January, 2014

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May, 2012

ETHANOL UPDATE

According to *Ethanol Producer Magazine*; in 2011, the use of 13.9 billion gallons of American ethanol helped reduce the need for imported oil by 485 million barrels. That is the equivalent of about 13 percent of total U.S. crude oil imports, saving the American economy $49.7 billion. Ethanol provides a domestic, renewable alternative to imported oil. A study by Iowa State University and the University of Wisconsin found that in 2010, domestic ethanol production helped lower the price of wholesale gasoline by an average of 89 cents per gallon and $1.09 in 2011. A study by the Center for Agriculture and Rural Development found that in the decade from 2000 to 2010, domestic ethanol reduced gasoline prices an average of 25 cents per gallon, saving consumers $34 billion annually. In addition to this positive economic impact, reducing oil import dependency has been a national security priority and policy objective since the 1970s. The production of domestic ethanol plays an important role in achieving this objective.

2011 turned out to be a good year for the ethanol producers. Bolstered by record exports, despite high corn prices the industry was profitable, especially in the fourth quarter. The U.S. has been a net exporter of ethanol since 2010, when more than 350 million gallons of ethanol went to overseas markets, according to the Renewable Fuels Association (RFA). But in December, ethanol stocks began to build and margins tightened dramatically. A rush to blend ethanol at the end of 2011- before the sunset of the 45 cent per gallon Volumetric Ethanol Excise Tax Credit (VEETC) - had an impact on supply, but most experts agree low gasoline demand is a more impactful factor. The first quarter of the year is traditionally a time of tight margins for the ethanol industry. Gasoline demand, and therefore the demand for ethanol blending, slumps after the holidays and doesn't typically pick back up again until the summer driving season hits. That said, the industry does not view reduced demand as a short term situation. Average annual gasoline demand is down more than 10 percent from peak demand in July 2007, according to the U.S. Energy Information Administration (EIA). The industry is adjusting. In early February 2012, ethanol industry giant, Green Plains Renewable Energy Inc., announced it was slowing production at two of its nine ethanol plants. While Green Plains was arguably the most notable example of an ethanol producer reacting to tight margins and high stocks by reducing run rates, a handful of other ethanol plants also announced production reductions. Experts agree many other producers were quietly doing the same without making the information public.

In reaction to the reduced annual gasoline demand and the resultant reduced demand for ethanol, the ethanol industry has devised several strategies to increase the demand for ethanol. One of the more prominent has been the industry's effort to work through the U.S. Environmental Protection Agency's (EPA) long list of implementation conditions in order for gasoline retailers to offer their customers E15. Currently, E10 a 10% ethanol blend is used in 97% of the nation's gasoline. This is what is referred to by the ethanol industry as the "blend wall". E15 is a 15% ethanol blend. In March of this year, the U.S. EPA issued its approval of a Misfueling Mitigation Plan (MMP) submitted by the RFA.

In January of 2011 the EPA approved E15 for use in vehicle models 2001 and newer. Because the fuel is not approved for use in all vehicles or in small engines, the agency requires that a number of conditions be met by retailers offering the fuel to prevent misuse of E15 by consumers. Those conditions include proper labeling of E15 dispensers, the use of product transfer documents to accompany all transfers of fuels for E15 use, and compliance surveys. Prior to selling E15, parties are required to submit a MMP to the EPA to demonstrate their compliance of these prerequisites. In a letter sent to the RFA in March, the EPA agreed that its model plan would "generally be sufficient" to satisfy those requirements.

The RFA is making its model plan available for use along with a complimentary E15 R**e**tailer Handbook, which offers additional guidance for retailers in the areas of infrastructure compatibility, safety, conversion practices and state specific regulatory requirements. Many states still have regulatory issues that prevent E15 from being sold. The RFA is working with others to get state-based regulations modified to allow E15 into the market. It is expected that retailers in ethanol-friendly Iowa, Illinois and Kansas will be the first to sell the fuel. Robert White, RFA marketing director said the RFA has fielded an increasing number of calls from interested retailers and, considering the price differential between ethanol and gasoline, the group expects E15 to quickly gain traction in the market upon its introduction.

An anticipated May 1, 2012 start date for E15 sales to drivers of 2001 and newer vehicles in Kansas failed to materialize as retailers and the ethanol industry representatives continue to work through the U.S. EPA's long list of implementation conditions. Scott Zaremba, owner of Zarco 66 Inc. had hoped to begin selling E15 from blender pumps at his eight Kansas City area retail stations on May 1, but as of May 10, he had yet to receive EPA's approval. He remains optimistic that the final approval will be granted soon but hesitated to predict a new timeline for E15 introduction.

The move to E15 is purely voluntary. It is up to the retailers and individual fuel companies to register for approval to sell E15. The industry remains committed to overcoming the regulatory hurdles and recognizes it needs to educate the public of the benefits to E15. These benefits include saving money at the pump, the replacement of up to 7 billion gallons of gasoline reducing our dependence on foreign oil and strengthening our national security and the improvement of our environment. But the largest potential impact may be the creation of over 130,000 American jobs.

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