

New Income Streams Ahead

Energy legislation likely to have more far-reaching impact than the new farm bill



SARA WYANT

WASHINGTON, D.C.

Many of you have been eagerly following the ups and downs of developing a new farm bill and hoping for quick passage. You're not alone.

The good news is that the Senate finally finished their part of the equation before

Christmas and the bill is headed for a conference committee in mid-January. The House and Senate conferees are expected to iron out their differences over the next month or so and send a bill to President Bush, which he may or may not veto.

We plan to still closely follow the outcome because it contains many important provisions that can impact your business. But regardless of how the new farm bill plays out, Congress was able to pass another piece of legislation that will likely do more to reshape agriculture and rural America than any farm bill in the last few decades. President Bush signed a new energy bill into law on December 18th, just in time to give many farmers an early Christmas present.

New renewable energy mandates

The Energy Independence and Security Act, H.R. 6, establishes a longer-term game plan for the development of renewable energy in the U.S. that will spur billions of dollars of public and private investments in this sector. Those are dollars that stand to benefit not only farmers, but local investors and small communities across America.

For farmers, the bill opens up all sorts of exciting new opportunities to reap income from renewable energy sources and generate new revenues from carbon sequestration. Most of the new law's initial focus will be on starch-based ethanol production from corn, and biodiesel, from oilseeds. The use of renewable fuels, including ethanol, biodiesel, and cellulosic renewables, is now scheduled to increase from 9 billion gallons in 2008 to 36 billion gallons by 2022, of which 15 billion gallons will be corn-based and the remainder will come from advanced biofuels, like cellulosic ethanol from wheat and other sources.

The measure also is expected to spur development of new vehicles to use renewable energy, and to help build new infrastructure to develop and deliver renewable fuels. New E-85 stations and perhaps pipelines devoted solely to ethanol distribution could soon be under development. As a result, more jobs are expected to be created throughout Rural America.

A new dawn

After attending the signing ceremony with President Bush, Renewable Fuels Association President Bob Dinneen said, the bill takes "historic steps toward a new energy dawn."

"History will look back upon the enactment of the Energy Independence and Security Act of 2007 as the moment America chose a new energy policy path. By coupling increases in vehicle efficiency and renewable fuel use, America is taking the most immediate steps available that will have the greatest impact in securing a more sustainable energy and environmental future.

"This legislation takes the responsible approach needed to ensure that America's renewable fuels industry continues to prosper. By

requiring that nearly 60 percent of the new Renewable Fuels Standard be met by advanced biofuels, including cellulosic ethanol, Congress has provided the necessary assurance for ethanol producers and investors that a market for their product will exist. As a result, the commercialization of these important next generation ethanol technologies will develop far sooner than conventional wisdom suggests," Dinneen continued.

A lump of coal?

Some cattlemen and pork producers, especially those who grow their own feedstocks or are located near ethanol plants, have embraced the development of new renewable energy

Calendar year	Applicable volume of renewable fuel (in billions of gallons):
2006	4.0
2007	4.7
2008	9.0
2009	11.1
2010	12.95
2011	13.95
2012	15.2
2013	16.55
2014	18.15
2015	20.5
2016	22.25
2017	24.0
2018	26.0
2019	28.0
2020	30.0
2021	33.0
2022	36.0

sources because they have been able to capture some competitive advantages not enjoyed by others. Plus they've witnessed the positive impact that new investments and jobs have had on their small town.

But for those who have been accustomed to over two decades of readily available, low-cost corn, the energy bill may have seemed more like a lump of coal in the Christmas stocking. Skyrocketing feedstock costs are playing havoc with profit margins, especially for large feeders.

The National Cattlemen's Beef Association (NCBA) opposed increasing the energy's bill's mandate for more renewable fuels, but was unable to stop the momentum as Congress quickly passed the new bill before adjourning last year.

"We're not saying, 'let's hit the breaks' on ethanol production. We're saying, 'let's take our foot off the gas' when it comes to increasing the mandate even more," explained Jay Truitt, NCBA's vice president of government affairs. "Allow the marketplace to become a factor in the growth of this industry, and allow the livestock sectors' concerns to be considered."

Cattle producers were especially critical of the failure by Congress to impose any sort of mechanism to reduce the mandate in the event of a short corn crop.

"We have seen the impacts of drought and other natural disasters on prices and supplies in the past," said Truitt. "What happens to the needs of traditional users of corn if we simply don't have enough corn to meet this mandate? With corn prices trading above \$4.00 for the foreseeable future, the livestock industry is facing some significant adjustments now that the government has stepped into the marketplace."

The debate over whether this new energy bill is good or bad for the long-term prosperity of American farmers and ranchers will continue to unfold over the next few years. In the coming weeks, we may be able to hold similar discussions about the pros and cons of a new farm bill. Δ

Editor Sara Wyant publishes a weekly e-newsletter covering farm and rural policy called Agri-Pulse. For a four-week free trial, go to www.Agri-Pulse.com