

**Biofuels Investment Summit
New York City
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**Thomas C. Dorr
Under Secretary for Rural Development**

Good morning. Thank you, John for that very kind introduction. It is a pleasure to be with you this morning.

I had the opportunity yesterday evening to meet with former Governor Pataki, and I want to begin by thanking both the Governor and Patrick Brennan, our State Director, for their hospitality.

When I took this job a few years back, I frankly never imagined how often the road to rural development would lead through New York City. This has happened largely because of the mainstreaming of renewable energy and its emergence as a significant investment opportunity.

That brings Rural Development to the big city. Renewable energy, due to its feedstock and siting requirements, is largely rural energy. That makes it a high priority for us. We are essentially an investment bank for

rural America. We have a portfolio of more than \$99 billion invested in rural housing, infrastructure, community facilities, and business.

Renewable energy is a relatively small ... but rapidly growing ... part of our portfolio. In our view it represents probably the greatest new opportunity for wealth creation in rural America in our lifetimes.

People come at this subject from many different angles. I'm a lifelong farmer from northwest Iowa. I can remember my dad, back in the 70's, working for the first plant to support gasohol. I grew up with biofuels.

But as we all understand, for many years biofuels were mainly a gleam in the eye of folks in the grain belt. Market penetration was driven by subsidies. You would probably have had trouble filling a room in New York to talk about it. You sure couldn't have raised money for it here.

But times have changed.

The movement of private capital into renewables ... wind and solar as well as biodiesel and ethanol ... is in my view the strongest possible

indicator that we are, in fact, in the early stages of a profound shift in the nation's resource base.

Most of us won't see the full effects in our lifetimes ... we'll be oil dependent for years to come ... but it is already clear that the OPEC nations had better put their sovereign wealth funds to good use while they can, because \$100 oil is more than enough to unlock the post-oil future.

[PAUSE]

Any remarks I make, from a USDA perspective, about the near term must be hedged by the fact that the new Farm Bill is still in conference.

We had hoped that this would be wrapped up by now. USDA has been working hard on the Farm Bill for 3 years. The President rolled out his detailed proposal a year ago. The Administration is still committed to passage of a strong Farm Bill this year ... we hope sooner rather than later. But there are some very serious issues still to be resolved.

- The budget is a factor. The House version of the Farm Bill is \$19 billion over baseline. The Senate bill is \$37 billion over baseline.**

- **Both the House and Senate bills rely on budget gimmicks and new taxes ... which if passed would be the first time since 1933 that we've raised taxes to pay for a Farm Bill. The President has signaled a veto if this is not changed. We recommend it. If you think this is merely dialogue, reflect on the Child Health Care and Energy bill vetoes.**
- **The President also takes seriously the need to reform Title I. With farm income at a record high and commodities prices strong ... and in a stringent budget environment ... we simply can't justify continuing subsidies to some of the wealthiest folks in America.**
- **As you probably know, Secretaries Johanns and Conner have spent the last year showing audiences across the country a map of Park Avenue addresses to which USDA mails a check.**
- **If this includes you, feel free to raise your hand and disagree, but the President wants to cap program eligibility at an AGI of \$200,000, which is a generous level for a support payment. The Senate bill sets**

a cap of \$750,000 and removes the cap entirely if 2/3 of your income is from farming. That's another problem that needs to be resolved.

- Finally, the President recognizes the need to make our farm programs WTO compliant ... whereas the House and Senate chose to increase trade-distorting support for 80% of the crops grown in this country. As Secretary Conner puts it, that's tantamount to painting a bullseye on the backs of American farmers.

But there is some good news. The good news on the Farm Bill is that there is a rough consensus in a number of areas, notably conservation and renewable energy. And so here we are today.

Independently of the Farm Bill, at USDA Rural Development we have already prioritized renewable energy and energy efficiency across the Mission Area. From FY 2001 through 2007, we have invested over \$650 million in more than 1,700 projects ... leveraging nearly \$1.8 billion in private funds over and above the federal commitment.

These projects have spanned the spectrum ... biodiesel ... ethanol ... cellulosic ethanol ... wind ... solar ... geothermal ... and hydro. No

fewer than TEN separate utilities, business, and cooperatives programs within USDA Rural Development have contributed to this effort.

This continues to be an agency-wide and Administration priority. In addition to our existing programs, the President in the Farm Bill has proposed an additional \$1.6 billion for renewable energy research and development ... everything from loan guarantees for Bio-Refinery production facilities ... to research on feedstocks ... to support for dedicated energy crops.

For our discussion today, I note particularly the President's proposal for \$210 million in mandatory Farm Bill funding to support more than \$2 billion in loan guarantees for cellulosic ethanol plants. We estimate that we could stand this program up within 4-6 months of enactment. We have credit model and back office currently working on loan guarantee for a cellulosic plant now.

In this area, the House and Senate bills are reasonably compatible with the thrust of the President's proposal. The exact numbers are different and I won't walk through the spreadsheets here.

But whatever the outcome of the Farm Bill, it is clear that the federal support for biofuels development is both strong and bipartisan. In addition to USDA, the Department of Energy also has significant funding available. The biggest chip on the table is the 36 billion gallon Renewable Fuels Standard the President signed this December. This calls for a 5-fold increase in U.S. biofuels production over current levels by 2022. The train clearly has left the station and is picking up speed.

In considering the implications of all this, however, it is important to recognize at the outset that ... in a very real sense ... the furor about government investments, subsidies, and mandates is essentially secondary. It is not unimportant, but it is not the main story.

The renewables revolution is fundamentally market driven. Markets are forward looking. They are anticipating an evolution of current trends.

The government activity is significant ... but what we are buying is time.

We are working hard to accelerate and catalyze the commercialization of new, clean, domestically produced energy sources. There are very

important national security, economic security, balance of payments, environmental, and rural development reasons for doing so. From a public policy standpoint, cutting 5 or 10 or 15 years off the deployment curve is a wise investment on several counts.

But the developments we are seeing today in renewable energy, I believe, would occur in any case, albeit more slowly.

I would suggest that the most important thing that has happened in the world since the first oil shock is in fact the fall of the Berlin Wall.

Between 2 and 3 billion people have joined the world market system.

We anticipated ... when the Berlin Wall came down ... that we would see new markets and new opportunities. Specifically for American agriculture, we recognized the potential as hundreds of millions, then billions, of people began to earn higher incomes and move up the nutritional ladder. This has happened, and it is a great thing.

What we did not anticipate ... what very few people, in or out of government anticipated ... was the remarkable surge in energy demand

that we are now experiencing. This isn't the 1970's. Oil isn't \$12 a barrel. Oil and natural gas ... indeed, commodities across the board ... are being very dramatically revalued in world markets.

Yes, there is a risk premium in energy prices today. But take that away and we're still left with the fact that China is already the world's second largest automotive market and oil importer. India is graduating from buses, bicycles, and oxcarts. That's a lot of people buying wheels ... and at the same time, conventional oil production is plateauing. At some point, sooner or later, it will peak.

So there's no going back. This is real. It's global. It's driven by the revaluation of oil. It's driven by policy. And it's enabled by distributed computing, which allows us to harness distributed energy resources more effectively than has ever been possible before.

Distributed computing allows relatively small biofuels producers to achieve economies of scale thanks to automated process controls, continuous off-site monitoring, networked technical support, and access to real time market information.

Similarly, the ability to harness large scale wind and solar power isn't just a matter of installing turbines and solar panels. It's a matter of integrating distributed production into the grid, balancing power flows, and pricing appropriately.

Distributed computing doesn't get the headlines ... a wind turbine or ethanol plant is a better visual than a software package ... but it is an essential component of the emerging competitiveness of renewables.

Markets have a way of figuring these things out. They're usually way ahead of the politicians and the press. So let's connect the dots.

- At \$100 oil ... for that matter, \$80 or \$90 oil ... alternatives to oil WILL be called to market ... and the displacement of one billion barrels of imports is a new market for American farmers larger than today's historically high net farm income.**
- BTU's and calories are fungible. Biofuels now drive corn and soybeans prices and will for the foreseeable future. This is being**

factored into land values. It's no accident that net farm equity has doubled to more than \$2 trillion in this decade.

- That is \$2 trillion at the disposal of the people who already own ... because they grow ... the feedstocks. In the long run, that is likely to have a lot to do with the evolving ownership structure of the biofuels industry. This is an area of intense interest for us.**
- Last but not least, we are in the early stages of a very long term process. Cellulosic ethanol is just now moving into production. The next big step up for biodiesel as well will depend on the development of new feedstocks.**
- Just as one indicator: our technical committees are now reviewing this year's Section 9008 proposals ... this is our Biomass Research and Development Program. We have over 300 different feedstocks in house for review right now. This is truly an unexplored frontier.**

Bottom line, this whole field is moving very fast. There is risk; there are many technologies in play, and not all will be market winners. But there is also enormous potential here for investors. The rapid deployment of

biofuels is a high national priority, and we look forward to working with you to bring these resources on line.

Thank you.