray, Kentucky.

Congressman Barrow, there are 1,500 plus jobs in Georgia.

The fact is that if there are negative effects that result from E15 and we get blamed, those people are going to be hindered, because we are going to get -- it will come right back at us, and our brand will be impacted.

And although there is not -- I can't quote the kind of jobs that

others on the panel can, the fact is those jobs are really important to those people, and those jobs are really important to those communities in which they operate, and so we want to make sure that we are not only protecting the consumers, but we are protecting our employees that are in our factories today.

Mr. Rush. Mr. Darbelnet?

Mr. Darbelnet. Thank you, Mr. Rush.

We would agree that the domestic production of ethanol has increased the number of jobs in this country, which we dearly need and support. However, we are concerned that we should not be introducing a product which can be harmful to consumers for the purpose of increasing the number of employed individuals. So we support the positive results that have been achieved, but we are concerned about the further risk that we are putting the consumer at by not dealing with the E15 issue.

Mr. Rush. Okay.

Mr. Jobe. Thank you, Mr. Rush.

Our industry -- I will speak for the advanced biofuel category. Our industry accounts for about 85 to 90 percent of the advanced biofuel category. And I have been very proud to be a part of what is going on in the biodiesel industry. We have added 50,000 direct jobs. And many of our members have said that they look for soldiers that are coming home from Iraq and Afghanistan, because these are guys that are

experienced in using fuels and dealing with equipment, and it is -- that is kind of a success story there.

But one thing that -- two quick things I want to point out is that it is not just about the direct jobs. In the last 6 or 7 years, our industry has built more than 200 plants. There has been a lot of investment, and that has been a lot of indirect jobs that have gone into that in building renewable refinery capacity, and it is all happened not at the expense of the petroleum industry. The petroleum industry, as you will notice, is doing fine. And it is really just helping to diversify the transportation fuel supply.

And that is really what the goal of the RFS is, because if we can diversify the transportation fuel supply, as you pointed out in the first panel, if we can make the transportation fuel supply look more like the power generation supply, make it more diverse, more domestically abundant, then we can really bring transportation fuel prices down. And as Mr. Petrowski said, that is going to have the biggest impact on the economy.

Mr. Rush. Thank you.

Mr. Whitfield. The gentleman's time has expired.

At this time, I recognize the gentleman from Illinois, Mr. Shimkus, for 5 minutes.

Mr. Shimkus. Thank you, Mr. Chairman.

Again, appreciate the hearing.

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Mr. Jobe, can you -- Mr. Waxman talked about palm oil. So, obviously, I am from the Midwest. We were very involved, obviously, in getting biodiesel into the market and mine soybeans, reformulated cooking oil, beef tallow. And also I made a statement in the opening statement that the issues that you are or may not be involved with in this whole debate on blend wall; you really are kind of a subset of this whole debate. I don't know if anyone's raising concerns. Can you talk briefly about a couple of those provisions, the palm oil thing and how else you are related to this sector?

Mr. Jobe. Thank you, Congressman.

I was really hoping you would ask me about that question. Very simply put, palm oil does not qualify for the RFS, so the concern that palm oil will be coming in to fill the advanced biofuel is not a concern at this time. Furthermore, the concern stated by the gentleman from Union of Concerned Scientists is not a concern either, and here is the reason: It is based on the structural difference built into the advanced biofuel category. In order for the biodiesel industry to grow our category, the biomass-based diesel category, we have to go to EPA every year; it is just baselined at a billion gallons, a minimum of a billion gallons. And we have to go to the EPA every single year and we have to demonstrate them through very substantial and robust data development how much we can produce, how much our growers can produce, how much domestic supply we have without disrupting other markets,

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imports, exports and all of those other things.

We have been very, very conservative with our target goals, and so you are -- you are very right. Biodiesel is made from a very, very diverse range of domestic materials, from all types of animal fats from livestock production, all types of oil seeds, and that has been a real strength to our industry.

Mr. Shimkus. And we wouldn't have passed the original piece of legislation back in 1998 had we not really expanded the ability for a lot of different commodity products to get in there, because it needed a big coalition. If it was just soybeans, we wouldn't have enough votes, but by bringing in a whole new coalition, that helped.

And the poignant thing about your explanation of how the system works is really what we are kind of demanding, Mr. Chairman, on part of this ethanol debate, is, what is the real production limits? There are four different categories in this whole calculation now. What are we actually producing, and what can get into the market versus what theoretically do we think we should have and why aren't we there, and that is -- I would say that is the whole risk premium on the RINs, because we just don't know. We have got an arbitrary number set in statute versus what are we asking -- what are we continuing to ask to do?

I want to raise to Mr. Petrowski this question: Mr. Dinneen, and I had to leave, but he mentioned on the first panel, he asked about

contractual agreements that may prevent retailers from offering E15 and E85. Is that an issue that you are aware of? And, of course, that would be a retail chain, I guess, vertically integrated might be versus an independent. Can you speak to that?

Mr. Petrowski. Yes. Thank you, Mr. Shimkus. I think what he was referring to is our equipment, the dispensers, the tanks, plus the fear of mislabeling, that someone is going to pull up with an older car that can't take the ethanol, keeps us from --

Mr. Shimkus. No, I don't think that is what he is referring to.

Mr. Petrowski. No.

Mr. Shimkus. I think he is referring to actual contractual limitation on a retail location from placing these things in their retail location. Do you want to -- go ahead.

Mr. Petrowski. No, not at all. We make -- we make agreements to buy product all the time, and we can either buy it in bulk and do the blending ourselves. We are fortunate enough to have our own terminal --

Mr. Shimkus. Let me ask Tom to answer this question.

Mr. Buis. Thank you, Congressman. That has been an issue in some areas. The contractual arrangements, I think, is what Bob was referring to. And with an E15 retailer, it came to head -- once he started offering E15 and he was told he was in violation. We have also seen, I think, the State of South Dakota and most recently Iowa have

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passed provisions that prevent contracts that prohibit higher blends under the same canopy. And, you know, if you guys want to look at some suggestions into the future, that might be something you look at, because --

Mr. Shimkus. You mean, you are going to offer a possible solution to some of this --

Mr. Buis. I am.

Mr. Shimkus. -- these challenges?

Mr. Buis. I just did.

Mr. Shimkus. Great. Thank you. And we would hope you all would do that. Let me just end on this.

My time has expired. But I just pulled up E85prices.com, and I do drive a flex-fuel vehicle. In Illinois, we have multiple locations. And you would be surprised a -- now, there is a BTU fall-off, but if you are saving 80 cents, 85 cents a gallon, it can pay, and so if we can get them into the retail locations, we can address the blend wall and we can solve a lot of problems.

Thank you, Mr. Chairman.

Mr. Whitfield. The gentleman's time has expired.

At this time, I recognize the gentleman from California, Mr. McNerney, for 5 minutes.

Mr. McNerney. Thank you, Mr. Chairman.

You know, I didn't hear anyone in this panel say do away with the

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RPS. There was some comment about there -- it needs tweaking, maybe the E15 ought to be scaled back to E10 for reasons, and I appreciate that.

Mr. Teske, I just want to say, I have loved my Briggs & Stratton motors over the years, so they are an American icon. And I appreciate your remark on the professionalism of the EPA. That is something I truly believe is the case, and it is something we need to get the word out a little bit more about. The question I have for you is what causes, what specific mechanism causes the failures of the Briggs & Stratton motors when they use blends higher than E10?

Mr. Teske. Yeah. First off, thanks for being a customer. I really appreciate it.

What happens, there are a couple of things that go on. There are a number of things, but a couple of things in particular. Basically, the materials that we use are rated for certain temperatures, and so when you have blends that are higher than E10, the alcohol will burn at a higher rate, a higher temperature. And basically what happens is, like, valve seats and other materials that are in the engine will degrade prematurely, because it can't handle the heat that it was intended to handle. And so, basically, then when that fails, all of a sudden a lot of the emissions regular -- the emission control things that are in the engine will fail, and then, ultimately, it will lead to engine failure.

Also, when you get -- not to take you back to high school history, but basically, when you have water and alcohol, obviously, there is an attraction that goes on, and so what happens is a lot of our seals and other things in the engine will absorb the alcohol, which will cause warping and disforming, if you will, and therefore the engine will not operate in the same manner that it was intended to operate with lower blends of ethanol.

Mr. McNerney. So can these engines be protected proactively or is that too expensive for the average legacy customer?

Mr. Teske. For the legacy customer, it can't -- it won't -- it can't be done. Going forward prospectively, certainly we can design engines that will operate. They operate on a plus or minus 5 percent of whatever the target is, and when that happens, obviously, one of the concerns we have is as we get to E15, and then we ultimately probably get to E20 and then E25, all of a sudden, it becomes very confusing. It is difficult to design a cost-effective engine that will handle a multitude beyond plus or minus 5 percent.

Mr. McNerney. So when did Briggs & Stratton begin designing for E10, or did it have to do any design for E10?

Mr. Teske. We have seen -- we have had to change some materials over time. Years ago, when basically ethanol started to be introduced, we have added -- what has been interesting here is of late is over the last year or so, we have seen more carburetor issues, for example, have

occurred throughout the country. The calibration and the materials basically don't handle ethanol all that well, although they will handle E10. When ethanol was pretty much in the Midwest, we didn't see a whole lot of issues on the coast. Now E10 is throughout, because we were -- we test about E5 for certification purposes with the EPA. As you see -- start to see the E10 go throughout the country, we do on occasion see fuel problems generally because as ethanol, higher blends of ethanol sit in the engine, it will gel up and will cause issues with starting and other things, which is why we have introduced fuel additives to make sure that consumers are protected from that.

Mr. McNerney. Okay.

Mr. Buis, I had a question.

Mr. Buis. Yes.

Mr. McNerney. I was going to ask you, continuing from the first panel, what has caused the delay of the success of cellulosic biofuels from the initial projections?

Mr. Buis. That is a great question.

You know, the RFS didn't pass through the Energy Independence Security Act till late of 2007. In 2008, we had the biggest economic downturn that any of us have seen in our lifetime, not just here, but around the world, so you had a lot of investors and lenders that went to the sideline. They have started to slowly come out over the past year or so, and you started to see more investment into biofuels, but

the second issue is market space. When you are going to produce a product that is already limited to 10 percent, and it costs a quarter to a half a billion dollars to build a cellulosic commercial bio refinery, you are probably not going to pull that plug and make a lot of investment. That is why we filed the waiver to move to higher blends. And despite all the -- I think a lot of people think it is just E15. The waiver was actually approved for up to E15, but there are some, I am not saying this panel, that have this feeling, we are not going one ounce, one gallon above E10, because we want to kill the RFS.

Mr. McNerney. Okay. Go ahead and answer, if the chairman will allow that, Mr. Petrowski.

Mr. Petrowski. Yeah. I would say as a retailer, if -- cellulosic doesn't need to be mandated, remember, the import is going to be silage, grass, biomass, which is much cheaper than corn. We are processing 3 billion bushels, I believe that is the right number, of corn into the ethanol business at $4 or $5 a bushel. Any manufacturer who could substitute biomass for corn would do so in a heartbeat, because that would just all flow to the bottom line. So I think the limitations on cellulosic have been technological. And believe me, if I -- ethanol today is 60 cents cheaper than gasoline. If somebody were to offer me cellulosic or any ethanol cheaper than that, I would buy it in a heartbeat if I could sell it.

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Mr. McNerney. Okay. Thank you, Mr. Chairman, for your indulgence.

Mr. Whitfield. The gentlemen's time has expired.

At this time, I recognize the gentleman from Nebraska, Mr. Terry, for 5 minutes.

Mr. Terry. Thank you, Mr. Chairman.

Mr. Buis, I don't -- I missed earlier discussions, but I want to know what your feel is about whether the blend wall is a real issue or real concern.

Mr. Buis. Thank you.

Thank you, Congressman. It is -- we have referred to it as a so-called blend wall. And it is so-called because the resistance by those who control the infrastructure, the fueling infrastructure, the refining, the obligated parties have not done, and oftentimes erected hurdles to move into higher blends.

When the RFS was enacted in 2007, it was always intended to get to 36 billion gallons by 2022. We were going to have to have higher blends. It has been 4 and a half years ago since we filed that waiver for the higher blends. Every regulatory, legal, PR and now legislative hurdles that they can erect, they have tried to erect instead of moving to a higher blend.

It could be solved real easy. There is not that much above the blend wall for 2013. For 2014, it could go up. You could use E15.

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You can use up to E15. You can use the 85, E30. Those are popular brands that sell extremely well, and consumers, despite what the first panel said, actually want them, they are buying them.

Mr. Terry. All right. Appreciate that.

Mr. Karr, the EPA said, or it came out when they said -- or was approving E15, but said it shouldn't be used for automobiles that were manufactured before 2001. Now, average life expectancy of a car today is 11 years. I am just wondering, do you know offhand how many are left for 2011 and below?

Mr. Karr. I should probably get you that number for the record rather than give you a bad number here.

Mr. Terry. That is fine. I wasn't going to pin you down for an exact. I was just curious.

Mr. Karr. I would say the average age of a car on the road today is 11 years. So we have got -- you know, that tells you that is kind of the middle. We have got a lot that are a lot older than that.

Mr. Terry. So it could be significant.

Mr. Karr. But, yeah, I can you -- I can get you the precise number for the record.

Mr. Terry. So a lot of the arguments, and Mr. Teske was kind of hinting at this, but what some engines, EPA said that E15 and what can be appropriate for Briggs & Stratton, for lawn mowers or for boat motors or -- so I guess the question here is that you are not -- or Mr. Teske,

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that you are not here saying no E15 anywhere, are you?

Mr. Teske. Well, what we are concerned about is misfueling. And there needs to be measures taken other than just a very small label on top.

Mr. Terry. Well, that is what I wanted to kind of dive down into deeper, is, is okay, so are there methods that we can use to make sure that the consumer is informed? I mean, I can pull up to the pump right now and know which one is the E10 and the E85 and the no-ethanol blend, or unblended, I guess. Do you have enough confidence in the consumer to read those on the pump?

Mr. Teske. While I have a tremendous amount of respect for consumers and consumer knowledge, what studies have shown is that when consumers are very comfortable with what they have had, they don't pay as much attention as they would when there is something new and different. And so if you pull up to the pump and you basically have your red can, that 5-gallon can, and you want to fill it up and you have always filled it up for the last 20 years at the same gas station, you are not going to pay as much attention to the fact that there are issues. And that is really our concern, is that we will try to educate the consumer, definitely, and consumers are very smart, but studies have shown that when they are comfortable --

Mr. Terry. Well, let me ask Mr. Petrowski, then, not to cut you off, but do you think there is a way of communicating at the pump so

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that consumers aren't mistakenly putting in E15 when it should be E10?

Mr. Petrowski. I think we can label very well, but I was told, and I am not old enough to remember this, I worked at a gas station in the 1970's, but I was told that when leaded and unleaded first came out and people were offering leaded at a much cheaper price, there were people, even though the nozzles were mandated to be different, who would bring a screwdriver and actually gerrymander their fill pipe so they could take the cheaper product.

Mr. Terry. Yeah. That is not a mistake. That is intent.

Mr. Petrowski. No, no. That is not a mistake, but not always -- I mean, I have great respect for the consumers, but they are not always paying attention at the pump.

Mr. Terry. All right. Thank you.

Mr. Whitfield. I would like to just get one clarification here, Mr. Buis, something that you had indicated, and someone on the first panel made this comment, too, that market access was being limited by the obligators. And I don't -- factually, is it true that retail service stations are primarily owned by large oil companies or not?

Mr. Petrowski. No, Mr. Chairman. Can I answer that?

Mr. Whitfield. Yeah.

Mr. Petrowski. In fact, I think that is part of the reason the obligated parties are now feeling the strain, is at one time, that was true, but the Exxons of the world, the Mobiles of the world. We bought

a lot of stations from Mobile, have gotten out of the downstream, so they are selling their product in bulk rather than blended to the consumer, so their obligations are greater. So I think that has been part of the problem, but most of the gas stations in the United States today at the retail level are owned and operated by small business people or people who have aggregated, like ourselves. We have 900 stations that we operate. But major oil diversified out of integrating and get rid of their downstream, so they are facing an obligation where they are selling in bulk and are obligated, and they are not selling as much what we say the parlance in the trade is over the rack or at the nozzle.

Mr. Whitfield. Thank you. I am sorry.

Mr. Olson, you are recognized for 5 minutes.

Mr. Olson. I thank the chairman. And thank you to the witnesses for coming back. Our previous panel helped us get a better sense of where things stand on the RFS from the upstream view. This panel represents a shift, where the rubber meets the road and the impacts of RFS on families and businesses. It helps us get our hands on one of the most controversial issues related to ethanol: how it impacts engines in vehicles. And I apologize if my questions have been repetitive, but duty called, and I had to run away for a bit, but my first question is for you, Mr. Petrowski. Increased use of E15 is one of the ways in which the ethanol industry sees a path to meeting the

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RFS. What would it take in terms of infrastructure for E15 to be more widely available with your member companies?

Mr. Petrowski. Thank you, Mr. Olson.

What I would like to see is us get some waiver from liability for misfueling. I would like to see us -- we are, as -- you know, every year -- when they talk about the average age of the cars, every new station we put in, we are putting in equipment that is compatible with the higher blend. The problem is we have 135,000 stations in the United States, and there are probably only 10,000 that get their tanks and pumps done every year, but, yes, we are trying -- we ourselves have done 150 of our own stations, 600, over new mainly for the inside to sell more food products, because there has been a shift in this country from tobacco, which has been a good shift, to food and beverages inside, but when we do it, we also change our pumps out to be more compatible with higher blends, but we could get there faster. As I said, because ethanol is 60 cents cheaper, we would rush to there -- if I can save 3 cents to 4 cents a gallon by blending more ethanol, which at 60 cents discount, a 5 percent more blend will save me 3 cents. I sell 4 billion gallons a year, so you can work the math on that. The Federal Government would be very happy with the taxes, I would be very happy with my paycheck. Everybody -- and the consumer, if I posted a 4 cent lower price on the pump, the consumer would be very happy.

Mr. Olson. Yes, sir. And that is a real issue, because if the

Secret Service could make a mistake of filling up the President's limousine in Israel with diesel fuel in a gasoline vehicle, then people that come into Tex 22 could probably make that same mistake with E10 and E15.

I have one more question for you, sir. How much do you hear from consumers about a ban for E15, your clients, the people that make your industry go? Are they clamoring for it? Just a little murmur?

Mr. Petrowski. Again, I would say our consumers would say if you can get me a fuel that is cheaper that isn't going to do damage to my engine, I am with you all the way. Again, demand pulls supply; supply does not create demand. And so we have no objections.

We had 20 E85 stations throughout our system. We have actually switched them over to diesel, not because we have anything against ethanol, but we weren't selling it. For example, on the Massachusetts turnpike, our E -- we sold 12 million gallons of gasoline last year and 1 million gallons of E85. Now, maybe there is more SUV's and flex-fuel vehicles in Minnesota or Illinois than there is in Massachusetts, but we switched a lot of our E85 tanks over to diesel because we saw our customers say to us, as the new diesels were coming in, the high-mileage diesels, they wanted more and more access. So we respond to the consumer.

Mr. Olson. And thank you, Mr. Petrowski.

Final question for you, Mr. Teske, on not just automobile

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engines, but the engines you make from Briggs & Stratton. And in deference to the truth, I must admit that I have a lawnmower in my garage, but it is not powered by a Briggs & Stratton engine. But if I had a lawnmower in my garage powered by a Briggs & Stratton engine and I misfueled it with E15, who would be responsible for the damages? Any idea?

Mr. Teske. Yes. And you are a prospective customer, so perhaps later we can chat. Basically, if you use E15 in your engine, your small engine, we void the warranty, the warranty. So, basically, theoretically, we are not responsible. It is really the consumer who would be responsible. But the consumer will not -- they will not look at it and say, oh, I put ethanol in, they will look it in and they will see the diamond bar logo on the top, and they will say, boy, what happened to my Briggs engine.

Mr. Olson. How could I have prevented that? What could I have done to mitigate the damage by putting E15 in there? Anything? I just reach in my wallet and pay it?

Mr. Teske. No. I mean, once E15 in, right, it is in there and it is -- unless you -- if you start it up, it will start to cause issues.

Mr. Olson. We have a name for that, but I will leave that at the side.

Mr. Whitfield. The gentleman's time has expired.

At this time, I recognize the gentlemen from Texas, Mr. Hall, for

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5 minutes.

Mr. Hall. Mr. Buis, in your opening statement, I think the chairman and I were the only ones that heard it, but ethanol's cheaper than any other fuel? Was that your statement?

Mr. Buis. I am sorry. I couldn't hear the question. I did make the statement ethanol is cheaper than any other transportation fuel.

Mr. Hall. And --

Mr. Buis. We are 67 cents today under unblended gasoline.

Mr. Hall. Let me ask you, is the blend wall a real concern? Just yes or no.

Mr. Buis. Yes.

Mr. Hall. Your organization led the efforts to secure EPA approval in E15?

Mr. Buis. Correct.

Mr. Hall. And do you now think E15 is a viable option for gas stations to sell and vehicle owners to use?

Mr. Buis. I do.

Mr. Hall. E15 was approved for 2001 and new vehicles but not for older vehicles, was it?

Mr. Buis. Well, not for older vehicles was much to our chagrin, because when we filed --

Mr. Hall. Well, much to your chagrin, but it is a fact.

Mr. Buis. Yeah, it is.

Mr. Hall. Okay. Let me go on. Why do you think vehicle and equipment makers are concerned about E15?

Mr. Buis. I didn't hear the first part of it, sir.

Mr. Hall. Why do you think most gas stations have shown little interest in carrying E15?

Mr. Buis. I think there has been enough controversy raised by those who don't want to see us move to higher blends that it has caused some resistance. We are slowly breaking through it, but there was also legal challenges filed to E15. The U.S. District Court of Appeals ruled two to one in favor of EPA, and the Supreme Court refused to hear an appeal of the case.

Mr. Hall. Well, let's get back to ethanol, then. For small and marine engines and any other gasoline engine other than 2001 and newer passenger cars and light duty vehicles, the law explicitly prohibits E15. Further, EPA has issued a specific rule to mitigate consumer mis-fueling, including a label specific to E15. In fact, ethanol is the only fuel that requires a warning label at the pump.

Mr. Buis. Yes, sir.

Mr. Hall. Is that true? And ethanol is the only ingredient labeled in gasoline, even though gasoline is a chemical which contains approximately 200 different components --

Mr. Buis. Correct.

Mr. Hall. -- and that is not even listed. So it may be cheaper

to buy, but is it cheaper to use in the long run? If I would fill my tank up with high ethanol, how far could I get from the service station in the country?

Mr. Buis. With pure ethanol?

Mr. Hall. Yes.

Mr. Buis. That is not available. You can go up to 85 percent. Oftentimes 85 percent is not even 85 percent, depending upon the season. It can be --

Mr. Hall. Well, how far would my car go if you filled it up with ethanol? Just --

Mr. Buis. If you filled up your regular car --

Mr. Hall. I wouldn't get out of the station, would it?

Mr. Buis. -- with E15, the mileage drag is going to be less than 2 percent.

Mr. Petrowski. Congressman Hall, could I interject on retailers and stations?

Mr. Hall. Not right now.

Mr. Petrowski. No? Okay.

Mr. Hall. And you say there is no reason to repeal or to reform RFS. That is your opinion, isn't it?

Mr. Buis. It is, yes, sir.

Mr. Hall. And if the RFS is repealed, would anybody still be using ethanol?

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Mr. Buis. I think would be --

Mr. Hall. In this country? You use it overseas and in South America, but would they be using it in this country --

Mr. Buis. Yes, sir, they would.

Mr. Hall. -- with gasoline?

Mr. Buis. Yes, sir, they would. Ethanol is the cheapest source of octane available to produce gasoline from.

Mr. Hall. So did you -- I think that -- 40 percent of corn's going to fuel. I am thinking about ethanol being the cheapest of all fuels and what it is used for. Ethanol is used with gasoline, or it has to be mixed with something to be sold, does it not?

Mr. Buis. Uh-huh. Yes, sir.

Mr. Hall. And 40 percent of the corn going to fuel, but it can be eaten or it can be fed to livestock, or Jack Daniel might buy it or the vodka people or Jose Cuervo might want to bid on it, but absolutely unless it is mixed with gasoline, it has very little use, does it?

Mr. Buis. Well, yeah. There is industrial uses also for ethanol.

But I have to challenge this 40 percent. Everybody gets -- when they get a paycheck, you have a gross salary and you have a net, and what the critics use on corn ethanol is the gross. They say we use 40 --

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Mr. Hall. But don't you use 40 percent? How about using --

Mr. Buis. Pardon me?

Mr. Hall. -- 39 percent?

Mr. Buis. No, it is not 39 percent, sir.

Mr. Hall. Or 20 percent.

Mr. Buis. It is about 18 percent of the corn crop, because --

Mr. Hall. If you use 17 percent of the corn crop? That is a lot more than ethanol.

Mr. Buis. Pardon me?

Mr. Hall. If you use 17 percent of corn, that is going to fuel.

Mr. Buis. There is -- there is residual value. We create a co-product.

Mr. Whitfield. I am sorry to interrupt this. We have got the Health Subcommittee that wants to come in here for a hearing at 1:30.

And Mr. Petrowski, I am going to give you 1 minute to reply. You were trying to make a comment.

Mr. Petrowski. Thank you, Mr. Chairman. Here is the problem for retailers today. I would love to have a higher blend than E10, and as I have said before, but my in-ground tank equipment, my pumps, my dispensers are warrantied for nothing higher than E10. And if I -- and my insurance company has also said that if I put any product in that voids a warranty on this equipment, I am not insured for any residual spills or leaks. So short term, if I put in a greater amount, I would

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make a lot of money, but long term, the expense of putting a liability on that would make me --

Mr. Whitfield. Yeah. That is a serious -- it is a very serious issue.

Mr. Petrowski. It would make me an ex-CEO.

Mr. Whitfield. Yeah.

Mr. Shimkus. Mr. Chairman, what Mr. Petrowski should have done is made sure he mentioned the liability relief bill that we have before the Chamber, which would be very helpful in his sector.

Mr. Petrowski. Yes. I --

Mr. Whitfield. Mr. Shimkus can take care of your liability for you.

Okay. That concludes today's hearing. We will have another hearing tomorrow. And I want to thank all of you for coming. We appreciate your testimony. We look forward to working with you as we explore further options.

And with that, the hearing will be adjourned, but I do ask unanimous consent that we enter into the record comments by the climate -- it has been accepted.

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[The information follows:]

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Mr. Whitfield. The record will remain open for 10 days.

The hearing is adjourned.

[Whereupon, at 1:36 p.m., the subcommittee was adjourned.]