



**Testimony of Jay D. Debertin,
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**Before the Senate Committee on Finance Hearing on
“Grains, Cane, and Automobiles: Tax Incentives for
Alternative Fuels and Vehicles”**

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My name is Jay Debertin, executive vice president and chief operating officer for Processing for CHS, the nation’s leading cooperative business. CHS is headquartered in Minnesota and is owned by more than 350,000 farmers and ranchers, through local cooperatives, in 30 states.

Today, CHS has evolved into a diverse company with several major business platforms linked to biofuels.

The first of these is Energy. We produce and distribute petroleum products for the rural marketplace from our small refineries in Montana and Kansas. Today we supply fuel to more than half of the farmers in the nation.

Our second platform is Grains. We buy, handle, and ship worldwide, grains including corn and wheat, and oilseeds such as soybeans, canola and sunflowers. We operate processing facilities that convert oilseeds into oils used in the production of cooking oils and biodiesel.

Our third platform is Renewable Fuels. For nearly 30 years, we have been blending ethanol into gasoline and soy esters into biodiesel. Today, 200 of our nation's 1,000 E85 stations, or 20 percent, carry our Cenex® brand. Last year we invested in ethanol production, as well, by becoming a 22 percent owner in US BioEnergy. Today, US BioEnergy is this nation's second-largest ethanol producer.

While my primary purpose here today is to present our positions on specific policy matters related to biofuels, I will also share our views on the overall energy debate.

Let's begin with issues related to three specific biofuels -- ethanol, biodiesel and biomass.

First, ethanol. The tax incentives for ethanol and the Renewable Fuels Standard mandate are what launched the renewables market, particularly in ethanol production. We believe the current tax incentives for ethanol blending and production and E85 pumps are adequate. However, we have concerns about the distribution and infrastructure systems for ethanol and the relative positioning of ethanol supply. Unless incentives are provided to encourage distribution from Midwest ethanol producers to the coastal states, which have the demand base and population, we would not be surprised to see a Midwest glut of domestic ethanol, with negative consequences for this fledgling industry.

In our view, the most important steps that can be taken are measures that would expand overall national demand. A requirement that all gasoline sold nationwide contain a 10 percent blend would extend the demand from its current Midwestern base to our nation's

population centers on both coasts. In addition to a 10 percent national requirement, we'd also support giving states the opportunity to use a 20 percent ethanol blend if they chose. Second, biodiesel. CHS would urge caution in passing a specific biodiesel mandate. We believe the supply issues arising from shifting vegetable oil production from food to energy must be better understood. With these issues in mind, we believe the current biodiesel tax incentives are adequate.

We are also exploring "renewable diesel." Our petroleum refineries are studying adding bio-based feedstocks, specifically soybean oil, into our diesel manufacturing processes. That would mean adding soy oil before diesel is produced rather than blending in soy ester after diesel is made. The Energy Policy Act of 2005 extended the \$1.00 per gallon agri-biodiesel tax credit to this new diesel form and the Treasury Department just issued guidance permitting its use by all petroleum refiners, refineries and others. But the new technology could be costly to implement and we do not think the refining industry will adopt it en masse.

Finally, biomass. Although the viability of biomass as a feedstock in motor fuels remains uncertain, we have looked at other biomass applications. For example, we are considering co-generation at the oilseed-crushing facilities in Minnesota using corn stover and other bio sources. We would like to pursue this further, but have found that there is little incentive to do so and that the current biomass supply is unreliable. We believe both time and investment are needed to achieve marketable technologies for biomass.

I have shared with you our positions on the specific tax-related issues this committee has under consideration. I would be remiss, however, if I failed to share our view of the big picture.

The real questions are: "What is the best total approach to addressing our nation's long-term energy needs, as well as critical questions like global warming and the economic health of America." And, "How can the Congress advance renewable fuels as part of the solution to the country's energy needs?"

On the first issue, we at CHS advocate a broad and realistic approach to our nation's energy future. Unlike single-minded approaches for fossil fuels or renewable fuels, we see not a single pathway, but a four-lane approach, each lane representing one component of the solution, but all headed in the same direction. A real solution will take (1) investment in our existing fossil fuels energy supply, (2) adoption of renewable fuels, (3) investment in emerging energy technologies and, of course, (4) conservation, sometimes overlooked, but vitally important. In the long-term, we need this multi-faceted approach and we must also remember that any approach ultimately must be economically viable for the individuals and businesses involved.

On the second question of how Congress can advance the renewable fuels component of this total energy solution, we suggest the following:

First, support and extend the current ethanol and biodiesel tax incentives which appear to be working well and revisit those for the other biofuels.

Second, as I said earlier, if there is a desire to increase the use of biofuels, we would increase our chances of success with a minimum national standard for gasoline such as E10, where almost every gallon has a renewable element, rather than establishing another multi-billion gallon mandate. This will help lead to a stronger renewable fuels industry that supports the goal of diversification away from fossil fuels.

Third, increase promotion of a national renewables infrastructure which makes certain renewable fuels are used where the highest demand exists.

Finally, focus future incentives to those willing to try new means of advancing the cause of biofuels and biomass.

Embracing this leadership platform will help this nation better transition to a multi-fuel based country using the best of petroleum, renewable and alternative fuel sources.

Thank you for allowing me to speak today. I would be happy to respond to your questions.