

**National Ethanol Conference (RFA)
Orlando, Florida
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**Thomas C. Dorr
Under Secretary for Rural Development
Opening Plenary Session**

Thank you, Bob, for that very kind introduction. It's always a pleasure to be with you ... although we ARE getting to the point where you and I are going to start reciting each other's speeches from memory.

On behalf of Secretary Schafer and all of us at USDA, let me thank you again for an outstanding presentation last week at the Ag Outlook Conference in Washington.

And I look forward to hearing you again next week at WIREC. If you want to plant a question, let me know ... and I promise I won't take offense if you slip out for a cup of coffee during my remarks. Listening to me three weeks in a row is probably over and above the call of duty. It is a privilege to be here. First and foremost, I want to congratulate all of you on the enormous strides the ethanol industry has taken ... and

for the growing contribution you are making to the nation's national security, energy security, and the rural economy.

How far we have come. I'm a lifelong farmer from Cherokee County, Iowa, I grew up with ethanol. I remember my dad working for the first ethanol checkoff back in the 1970's. Like many of you, I was ethanol before ethanol was cool.

How far we have come. And yet we have just begun.

I was invited ... originally ... to this conference to provide an update on the new Farm Bill. That, of course, is a very important topic.

Unfortunately it is also a topic about which I can ... at the moment ... say very little.

The Farm Bill is still in conference. There are many issues in play. At USDA Rural Development, we are deeply involved with two Titles ... Title VI, the Rural Development Title, and Title IX, which is Energy.

There are intensive negotiations under way. At last report, there is guarded optimism that progress is being made. I have, therefore, a very clear mandate as Under Secretary for Rural Development ... and that is NOT to kick the anthill while those discussions are in progress.

What I CAN say is that there is clearly broad agreement on both sides of the aisle and at both ends of Pennsylvania Avenue that renewable energy generally ... and cellulosic ethanol in particular ... are very high priorities.

I am an optimist, not a cynic. I am aware ... as are those of you who have experience with Washington, D.C. ... that apparent agreement is no guarantee of actually getting something done. But it IS a start.

And we can't afford to fail. There's a lot on the table.

- **A year ago, at the beginning of the Farm Bill debate, President Bush proposed a major expansion of our Renewable Energy and Energy Efficiency Program, the Section 9006 program.**

- **The President asked for \$2 billion in loan guarantees for cellulosic ethanol.**
- **He proposed \$100 million in direct support for cellulosic ethanol producers through a “Cellulosic Bioenergy Program” modeled on the old CCC Bioenergy Program, which expired in 2006.**
- **He also suggested a new Biomass Reserve Program to help promote the production of dedicated energy crops.**
- **And finally, the President proposed a significant acceleration of basic and applied research on cellulosic ethanol ... new feedstocks ... and conversion pathways.**

That represents a strong, balanced, biofuels agenda. The House and Senate versions of the Farm Bill differ in the particulars but, at least with regard to biofuels, they are broadly consistent in direction.

So despite the current delay, I remain an optimist that at the end of the day ... while I don't know exactly what it will look like ... the Farm Bill ultimately will have a strong biofuels component.

The timing is still uncertain. As I said a moment ago, there are many issues in play. Funding is a big one.

The President, in his Farm Bill proposal, accepted the need to modernize Title I ... that's the commodity programs. His goal was to take the bullseye off farmers' backs, to make the safety net more WTO compliant, and to reduce the subsidies to very wealthy producers.

The House and Senate frankly didn't share those priorities. The Senate bill, for example, contained \$22 billion in unfunded commitments and budget gimmicks as well as \$15 billion in new taxes. The President has indicated that he will not accept that.

So there is work to do. But again, at the end of the day I am an optimist. I am an optimist because this industry is maturing. What happens on Capitol Hill is still important ... don't misunderstand me about that.

But what happens on Capitol Hill is no longer the whole story, nor even the most important part of the story. The bigger story is that renewables are coming of age, both in the United States and around the world.

Earlier I mentioned WIREC, which is the acronym for the Washington International Renewable Energy Conference. I know WIREC is on your radar screens. Many of you are attending and some of you are exhibiting.

WIREC is several things in one. The official Conference is a global Ministerial meeting. Over 90 countries are expected to attend. This is a continuation of two earlier Ministerials held in Bonn and Beijing in 2004 and 2005. From a USDA perspective, it is also a successor to our Advancing Renewable Energy Conference held in St. Louis in October 2005.

In addition, WIREC will feature a major international trade show and business conference. For those of you who are attending and exhibiting, I appreciate your participation and look forward to seeing you there.

WIREC is yet another demonstration that we are moving to a fundamentally new phase in the development of renewable energy ... not just ethanol, but biodiesel, wind, solar, and other renewables as well.

It is a demonstration that renewables are now mainstream ... and that this is now a fully international story. Brazil was, until recently, the leader in ethanol. Germany is a leader in several sectors. In just the last

two years, India and China have emerged as major players. When it comes to renewable energy, the United States has no monopoly on talent, energy, commitment, and vision. But this is also a remarkable emerging success story for the United States.

- We in fact lead the world in renewable electric power capacity, large hydro, waste to energy, solar thermal electric, and geothermal.**
- We have led the world the last three years in new installed wind capacity. We are on pace to surpass Germany as the world leader in cumulative wind capacity by the end of next year.**
- We rank third internationally, behind Germany and Japan, in grid-linked solar photovoltaics. Annual photovoltaic domestic shipments have increased more than tenfold since 2000.**
- And as you know better than anyone, the United States now leads the world in the production of biofuels. We're first in ethanol, second in biodiesel, and growing in both areas. And we are the world leader in bringing cellulosic ethanol into production, which is on track to reinvent this industry in the very near future.**

These are tremendous achievements. Most of them are the product of the last eight years. They've been driven by aggressive policy leadership by President Bush, as well as by increasing world oil prices. The growth since 2001 has been very rapid ... and we're just getting started.

Yes, we face some growing pains. Adolescence can be awkward. For ethanol, the growing pains include logistical issues ... getting corn belt ethanol to coastal markets. We need to resolve the blend wall issue. We need more E85 pumps and more flex fuel vehicles on the road.

We will undoubtedly face myriad other questions as second generation biofuels come to market. We can work our way through these problems. I am convinced we will. I am a great believer in what the late Julian Simon called "The Ultimate Resource."

That ultimate resource is human ingenuity. Unleashed and empowered by a system that rewards innovation, respects property rights, and encourages entrepreneurs, we can confront and overcome the transitional challenges we face today ... just as we have done so many times in the past when new technologies and new industries arose.

But in that vein, I would suggest to you that we also face some obstacles that are different in nature ... different because they are rooted in entrenched resistance to innovation, and sometimes a deep suspicion of entrepreneurship and economic growth itself.

These are rooted in hostility to what Joseph Schumpeter celebrated as the “creative destruction” so essential to the functioning of free markets. They are rooted ultimately, perhaps, in the fear of change.

It is a common observation that if penicillin were being discovered today, it could not survive the regulatory barriers we would place in its way. That is a hypothetical example ... but closer to home, consider greenhouse gas emissions, which we are told is the great issue of the day.

The one technology, on the shelf right now, that could massively reduce our carbon footprint is nuclear power. Yet the United States has not built a new nuclear plant in more than a generation, for reasons all of us understand. Those reasons haven’t deterred France, which generates 78% of its electricity from nuclear, but we have been stopped cold.

This is a clear demonstration of the high price we can pay for the fear of change. And renewable energy, including ethanol, is not immune. There have been many brushfires over the years ... net energy balance, food vs. fuel, water consumption. We have methodically answered them.

Now there is a new line of attack centered on ostensible concerns about sustainability. The EU is discussing sustainability-based licensing of biofuels that could essentially halt the conversion of acreage into feedstock production. Some of the same ideas and approaches are beginning to creep into the debate here.

This is a debate to watch carefully. We must not allow “lifecycle analysis” to become the stalking horse for paralysis-by-analysis, with the regulatory goalposts being moved every time the industry reaches a new milestone.

RFA, as most of you know, has already weighed in on these questions.

Your published response is on the front page of your website, and I know that you have been active at all levels. I commend your vigilance.

As a lifelong farmer, I would add only that sustainability is already a watchword in American agriculture. It has been for decades. We have

steadily increased yield ... and at the same time we have reduced erosion ... reduced the need for irrigation ... reduced fertilizer, herbicide, and pesticide intensity ... protected habitat ...

... and we've done all this without infringing on the private property rights of farmers to seek new markets and shift to new crops.

Producers can and will continue to apply those skills to the many issues that will arise as we build out the ethanol industry ... provided that we don't place artificial barriers in the way.

Bottom line, change is upon us whether we fear it or not. Denial is not a solution. Adaptation is not an option ... it is a necessity. Ultimately here are two factors driving renewable energy today. Neither is going away.

The first great change is the fall of the Berlin Wall. Since 1989 between 2 and 3 billion people have joined the world market system. This is the greatest explosion of economic freedom in world history. `The world is a much wealthier ... more productive ... and much more competitive than it was 30, 20, or even 10 years ago.

One result is the surge in energy demand that we see today. China is now the world's second largest automotive market and oil importer. India is rising fast. Hundreds of millions of people are joining the global middle class, with an energy profile to match. Energy and agricultural markets are adjusting to a new reality. There is no going back.

Oil is no longer cheap. BTU's and calories are fungible. As a result, agriculture is shifting from a food-feed-fiber economy to a food-feed-fiber-fuel economy ... and this is an historic opportunity for agriculture and rural America that we ought to welcome, not resist.

The second factor is distributed computing and broadband. These have unleashed the ability to produce, manage, and appropriately price distributed resources ... biofuels, wind, and solar power, as well as the human capital in rural America that is required to bring these to market. This is indeed Julian Simon's "greatest resource."

In short, thanks to distributed computing, the productivity of America's farms and forests, and the entrepreneurial character of you in this room ... and your colleagues and competitors who are not here today ... we

have the capacity to turn disruptive change in global energy markets to our long-term advantage. This is an opportunity of historic proportions. We should welcome it.

The ethanol industry has reached adolescence. Yes, there are changes ahead. There will be challenges. But if we will put “the greatest resource” to work ... and not throw artificial barriers in the way of market adjustments ... we will demonstrate once again that challenge is just another word for opportunity. Thank you.