

Addressing the Biofuel Pushback

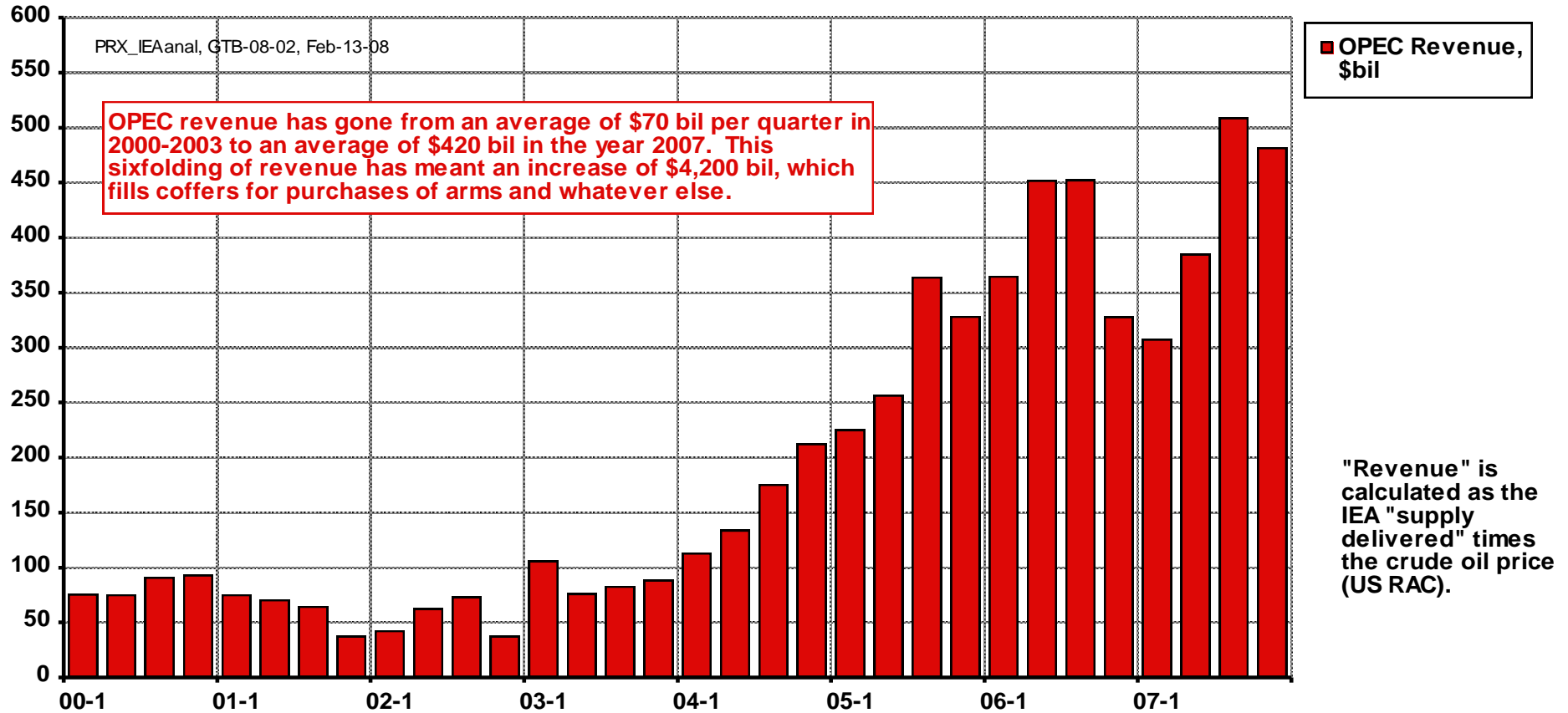
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4th National 25x'25 Renewable Energy Summit
Omaha, NE
March 12, 2008**

OPEC REVENUE ON CRUDE OIL SUPPLY DELIVERED, by Quarter

Source: International Energy Agency (IEA), latest public release.

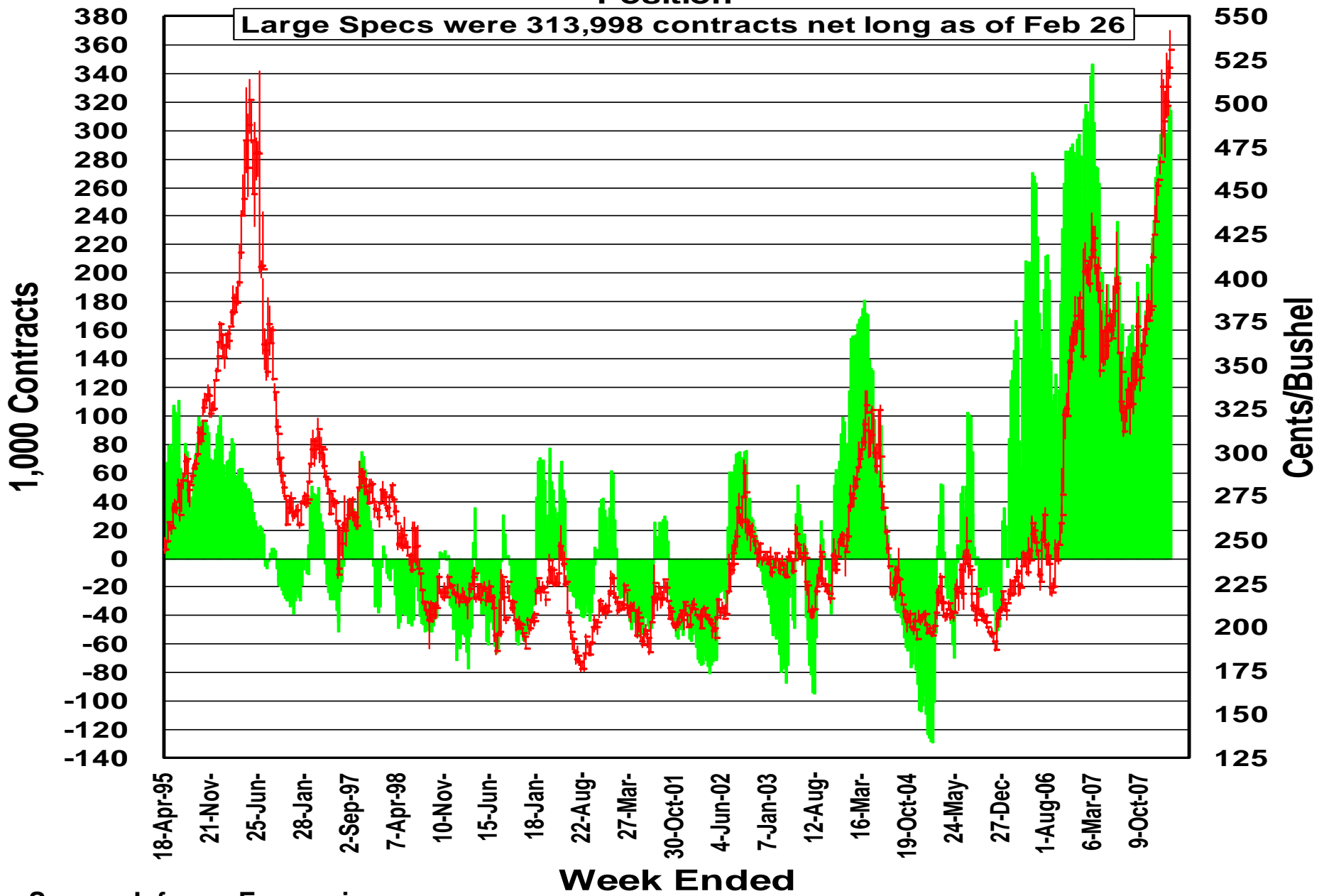
\$Billion



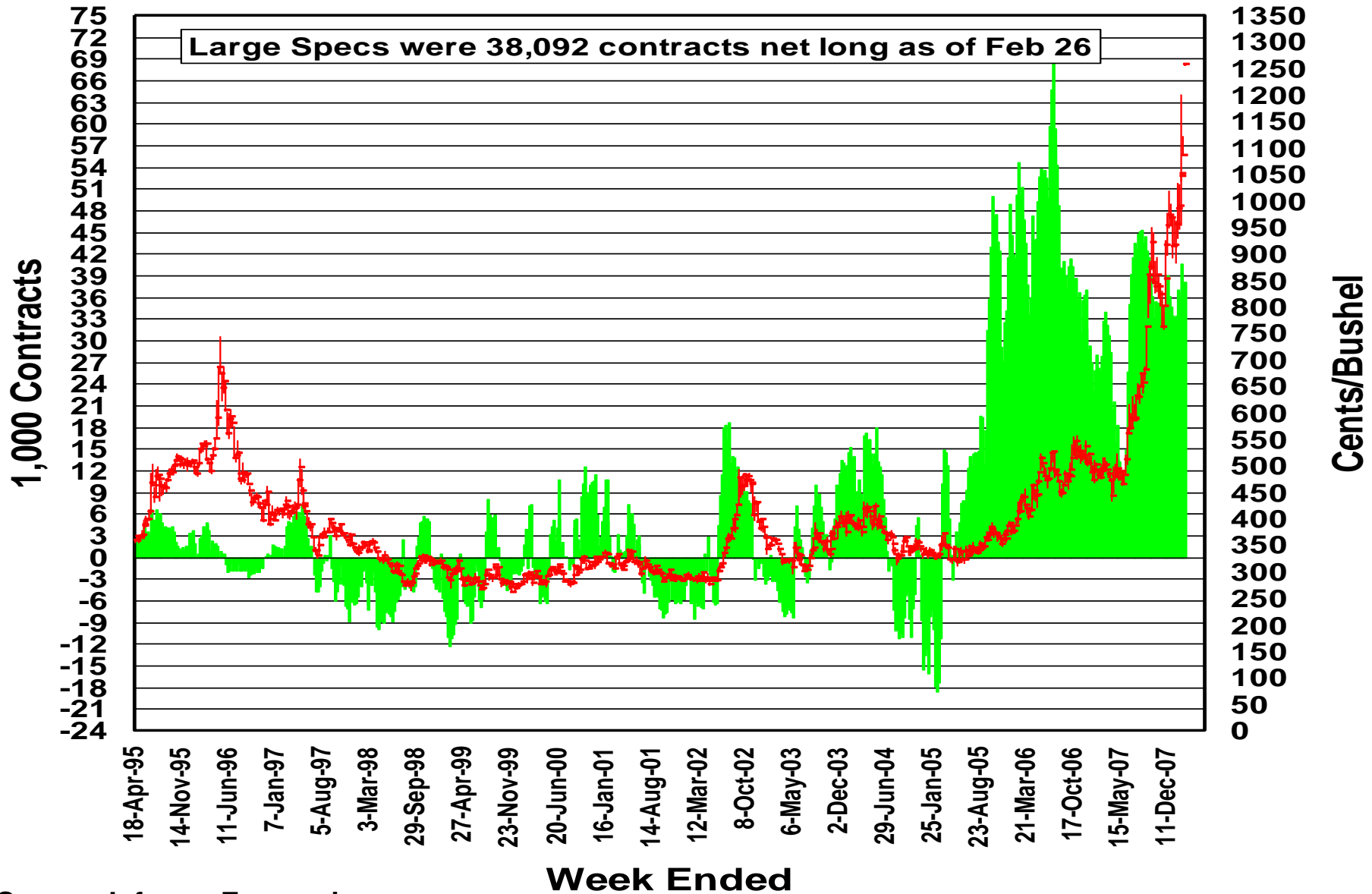
Source: The ProExporter Network

Nearby Corn Futures vs. Large Spec Net Futures & Options Position

Large Specs were 313,998 contracts net long as of Feb 26



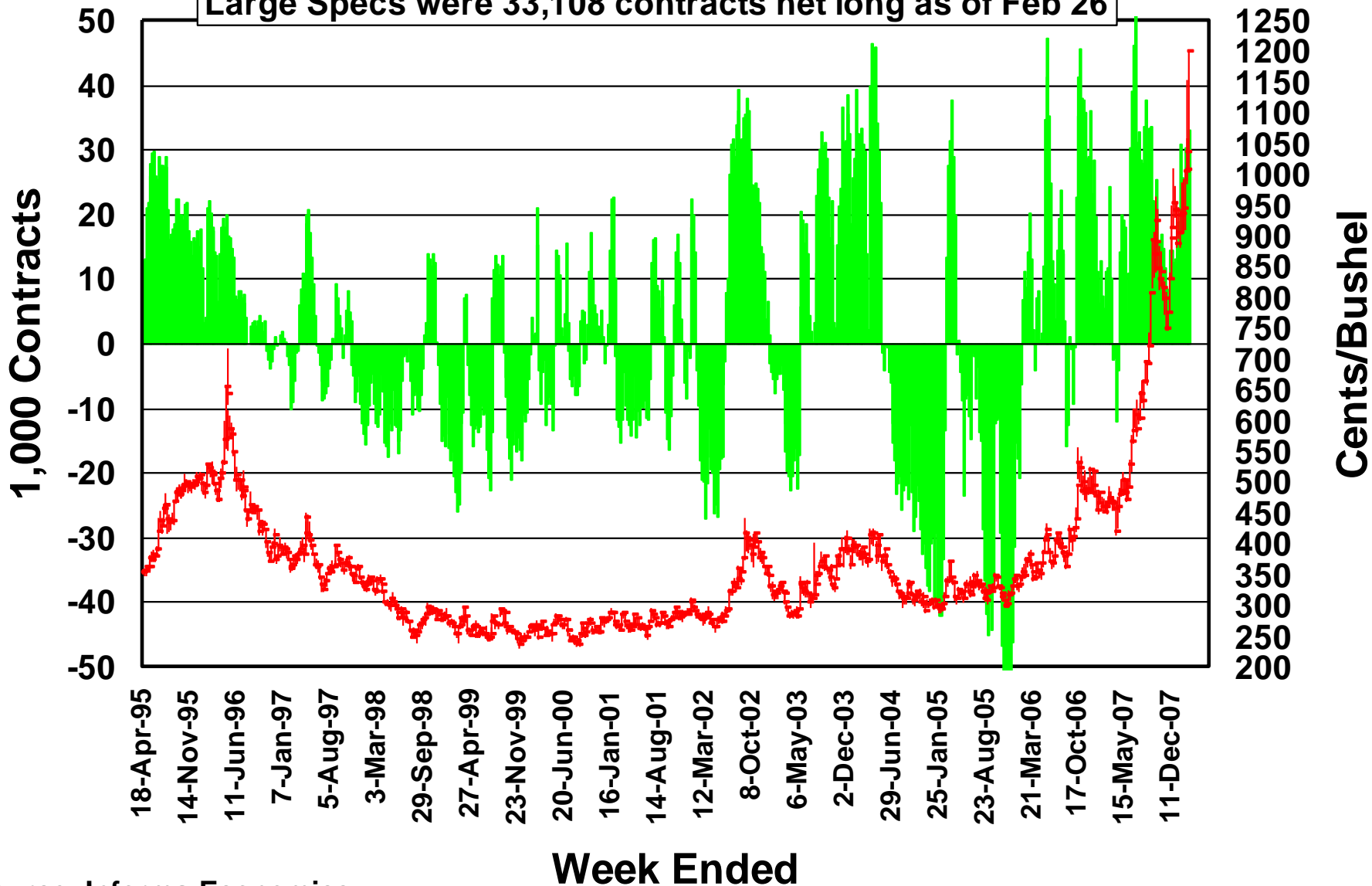
Nearby Kansas City Wheat Futures vs. Large Spec Net Futures & Options Position



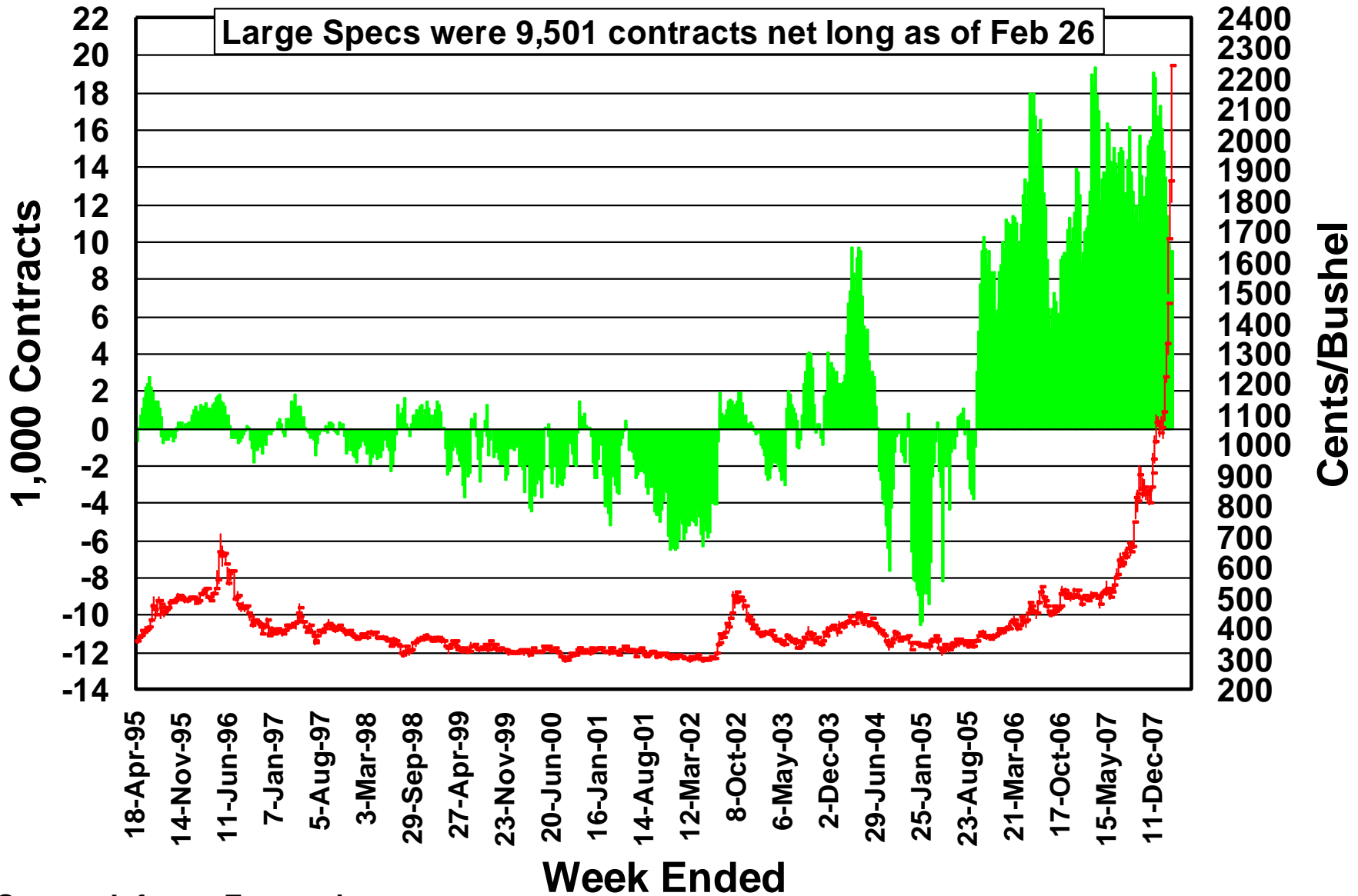
Source: Informa Economics

Nearby Chicago Wheat Futures vs. Large Spec Net Futures & Options Position

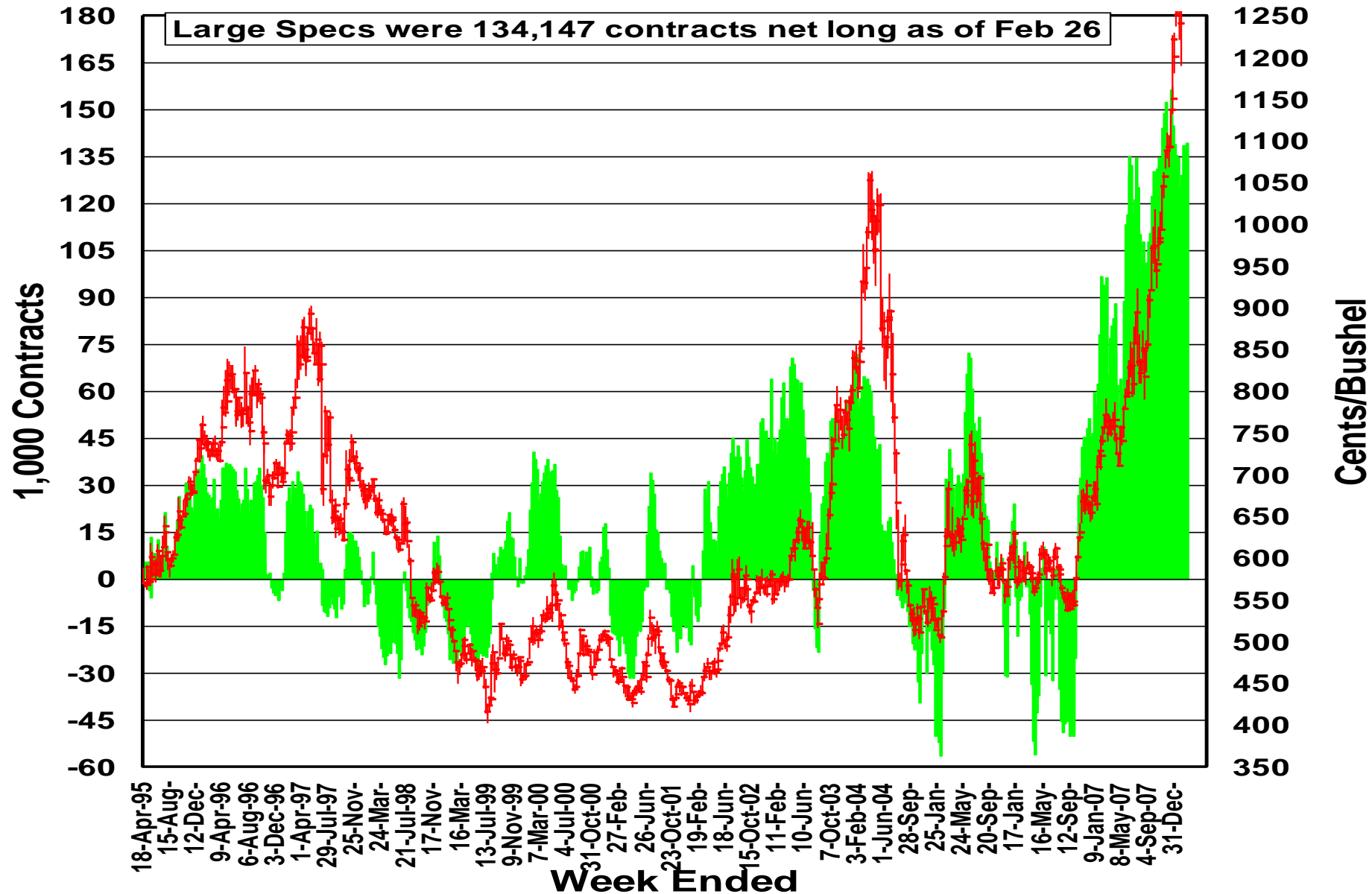
Large Specs were 33,108 contracts net long as of Feb 26



Nearby Minneapolis Wheat Futures vs. Large Spec Net Futures & Options Position

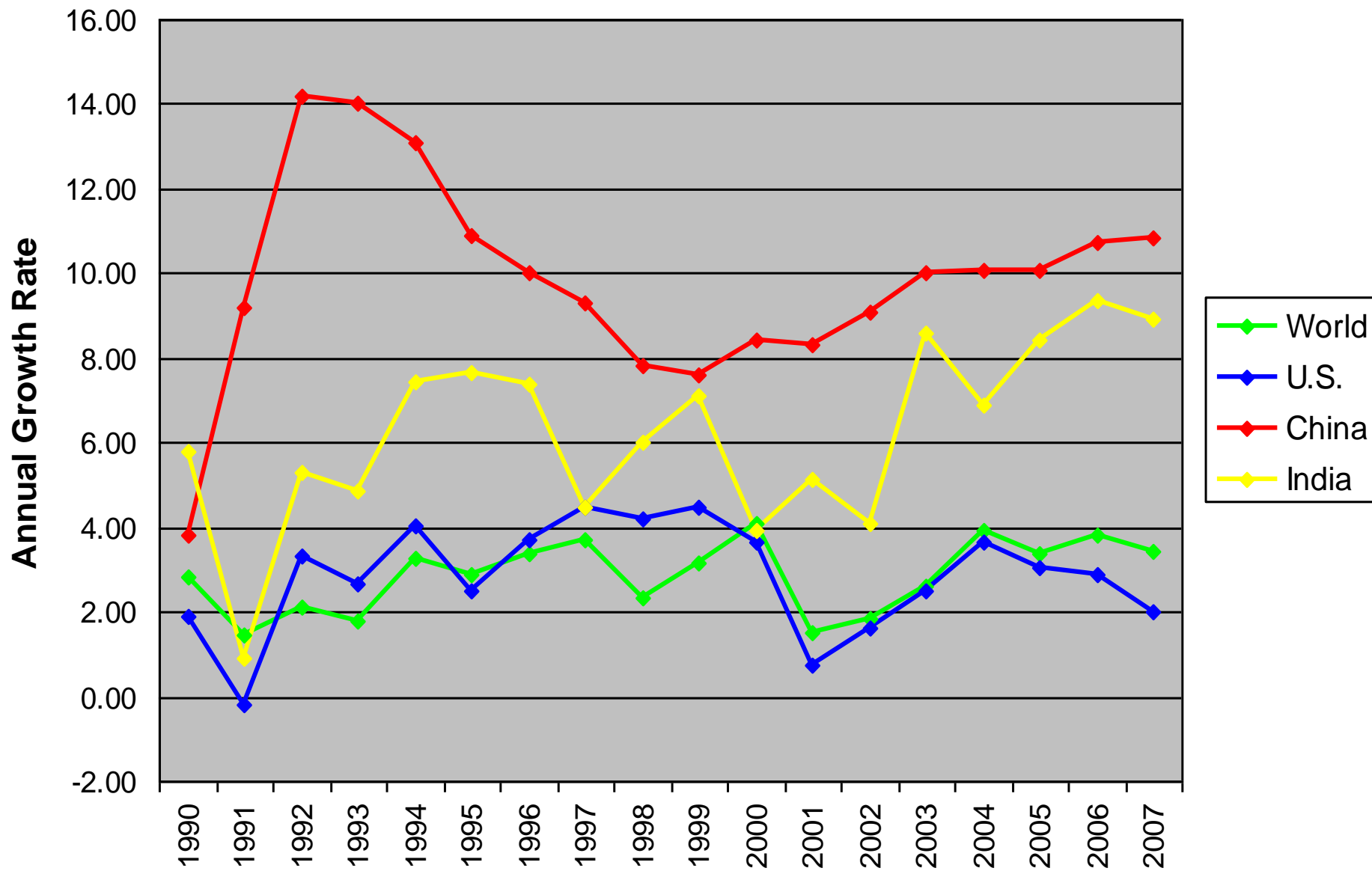


Nearby Soybean Futures vs. Large Spec Net Futures & Options Position



Source: Informa Economics

Economic Growth, Inflation Adjusted GDP

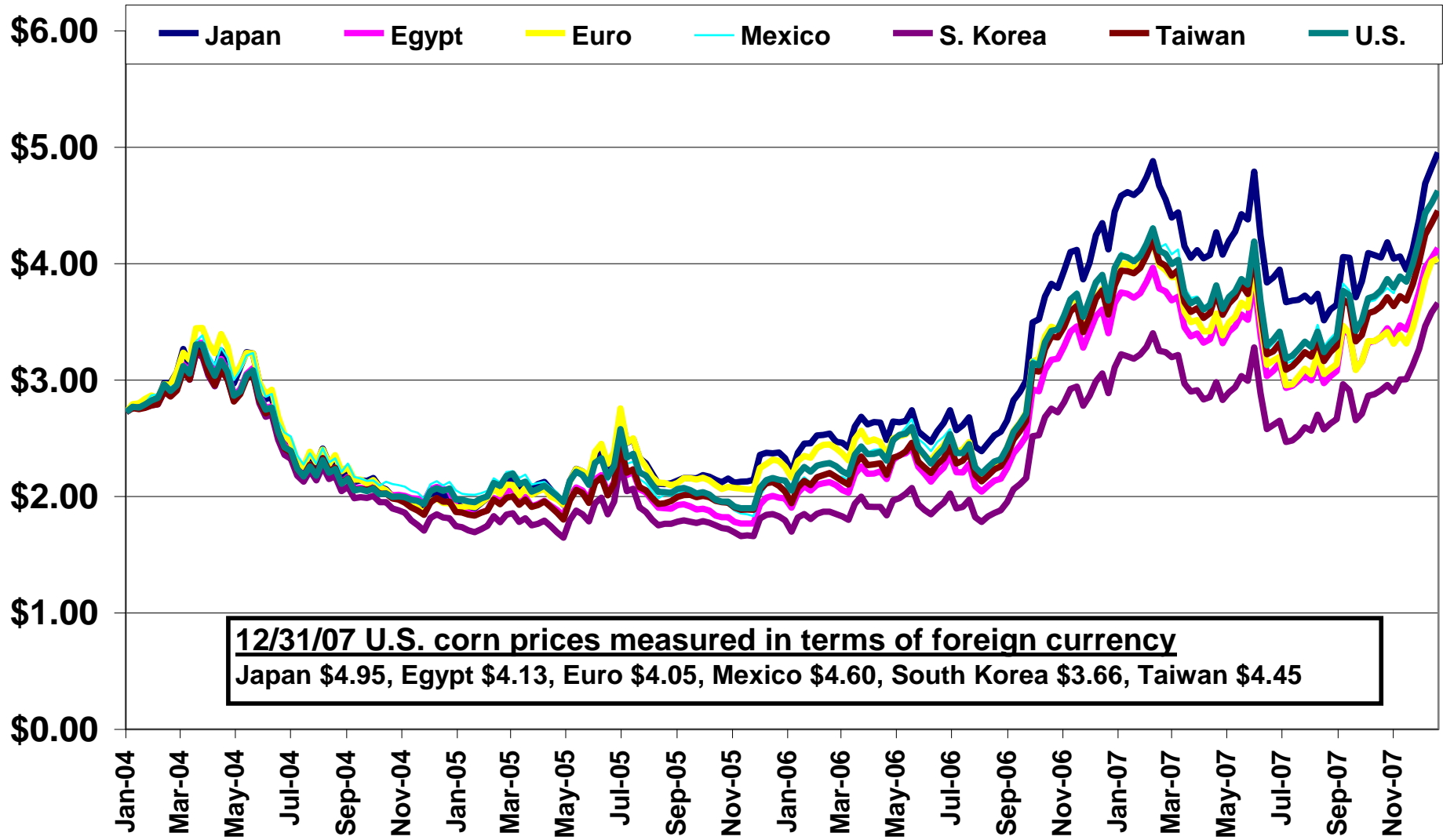


Trade-Weighted Value of US Dollar in G10 Countries



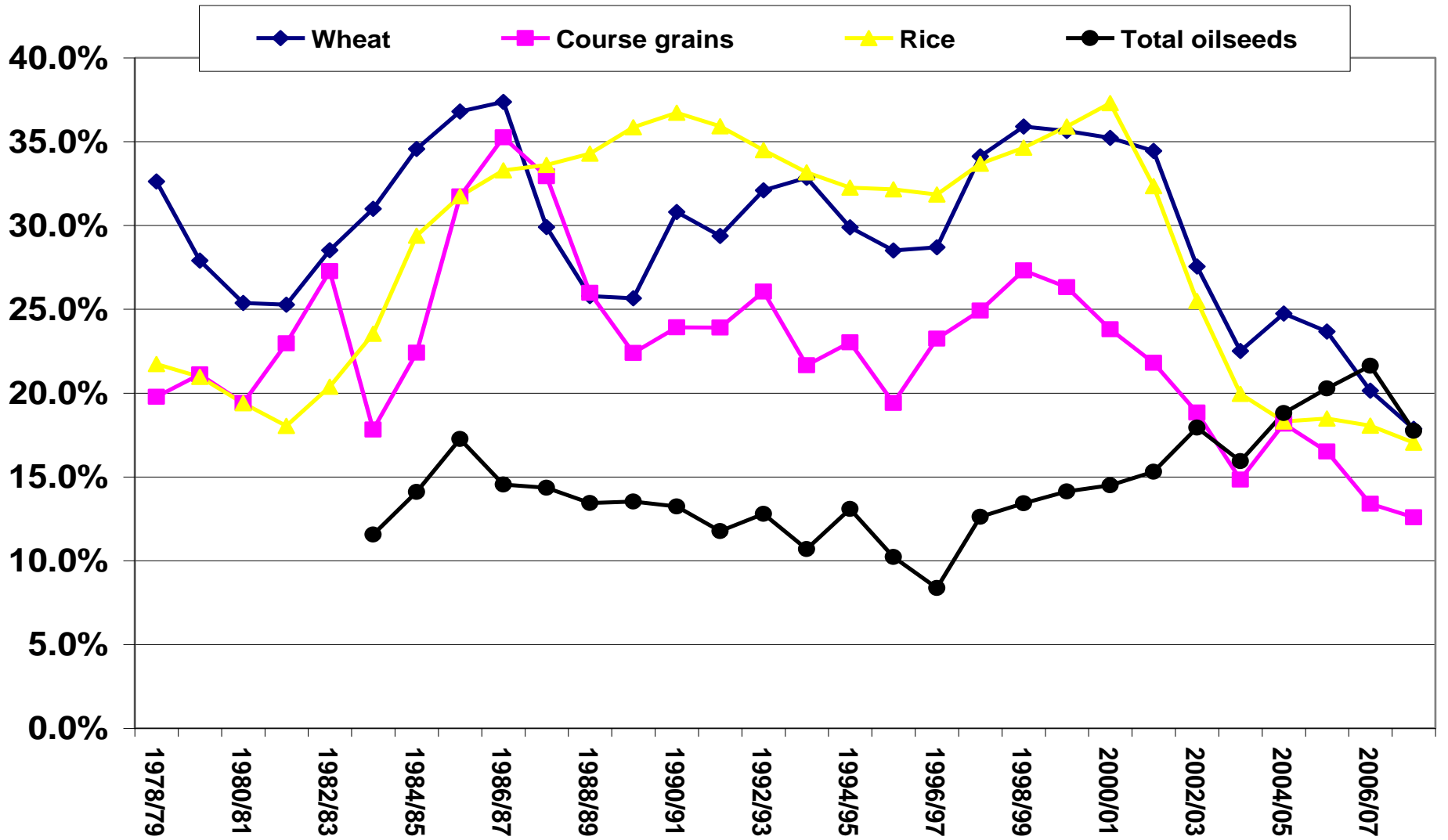
Source: Robert Genetski, ClassicalPrinciples.com

Weekly CBT corn prices measured in terms of the currencies of our largest importers

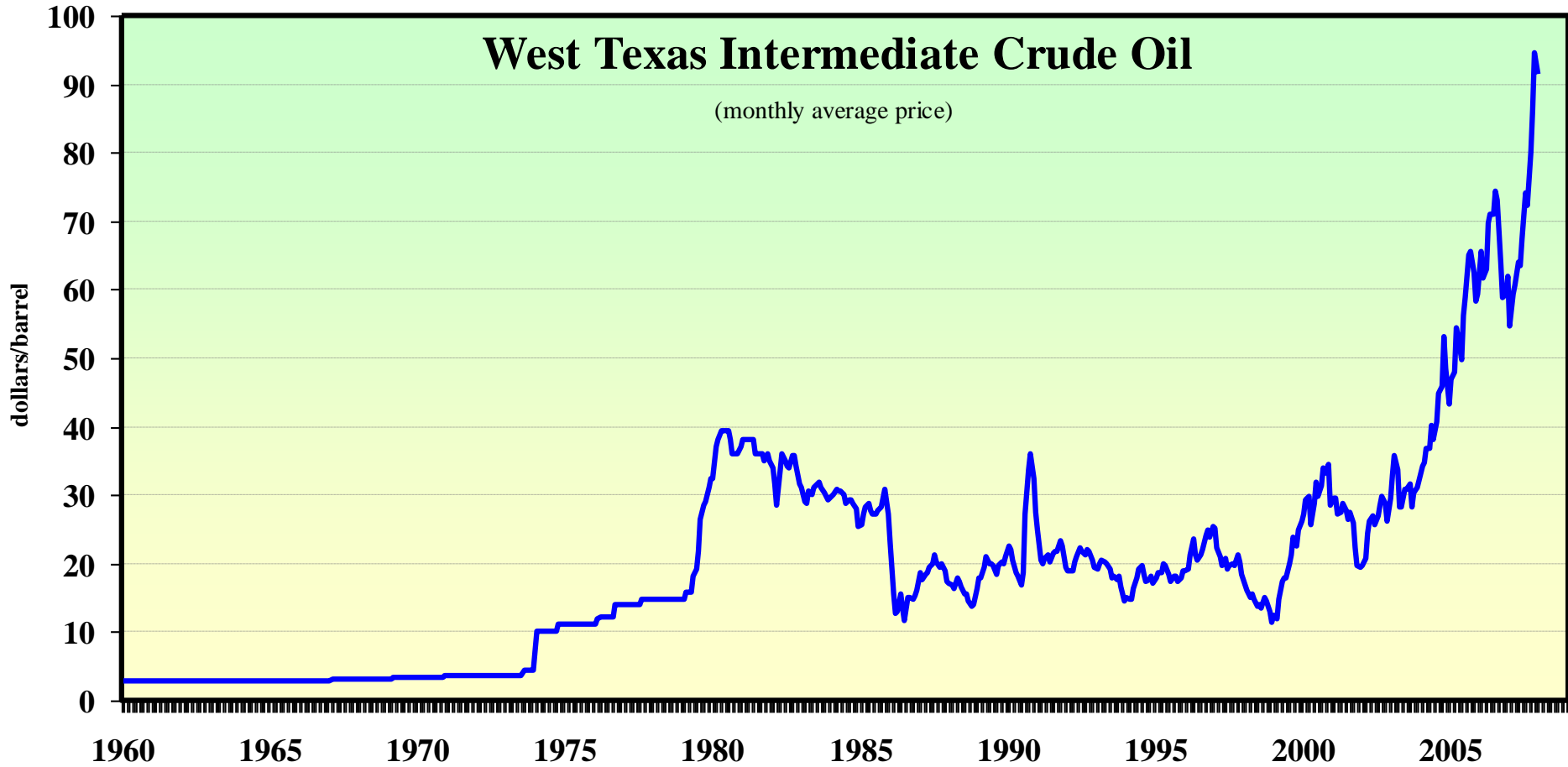


12/31/07 U.S. corn prices measured in terms of foreign currency
Japan \$4.95, Egypt \$4.13, Euro \$4.05, Mexico \$4.60, South Korea \$3.66, Taiwan \$4.45

Global stocks to use ratios



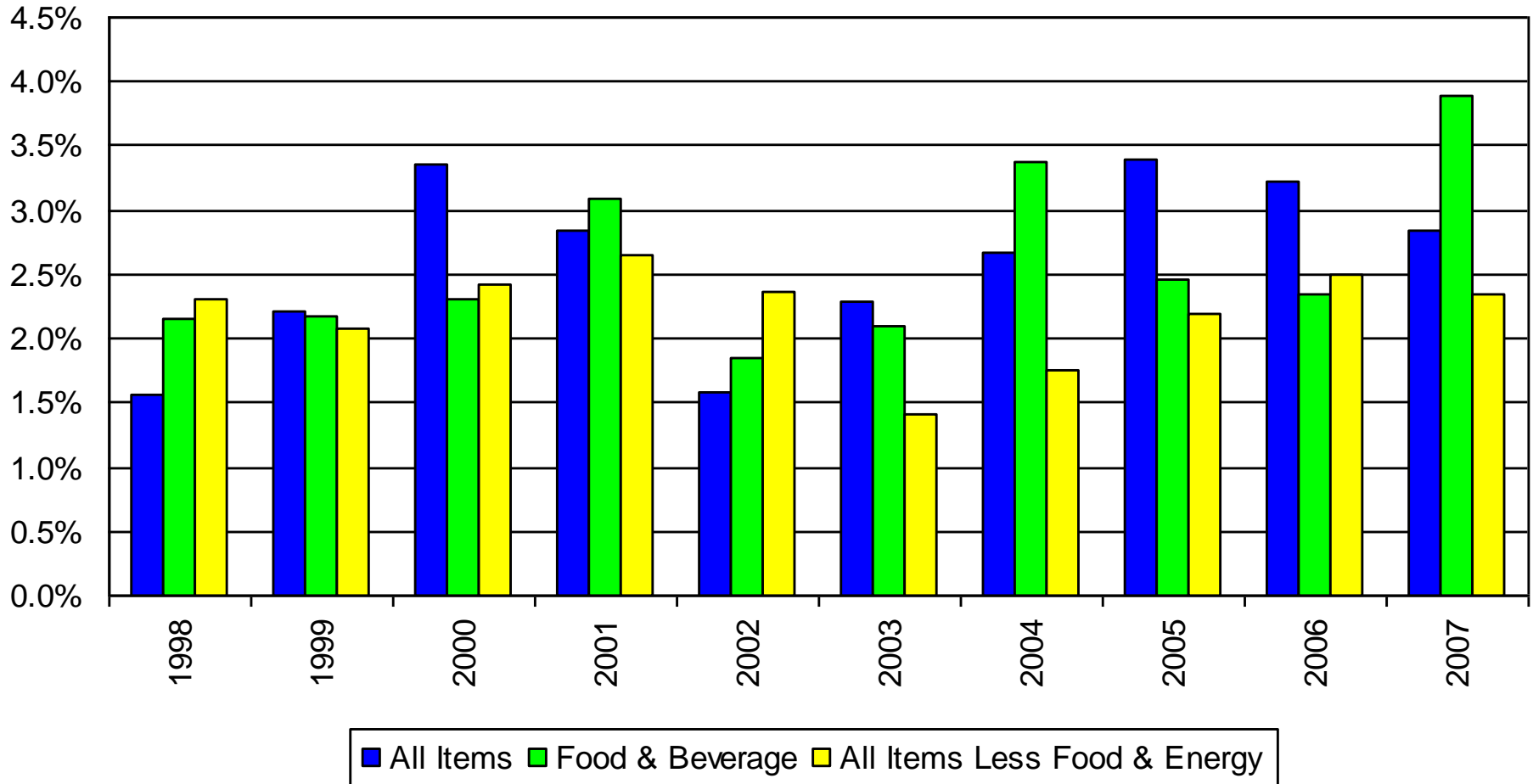
Source: Western Milling



Source: Agrivisor

Rates of Inflation

CPI All Urban Consumers



Core Inflation



A measure of inflation that excludes certain items which face volatile price movements. Core inflation eliminates products that can have temporary price shocks because these shocks can diverge from the overall trend of inflation and give a false measure of inflation.

Core Inflation is thought to be an indicator of underlying long-term inflation.

Based upon **The Boskin Commission** report December 4, 1996

Source: **The Core Rate**, Jim Puplava, June 24, 2005

<http://www.financialsense.com/stormwatch/2005/0624.html>

Another view: **The Fallacy of the “Core Rate of Inflation**, Stefan M.I. Karlsson, August 5, 2005

<http://www.lewrockwell.com/orig6/karlsson1.html>

Rates of Inflation

CPI All Urban Consumers

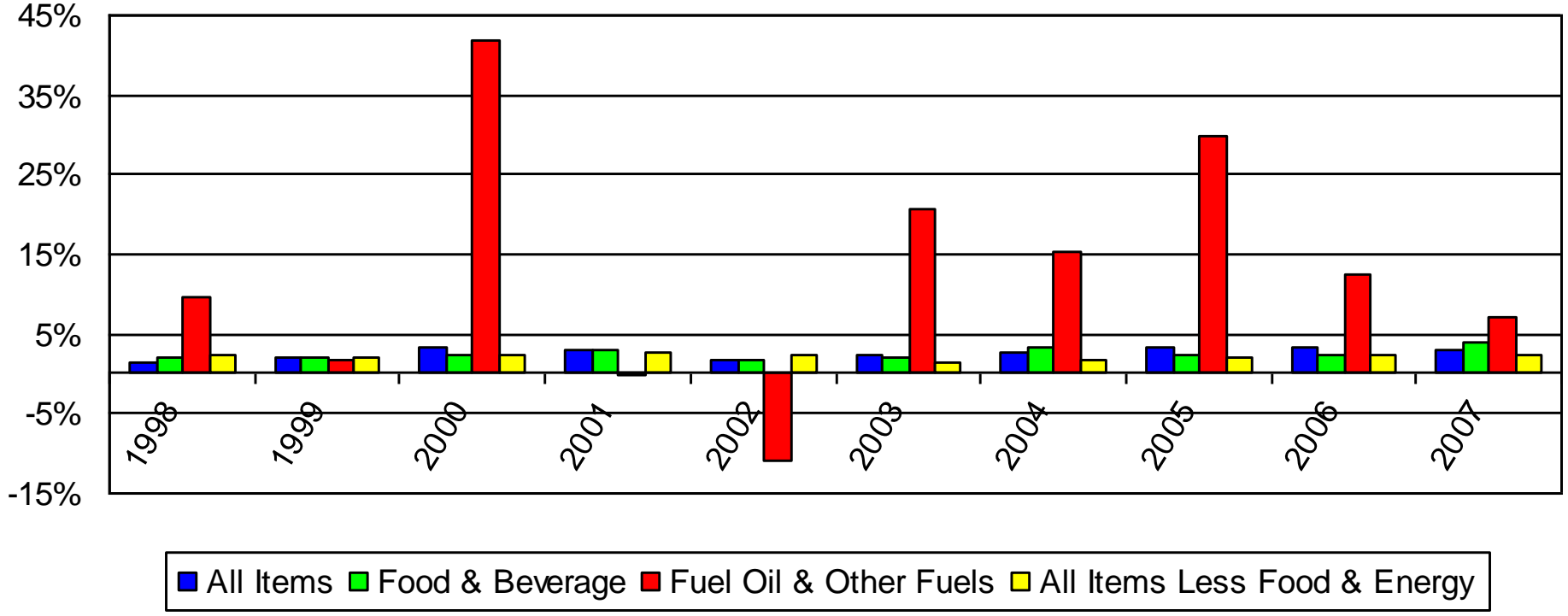
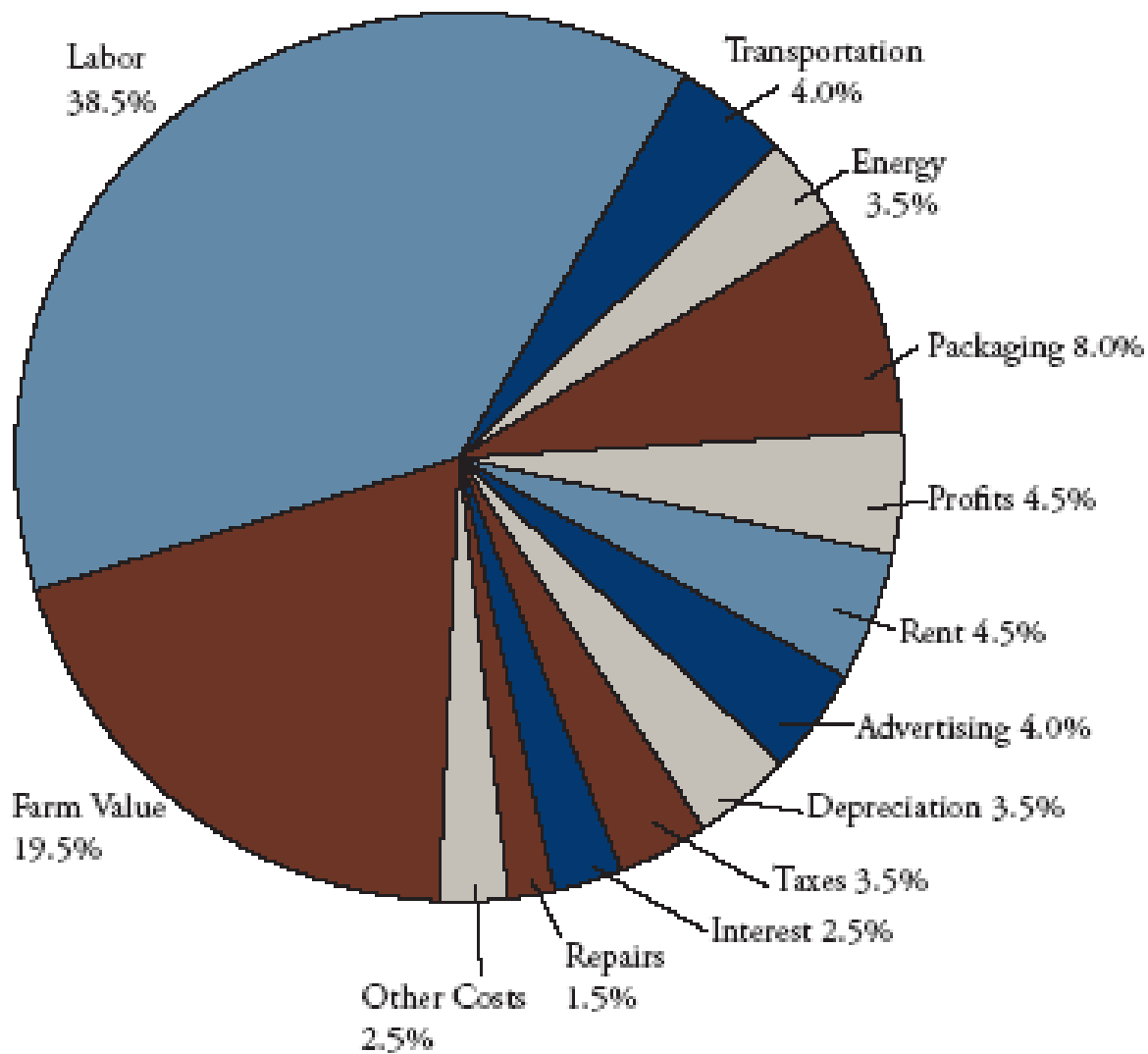


CHART 1

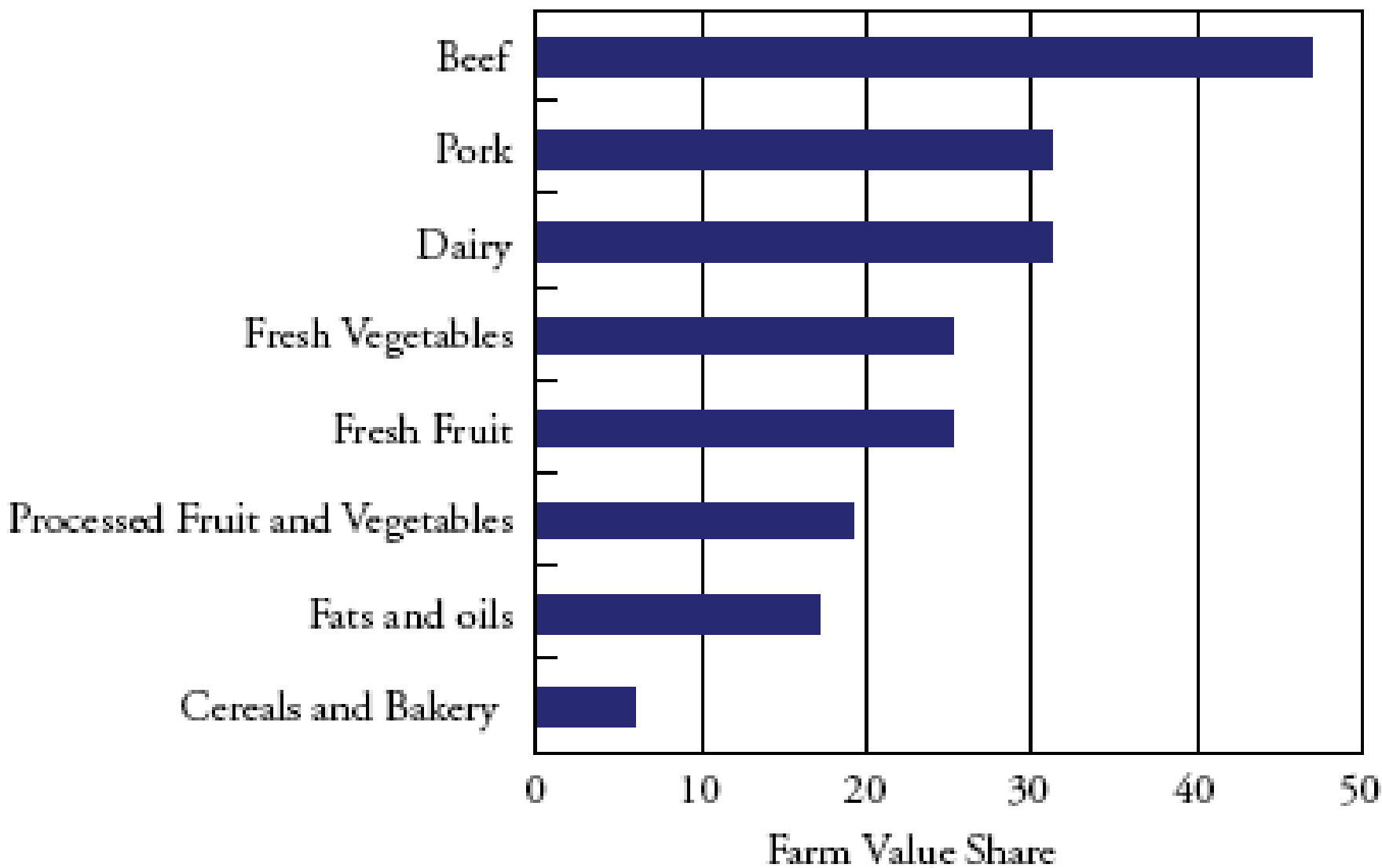
COMPONENTS OF RETAIL FOOD COSTS



Source: USDA

CHART 2

FARM VALUE SHARE OF RETAIL FOOD COSTS, 2005



Source: USDA

TABLE 1

CONSUMER FOOD PRICES

Item	Relative importance ¹	Final 2004	Final 2005	Final 2006	Final 2007	Forecast 2008 ²
Consumer price indexes	<i>Percent</i>			<i>Percent change</i>		
All food	100.0	3.4	2.4	2.4	4.0	3.0 to 4.0
Food away from home	43.1	3.0	3.2	3.1	3.6	2.5 to 3.5
Food at home	56.9	3.8	1.9	1.8	4.2	3.5 to 4.5
Meats, poultry, and fish	14.5	7.4	2.4	0.8	3.8	2.0 to 3.0
Meats	9.3	8.4	2.3	0.7	3.3	1.5 to 2.5
Beef and veal	4.5	11.6	2.6	0.8	4.5	2.0 to 3.0
Pork	3.0	5.7	2.0	-0.3	2.0	1.0 to 2.0
Other meats	1.9	4.4	2.3	1.8	2.3	0.0 to 1.0
Poultry	2.7	7.5	2.0	-1.8	5.2	1.5 to 2.5
Fish and seafood	2.4	2.3	3.0	4.7	4.6	3.0 to 4.0
Eggs	0.7	6.1	-13.6	4.8	29.4	-3.0 to -2.0
Dairy products	5.9	7.4	1.2	-0.6	7.4	2.0 to 3.0
Fats and oils	1.6	6.6	-0.1	0.2	2.9	5.0 to 6.0
Fruits and vegetables	8.7	3.0	3.8	4.8	3.8	3.0 to 4.0
Fresh fruits and vegetables	6.9	3.5	3.9	5.3	3.9	3.0 to 4.0
Fresh fruits	3.6	2.8	3.7	6.0	4.5	3.5 to 4.5
Fresh vegetables	3.4	4.3	4.1	4.6	3.2	2.5 to 3.5
Processed fruits and vegetables	1.8	1.3	3.3	2.9	3.6	3.0 to 4.0
Sugar and sweets	2.2	0.7	1.2	3.8	3.1	2.0 to 3.0
Cereals and bakery products	7.9	1.6	1.4	1.9	4.3	5.5 to 6.5
Nonalcoholic beverages	6.5	0.4	2.9	2.1	4.1	3.5 to 4.5
Other foods	8.7	0.5	1.5	1.4	1.8	2.5 to 3.5

¹BLS estimated expenditure shares, December 2006.²USDA Forecast, December 2007

Other Issues

- **Ethanol is a higher value transport fuel**
- **Net energy content is enhanced by 2/3s to 100%. This figure will continue to grow over time**
- **Carbon foot print - Discussion and research has just begun on this issue**

What is the Net Cost of Ethanol?

- **Increased ethanol supplies have lowered the cost of gasoline**
- **Question is, by how much?**
- **No data or research available but 5 cents to 10 cents a gallon seems plausible**

Given higher crop prices Farm Program Payments will be reduced

- **How much?**
- **At least \$8 billion and possibly as much as \$12 billion annually**

The Net Impact of Ethanol on Consumers and Taxpayers

Billion \$

Lower gasoline costs

\$7 to \$14

Lower government payments

\$8 to \$12

Sub-total

\$15 to \$26

Minus tax credit

\$4 to \$5

Net gain

\$11 to \$21

The Net Impact of Ethanol on Consumers and Taxpayers

- **Consumer Spent \$1.1 Trillion for food in 2006**
- **A 1% change in food expenditures equals \$11 billion**
- **The net difference:**
 - **Based on the low estimates, gains and costs offset**
 - **Based on the high estimates, equivalent to a \$10 billion reduction or a 0.91% reduction in the food CPI**

Recap of Major Points Influencing Crop/Food Prices

- 1) Impact of funds on commodity prices**
- 2) Higher world demand for crops**
- 3) Up to a decade of declining crop stocks**
- 4) Falling value of the dollar**
- 5) High cost of crude oil and related energy products**
 - Ethanol and biodiesel**

Benefits from Ethanol

- **Reduces the reliance on foreign energy sources**
- **Creates new jobs and economic growth in rural areas**
- **Enhances the environment**
- **The net cost to consumers and tax payers is zero to slightly positive**

The Bottom Line . . .

- Energy prices
- Energy prices
- Energy prices

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EIA CRUDE OIL PRICE FORECAST HISTORY, 1982-2008

Energy Information Administration (EIA), US DOE, Annual Energy Outlook (AEO)

PRX_EIA\longterm-v3.xls, GTB-08-02, Feb-12-08

Dollars per barrel, not inflation adjusted, except 2008-2008, set to 2008.

