



Administrator Lisa P. Jackson
U.S. Environmental Protection Agency
Room 300, Ariel Rios Building
1200 Pennsylvania Avenue, NW
Washington, D.C. 20406

Docket ID No: [EPA-HQ-OAR-2012-0632; FRL – 9721-7]
Date: October 2, 2012

RE: Comment on a Waiver of the Renewable Fuel Standard

Dear Administrator Jackson:

The National Center for Policy Analysis (NCPA) is a nonprofit, nonpartisan public policy research organization, established in 1983. Our goal is to develop and promote private, free-market alternatives to government regulation and control, solving problems by relying on the strength of the competitive, entrepreneurial private sector.

We bring together the best and brightest minds to tackle the country's most difficult public policy problems — in health care, taxes, retirement, small business, and the environment. In doing so, we propose reforms that liberate consumers, workers, entrepreneurs and the power of the marketplace.

It is in this context that NCPA submits comments in regards to the proposed waiver of the ethanol fuel mandate of the Renewable Fuel Standard (RFS). NCPA supports a permanent end to the national volume requirements of the Renewable Fuel Standard (RFS) consistent with Section 211(o)(7)(A) of the Clean Air Act (CAA). NCPA also supports an end to Federal subsidies for corn crops and corn ethanol production.

Need For A Waiver

The drought in the Midwest farm belt is a natural disaster with far reaching consequences, not just for farmers but for corn consumers around the globe. The Environmental Protection Agency (EPA), in its capacity to administer the RFS, has an opportunity to alleviate some of the problems that have come to prominence during the current drought. We propose immediately issuing the waiver and keeping it permanent. A waiver of the RFS could reduce demand for corn, thus lowering corn prices for non-ethanol corn buyers. Lowering the demand for ethanol would also lead to lower corn prices. A waiver would also give refiners flexibility to either keep using ethanol or opt out, based on their preference.

Impact of Current Ethanol Mandate On Corn Prices

The RFS currently requires 13.2 billion gallons of ethanol to be blended into the gasoline supply during 2012 and 36 billion gallons by 2022. These quotas are fulfilled almost entirely by corn ethanol. In 2011, four of

every 10 bushels of corn went to fulfill the mandate. Since June, corn prices have soared by about 50 percent, hitting \$8.20 a bushel, an all-time high. In 2005, corn sold for just \$2 a bushel. That year, 1.6 billion bushels of corn, or 13 percent of domestic corn production, was distilled into ethanol. This year 37 percent of the corn crop is estimated to be diverted into ethanol production, roughly 4.3 billion bushels of corn. Simultaneously, the country's livestock now consumes almost as much grain as required by the ethanol sector, close to 4.6 billion bushels. Thus, American motorists are now burning about as much corn in their cars as is fed to all of the country's chickens, turkeys, cattle, pigs and fish combined.

The United States Department of Agriculture (USDA) anticipates an increase in the farm price of corn due to the ongoing drought.¹ Increases in the price of corn will affect the price of other crops and other inputs in the food supply, like animal feed. The price of corn is certain to raise prices within two months for beef, pork, poultry and dairy and will impact prices on processed foods, like cereal and corn flour, for the next year. Livestock farmers are facing huge financial liabilities to meet feedstock demand, and that cost is being transferred to food consumers across the country.

The Agency's concern in determining the value of a waiver should be about the impact current corn prices have on the rest of the market and the extent to which inflated demand via the RFS is contributing to the problem. A waiver would bring much needed relief to markets outside corn and ethanol production and NCPA urges the Agency to take this into consideration.

Negative Environmental Impacts of Ethanol Production and Use

American farmers can meet the congressionally created demand for more ethanol by taking steps to increase production, such as: 1) devoting more cropland to corn and less to other crops, 2) diverting more of the corn crop from human and animal food supplies to fuel production, 3) increasing corn yields by using more chemical fertilizers and pesticides, and 4) converting fallow fields, forests, wetlands and wild lands to agriculture. The third and fourth options have environmental consequences. For example, ethanol boosters are already pushing to allow corn production on millions of acres farmers have been paid to set aside for environmental protection under the Conservation Reserve Program.

The first and second options have demonstrated human consequences. As discussed above, the increased use of ethanol in the United States has caused the price of corn to double, raising livestock and wildlife feed prices. Corn prices have also risen beyond U.S. borders - for instance, in Mexico, where a dramatic increase in the price of corn tortillas led to riots in early 2007. The prices for meat and vegetables have also increased and, in June 2007, the United Nation's food envoy, Jean Ziegler, warned that the diversion of crops from food to biofuels could result in hundreds of thousands of deaths from hunger worldwide.

Furthermore, land uses will have to change dramatically to meet future increases in the ethanol mandate. For instance, if every acre of corn were used to produce ethanol, it would supply the equivalent of only *12 percent* of current gasoline use, according to researchers at the University of Minnesota.² Displacing just 5 percent of the U.S. demand for gasoline and diesel with ethanol would require more than 21 percent of U.S. cropland,

¹ USDA Economic Research Service, "U.S. Drought 2012: Farm and Food Impacts," August 23, 2012, <http://www.ers.usda.gov/newsroom/us-drought-2012-farm-and-food-impacts.aspx>, accessed August 2012.

² David Tilman, et al, "Environmental, Economic, and Energetic Costs and Benefits of Biodiesel and Ethanol Biofuels," *Proceedings of the National Academy of Sciences*, Vol. 103 No. 30, July 25, 2006.

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according to the International Energy Agency.³ If all the cars in America were fueled with 100 percent ethanol from corn, it would require 97 percent of the 1.9 billion acres of land in the United States to grow the feedstock, according to Cornell University scientist David Pimentel.⁴

The impact ethanol demand has had on food prices and the limits of corn-based production is well understood considering that the Energy Independence and Security Act (EISA) of 2007 requires a majority of ethanol to eventually come from switchgrass. Switchgrass could yield much more fuel per acre than corn, but the technology to convert switchgrass to ethanol at affordable prices does not yet exist. However, even 300 million acres of switchgrass - using all of the land currently devoted to crop production in the United States - couldn't supply current gasoline and diesel demand, according to researchers at the Polytechnic University of New York. Furthermore, the demand for gasoline and diesel is expected to double by 2025.

Conclusion

NCPA fully supports of an end to the Renewable Fuel Standard. However, at the present, we urge the Agency to waive the RFS during the present severe drought in order to prevent food prices from rising to historic highs and to avoid worsening problems from food shortages in the developing world. Ethanol mandates are arguably the most ill-conceived energy subsidies in existence and the only people who truly benefit from this are the corn farmers, distillers and blenders. The rest of the country and the world are paying dearly for them.

Thank you for considering my comments on this matter.

Sincerely,

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³ U.S. Energy Information Administration, 2007 Annual Energy Outlook, (Washington, DC: EIA, 2007).

⁴ David Pimentel, "Limits of Biomass Utilization," *Encyclopedia of Physical Science and Technology*, Third Edition, Vol. 2, March 14, 2001.