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**2018: Toughest Year Yet**

There are a few of you here today who've been around the biofuels industry long enough that you might remember that March 6, 2000 was the day I first went to work on behalf of renewable fuels. So that means in a few short weeks I'll be entering my 20<sup>th</sup> year of advocacy for farmers, biofuels, and consumer choice.

I've seen a lot during the last 19 years. My first job was to duke it out with Big Oil over ethanol replacing MTBE in California. I just missed the birth of the dry mill ethanol industry in Minnesota but watched it blossom across the Midwest. I helped with the creation of a federal biodiesel tax credit and the countless battles to extend the ethanol tax credit.

Ultimately in 2007, was the passage of RFS2, that expanded opportunities for ethanol and advanced biofuels like biodiesel. Then for the last decade, we may have been on the defensive politically – fighting off numerous attacks against the Renewable Fuel Standard (RFS). But we've still been on the offense as an industry.

Just think of the technology advances:

- \* better corn varieties, yeasts, and enzymes
- \* more efficient process technologies and controls
- \* new products like distillers corn oil from ethanol
- \* which just happens to be a new feedstock for biodiesel

So as I stand here today with 19 years of renewable fuels in the rearview mirror, it is my opinion that 2018 was the toughest year yet.

No, I haven't forgotten the commodity boom-bust cycle of 2008 or the devastating drought of 2012. And maybe the view is a bit different from my advocacy position than it is for a biofuels plant general manager. But 2018 was a year of constant worry, work, uncertainty, and frustrations – highlighted only occasionally by good news.

With forces inside of EPA and the West Wing trying to convince President Trump to gut the RFS, there were months when I went to sleep wondering if a tweet the next day would undo the last 19 years of our work.

Think back one year ago today when we last gathered for the Summit. Texas Senator Ted Cruz was holding hostage the USDA nomination of Iowa's own Bill Northey. That precipitated a

series of, I think, eight White House meetings over the RFS – any one of which could have ended with a tweet announcing the end of the RFS for all intents and purposes.

One key event occurred about a month after last year’s Summit. New USDA Secretary Sonny Perdue spoke at the 2018 Commodity Classic. While he backed the RFS, Sec. Perdue seemed to think that RINs were just something for refiners and not the accounting backbone of the RFS itself. To be fair, the RFS can be complex and it was a new issue for him.

But what happened next was one of the most pivotal events of the year. The corn and soybean leaders leaped into action and proceeded to educate the Secretary on the importance of the RFS and RINs to their bottom line. And yes, Iowa corn leaders in this room were at the forefront of that process.

It is safe to say that Secretary Sonny left the Commodity Classic a changed man and he became an absolute champion for farmers, biofuels producers and the RFS throughout the year – often the only RFS champion in a room full of EPA and West Wing staff.

President Trump was being pushed and pulled from all sides on the RFS and wanted to find a “win-win” deal for both sides. So he called together leaders from the petroleum and biofuels industries for a White House sit-down on March 5<sup>th</sup>.

Think for a moment about who was in that meeting to advocate for biofuels:

- \* Iowa Senators Chuck Grassley and Joni Ernst
- \* IRFA Board Member Rick Schwarck, CEO of Absolute Energy
- \* IRFA Member Randy Howard, then CEO of the Renewable Energy Group
- \* IRFA Member Bill Horan, Chairman of Western Iowa Energy
- \* IRFA’s great friend, Charlie Good, a C-store operator in Nevada.

Who else? POET Biorefining and The Andersons – two companies not headquartered in Iowa but with ethanol plants here. In short, Iowa was well represented – and if I may say so, the biofuels industry was well represented.

The outcome of that meeting was very telling in hindsight. It was the first time everyone who walked away – even Sen. Cruz – said that President Trump was prepared to grant year-round E15 sales.

But the “win” for oil was less clear as news of the scope of small-refinery exemptions (SREs) granted by then EPA Administrator Scott Pruitt continued to leak. In the past, these had always been measured in a few dozen millions of gallons, not hundreds. And they were usually reallocated. I remember thinking: there are strict criteria for SREs - just how bad could it be under Scott Pruitt?

Well, we started to learn just how bad on January 25, 2018 when Jarrett Renshaw with Reuters broke the news that 27 refiners were seeking waivers. RIN prices dropped 60 cents within hours.

Over the next few weeks, with news of the sweetheart deal EPA cut for the PES bankruptcy and that really, really “small” refiners like Chevron and ExxonMobil were getting SREs, it became clear that Scott Pruitt was not being an honest broker. We now know his one-man SRE wrecking

crew destroyed 2.5 billion gallons of biofuel demand and set the stage for a very trying financial time for our industry.

Now it is true that Mr. Pruitt was also dogged by numerous ethical questions, but when it became clear that American agriculture no longer trusted him, his days were numbered. In a last-ditch effort to show President Trump that he still could garner support in rural America, in June Mr. Pruitt visited Kansas, South Dakota and Nebraska.

While not surprising to us, Pruitt did not get the reception he was hoping for. Mr. Pruitt got an “earful” from farmers who were “mad as hell.” I think those 3 meetings with farmers in June had just as much, if not more, to do with Pruitt’s ultimate resignation on July 5<sup>th</sup> than his ethical problems.

The other side never stopped trying to push President Trump into a so-called deal on the RFS. But our champions never wavered. Yes, we wanted year-round E15, but not at the cost of gutting the RFS.

I hope everyone in this room understands just how much we owe to Gov. Reynolds and Sens. Grassley and Ernst. Every single time they needed to stand fast, they did. With their incredible leadership, we beat back every known attempt to gut the RFS:

- Point of Obligation
- NODA
- 9.7% Volume Cap
- 10-cent RIN Price Cap
- Export RIN scheme
- And others

And yet, unbeknownst to us and our champions, Pruitt was secretly granting his dead-of-night small-refinery exemptions, which once known took a terrible toll. RIN prices dropped to levels only Ted Cruz could love. Ethanol blending began to sag. Ethanol margins hit multi-year lows.

I’ll admit it. I was depressed. I was watching a policy that you and I had fought for more than a decade to defend being gutted by an action we didn’t even know about at the time, and therefore couldn’t fight.

I’ve often said that taking on the world’s most rich and powerful industry is not for the faint of heart. And during this time, I questioned my heart. But everywhere I turned, this industry just kept fighting. Record biodiesel production. Record ethanol exports. We just keep telling the facts about small-refinery exemptions and E15. I am truly lucky to work for such an industry. We may get knocked down, but you all just get right back up and back to work. So that’s what we did, and the tide began to turn.

On July 26<sup>th</sup>, President Trump chose Northeast Iowa to highlight his commitment to jobs and farmers and E15. Wearing a “Make Our Farmers Great Again!” hat, Trump said he was “very close” to granting “the 12-month E15 waiver.” President Trump’s words gave us a boost of hope, but they also galvanized a last-ditch petroleum effort to squeeze more gallons out of the RFS than the small-refinery exemptions already were.

In the middle of this period, we learned that USDA Secretary Perdue would be making an appearance at the 2018 Farm Progress Show. There was no way we were going to let the Ag Secretary come to the largest outdoor gathering of farmers and not hear about the RFS and E15.

Our staff dropped everything and for 3 days we worked to organize a “Make the RFS Great Again” rally. Over 200 farmers showed up and at the last second, Sec. Perdue made a surprise visit. He donned a “Make the RFS Great Again” hat and told the crowd that he talked E15 with President Trump just that morning and the President said, “Let’s get it done.”

Despite Perdue hinting that a big announcement might be coming within a few days, it did take a few more weeks. On October 9th President Trump once again choose Iowa for a big announcement. In Council Bluffs he stated: “My Administration is protecting ethanol... Today we are unleashing the power of E15 to fuel our country all year long, not eight months.”

While the White House announced year-round E15 would be coupled with some RIN transparency reforms, those reforms will not impact RFS volumes.

No point of obligation.

No 10-cent RIN price cap.

No RIN export scheme.

Just year-round E15.

In the midst of a very tough year, we really should take a moment to savor that victory.

In doing so, we do not forget the incredible damage that small-refinery exemptions have wrought. But even after Pruitt’s secret SRE actions, petroleum never stopped trying to link year-round E15 to further RFS demand destruction.

I began by noting that 2018 was my toughest yet in the biofuels world. And it was. But the year ended on a high note with the clear, unfettered victory for year-round E15.

### **State of the Iowa Renewable Fuels Industry: Hurting but Hopeful**

Now, as we begin 2019, it is clear to me that Iowa’s renewable fuels industry is hurting, but hopeful.

Iowa producers did have a record production year in 2018. Iowa’s 43 ethanol plants put out 4.35 billion gallons of ethanol and corresponding amounts of distillers feed and corn oil. Iowa’s biodiesel producers really cranked up production to a record 365 million gallons.

Yet, due to small-refinery exemptions and the China trade dispute, ethanol producers are facing a period of prolonged breakeven or negative margins the likes of which we haven’t seen in many years. And biodiesel producers are forced to sell their product based on Congress retroactively restoring the blenders tax credit.

At the same time, Iowa biofuels producers are hopeful. We have ample feedstocks, efficient production capacity, and the ability to once again power the rural economy to prosperity.

My wife would be the first to tell you that hope is not a strategy. And let the record reflect I said she is right. Our hope, however, rests on a willingness to roll up our sleeves and get to work on the many outstanding issues confronting the industry in 2019.

### **2019: Could Be Most Impactful Year in Biofuels History Since 2005**

I've referenced the small-refinery exemptions granted under former EPA Administrator Pruitt several times. But dozens and dozens of SRE requests for 2018 await action by Acting EPA Administrator Wheeler. Mr. Wheeler has touted the increased transparency of the SRE process, and we commend that.

Yet, while transparency is nice, it's the final decisions on granting SREs that really matter. Wheeler has said they are reviewing the process and criteria for granting SREs, but we have no idea when and if that will change outcomes. Until Wheeler takes action on a 2018 SRE request, the fact is we won't know whether a more judicious approach is being taken or whether SREs will still be handed out like candy on Halloween.

A number of proposed rules from the EPA are also expected in the coming weeks and all will have huge impacts on biofuels.

- \* The E15 RVP waiver we discussed – will it be done by June 1<sup>st</sup>?
- \* The rule setting RFS levels (RVOs) for 2020.
- \* And, very importantly, the RFS reset rule, whereby the EPA will be rewriting the RFS schedule from 2020 to 2022. This will also likely provide some hints on how the EPA plans to implement the RFS in 2023 and beyond.

The lawyers are certainly happy in 2019 given the number of biofuels lawsuits pending with big implications.

- \* There are FOUR small-refinery exemption lawsuits alone, challenging everything from the criteria whereby they were granted, to the lack of reallocation, to the very definition of the word extension.
- \* There are annual RVO lawsuits that have been brought by oil interests.
- \* I'm watching the remand lawsuit – where the DC Circuit Court told EPA to give us back 500 million gallons illegally lowered from the 2016 RVO – and which hasn't happened yet.
- \* And it is a certainty that Big Oil will challenge year-round E15 once that rule is final.

There's always the potential for new legislation aimed at undermining the RFS in Congress – although any attempt is not likely to pass in 2019. On the other hand, we do need Congress to act to reinstate and extend for multiple years the biodiesel blenders tax credit.

And the outcome of current trade negotiations with China could have a huge bearing on ethanol demand in 2019. Speaking of trade, last year the Department of Commerce and International Trade Commission correctly held Argentina accountable for illegally dumping biodiesel in the US for years.

But recently and unexpectedly, Commerce has taken the very unusual step to reexamine their corrective actions based on a request from Argentina. Having a level playing field was key to US biodiesel production growth in 2018. We are working to convince Commerce not to reverse course and snatch defeat from the jaws of victory.

Quite frankly, when you look at the plethora of issues on our plate that should come to a head this year, I will not be surprised if 2019 goes down in biofuels history as the most impactful year – for better or worse – since 2005.

### **Make the RFS Great Again**

We may not like every answer we get. But I'm confident that 2019 can be a great year for biofuels and biofuels policy. I refuse to bet against IRFA, our members, our elected champions and, more importantly, you – all the vast members of the biofuels family from farmers and investors, to suppliers and fuel retailers.

Despite the ups and downs of our policy struggles, biofuels are low-cost, clean-burning, low-carbon, high-performing fuels. When given a chance, consumers again and again show their support of biofuels through their pocketbooks. On behalf of the IRFA staff, let me assure you that we are ready to take on these issues, and with your help we'll Make the RFS Great Again.

Thank you.