

Testimony of Thomas R. Brooks, General Manager

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Good morning Chairwoman Finkenauer, Ranking Member Joyce, and Members of the Committee. Thank you for inviting me to testify today. And thank you for considering the biodiesel industry as an important component of the clean energy economy. Small biodiesel producers are here today, delivering clean energy and economic development. I would also like to emphasize that small biodiesel producers can be a giant driver of economic opportunity in rural communities. All we need to continue delivering these benefits now and for the future is stable policy.

My name is Tom Brooks and I am General Manager of Western Dubuque Biodiesel, a 30-million-gallon-a-year biodiesel production facility in Farley, Iowa. Western Dubuque was formed by a group of eastern Iowa farmers and local businesspeople in November 2005, just months after Congress created the Renewable Fuel Standard and the biodiesel tax incentive as part of the Energy Policy Act of 2005. In June 2006, Western Dubuque raised just over \$19 million of equity from 557 investors, all of whom live within about 45 miles of the plant. That investment was a significant investment opportunity for a town of 1,500 people. We began construction on the plant the following month.

Today, Western Dubuque employs 24 workers at the plant, with a payroll of \$1.8 million. We also pay 28 contract truck drivers a total of \$1.9 million to move product in and out of the plant.

One hundred percent of our feedstock suppliers and our customers are American companies. In an average year, we buy 225 million pounds – 4,688 truckloads – of soybean oil from a crusher in Cedar Rapids. The value of that oil to local farmers is about \$73 million. Additionally, we purchase our needed catalysts from a local company in Manley, Iowa, spending another \$1.4 million in the community.

The employment and economic opportunities created by Western Dubuque Biodiesel supports the local community in another important way. Our company pays more than \$200,000 in taxes each year to the city of Farley. Additionally, we paid \$624,000 to the city's water tower fund in 2018 and contributed \$95,000 to Western Dubuque school funds. Without our contribution, I feel it's fair to say that the town would not be able to afford the new water tower and school expansion that are underway.

Our small business is a large economic presence in our small community. The economic opportunities and local community support also demonstrate agriculture's and biodiesel's potential to contribute to the clean energy economy. The fact is that rural America should always have an opportunity to share in the nation's economic growth. Strong, consistent federal policy is needed to ensure the continued development of the clean energy economy in rural America.

The biodiesel and renewable diesel industry is delivering clean energy today. The carbon reductions are measurable, helping state and regional programs to meet environmental goals as well as building the rural economy. What the biodiesel industry needs is stable continuity in existing federal policies.

Congress created the Renewable Fuel Standard and biodiesel tax incentive with the intent to reduce America's dependence on foreign sources of crude, reduce the transportation sector's carbon emissions, and add value to agricultural commodities and the rural economy. Today's biodiesel industry is proof these two federal programs are doing the job Congress envisioned.

Biodiesel is the nation's first domestically produced, commercially available advanced biofuel – which means it reduces greenhouse gas emissions by at least 50 percent compared to petroleum-based diesel. Biodiesel is a renewable, clean-burning diesel fuel made from a diverse mix of resources, including agricultural oils derived from soybeans and canola, as well as recycled cooking oil and animal fats. And it is the best tool for achieving the RFS program's goals of carbon reductions.

Biodiesel is primarily used in blends of 5 percent to 20 percent and does not require special fuel pumps or engine modifications. In fact, the majority of automobile manufacturers support biodiesel blends up to 20 percent in their engine warranties. Renewable diesel is a fuel made from the same feedstocks as biodiesel but using a different process—one more similar to petroleum refining. The resulting product (renewable diesel) is chemically indistinguishable from petroleum diesel but made from renewable feedstocks.

Without question, the biodiesel tax incentive has stimulated production. In 2004, prior to the enactment of federal tax incentives, our industry only produced 25 million gallons. When the incentives were first implemented in 2005, the United States produced roughly 112 million gallons; now, the market has climbed to as high as 2.9 billion gallons annually.

With biodiesel plants nationwide – from California to Texas to Pennsylvania – the biodiesel industry supports more than 60,000 jobs, \$2.5 billion in wages paid, and \$11 billion in economic impact. In many rural areas of the country, biodiesel plants are a driving force of the local economy, supporting the employment of technicians, plant operators, engineers, construction workers, truck drivers, and farmers.

Farmers receive better value for their soybeans, thanks to biodiesel. Approximately half of the biodiesel produced in the U.S. comes from soybean oil. Soybean oil is a co-product separated from soybean meal through oilseed crushing; the meal represents 80 percent of the soybean and the oil 20 percent. About 60 percent of the oil is used in food production. U.S. biodiesel production uses the surplus oil – which would otherwise have to be disposed – supporting a vital component of the value chain. Biodiesel adds 11 cents per pound of value to soybean oil, equal to 63 cents per bushel.

The livestock industry also benefits from increased biodiesel production. By boosting the value of surplus soybean oil – which would otherwise represent a cost or a waste product to crushers – biodiesel reduces the price of soybean meal, which is fed to poultry and livestock. As more

surplus soybean oil is processed for biodiesel production, farmers can grow and crushers can process more soybean meal for animal feed at a lower cost. Informa Economics has estimated livestock producers pay \$21 per ton less for soybean meal due to increased biodiesel production and use.

Approximately one fourth of all animal fats produced in the U.S. now go into biodiesel. Higher demand has led to increased value of those fats. While the price of animal fats are not primary drivers in determining the prices paid for fed cattle and market hogs, they do affect the profit margins in these industries.

There is still room for growth in the biodiesel industry and more feedstocks available. Stable, forward-looking tax and energy policy can help the biodiesel industry continue to stimulate economic growth.

Federal and state policies that aim to reduce greenhouse gas emissions – such as the RFS and California’s Low Carbon Fuel Standard – create increasing demand for low-carbon fuels like biodiesel and renewable diesel. A long-term extension of the tax incentive, and implementation of the Renewable Fuel Standard as Congress intended, would be the best ways to help the industry meet those policy goals. With a predictable, long-term tax incentive in place, the biodiesel industry could make necessary investments, grow with confidence, and create significant new employment opportunities. The tax incentive enables small, emerging companies to access capital at a lower cost, which is necessary to secure renewable feedstocks and build distribution networks.

Congress last renewed the tax incentive retroactively for 2017, two months after the start of 2018. The tax incentive plays a critical role in drawing blenders to purchase the fuel. Because Congress regularly renews the credit, market pressures force the blenders and producers to build the tax incentive's value into their fuel contracts, even when Congress has allowed the incentives to lapse. Biodiesel and renewable diesel producers and blenders have been operating for 20 months with the expectation that they will eventually be able to claim credits for 2018 and amend their financial statements.

Since the beginning of 2017, biodiesel producers have been forced to put projects on hold and reduce investments, due to uncertainty about renewal of the tax incentive. Today, we've seen half-a-dozen plants announce shutdowns, with more than 200 million gallons of capacity offline and 6,000 workers out of a job. Once producers curtail purchases of raw materials, lay off workers, or slow production, they will be delayed in restarting production as they reestablish supply chains, rehire and train workers, and retool idled facilities. Moreover, many producers will face higher costs for credit lines and capital, which will further delay expansion and upgrade projects.

That economic uncertainty flows throughout local, rural economies. It impacts feedstock purchases, farm equipment purchases, and savings and investment opportunities.

While a long-term extension would provide the necessary policy certainty, our industry urgently needs an immediate extension of the biodiesel tax incentive for 2018 and 2019, at least, to end

the current climate of uncertainty surrounding the industry. We are grateful to Chairwoman Finkenauer for her leadership in championing legislation to provide that certainty.

I would like to emphasize that the biodiesel blender's tax incentive has helped achieve the desired goal of expanding domestic production of clean energy resources and jobs here at home. In turn, the increased use of biodiesel has helped the United States realize economic and environmental benefits. These benefits, however, are in jeopardy without quick reinstatement of the biodiesel tax incentive and stable policy over the long term.

Thank you again for the opportunity to submit this testimony. I would be pleased to serve as a technical resource on the industry as the committee moves forward with its deliberations.