OFFICE OF THE GOVERNOR

RICK PERRY
GOVERNOR

April 25, 2008

The Honorable Stephen L. Johnson
Administrator
U.S. Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460-2403

Dear Administrator Johnson:

Please accept this request for a waiver of a portion of the Renewable Fuel Standard (RFS) consistent with Section 211(o) of the Federal Clean Air Act as amended by the Energy Independence and Security Act of 2007. This request is based upon data demonstrating that implementation of the mandate is unnecessarily having a negative impact on Texas' otherwise strong economy while driving up global food prices.

Texas is the nation's largest beef-producing state and ranks in the top 10 states in poultry/egg and dairy production. The Texas economy has always welcomed and fostered entrepreneurship that utilizes cutting edge technology. Texas is also a leading producer of our nation's domestic fuel supply. This is why I have worked to invest significant state resources into researching, developing and incentivizing renewable fuel production in Texas. Overall, the Texas economy is the strongest in the nation, primarily because our policies are driven by market forces.

In short, Texas plays a significant role in feeding and fueling the nation.

While the RFS was a well intentioned policy, it has had the unintentional consequence of harming segments of our agriculture industry and contributing to higher food prices. For example, corn prices are up 138 percent globally over the past three years and global food prices have increased 83 percent over the same time period, in part because of the artificial economic forces created by the RFS.

Economic studies on this topic span the spectrum of opinion depending on several different assumptions. However, it does not take an economist or a statistician to perform a simple

calculation of the economic impact of higher corn prices on Texas livestock producers and Texans in general.

In 2007, Texas farmers produced 296 million bushels of corn. Through our many animal feeding operations, 900 million bushels of corn are fed in Texas each year. Applying a simple calculation, it is easy to see that a one-cent change in the per-bushel price of corn will negatively affect the Texas livestock industry by $6.04 million.

This is amplified significantly when applied to the difference in seasonal average corn prices since the implementation of the first RFS mandate. In 2004, before the RFS was implemented, the price of corn was $2.06/bushel. In a conservative estimate, the U.S. Department of Agriculture (USDA) projects the price for the 2007 crop (post-RFS) will have averaged $4.00/bushel. The difference of $1.94/bushel equates to a negative impact on the Texas economy of $1.17 billion since the RFS has come about. And now, with implementation of the new RFS, some estimates peg corn prices at $8.00/bushel for the 2008 crop, which would result in a negative impact to Texas of $3.59 billion.

To look at it another way, 25 percent of the United States corn crop was diverted to produce ethanol in 2007 according to the USDA, which projects that 30 to 35 percent will be diverted in 2008. With ever increasing mandates of corn crop diversions to ethanol production through 2015, the impact on food prices globally, and to Texas specifically, will only worsen.

The impact on the cattle industry is particularly harmful to family ranches. According to the USDA, two-thirds of the 149,000 cattle producers in Texas have fewer than 50 head of cattle.

While proponents of the RFS may argue that any waiver would result in gasoline shortages or higher gasoline prices, at least one economic study prepared by Texas A&M University shows that market forces alone will result in ethanol production of more than a billion gallons annually above the federal requirement after 2008. It is vitally important that the federal government address skyrocketing fuel prices, but the solution should be through increased production and more non-grain alternative fuel sources, and not through policies that artificially drive up food prices and negatively impact Texas' otherwise strong economy.

My request is for a waiver of 50 percent of the mandate for the production of ethanol derived from grain. While many other factors affect the price of corn, I need only to look at skyrocketing grocery prices to know that granting a waiver of RFS levels is the right thing to do. As I noted to fellow governors at a recent Republican Governors Association meeting, "If you think it's bad for foreign countries to control our fuel, imagine what it would be like if they control our food supplies."

Granting this waiver will provide Texans much needed relief at the grocery store, and it will ensure that the livestock industry in Texas is able to continue providing a significant source of food products for our nation.

Thank you for your consideration. Please feel free to contact Mike Morrissey on my staff if you have any questions regarding this request. Mike can be reached at 512/463-1778 or by e-mail at mmorrissey@governor.state.tx.us.

Sincerely,

Rick Perry

Rick Perry
Governor

RP:kwp

cc: The Honorable Ed Schafer, U.S. Secretary of Agriculture
The Honorable Sam Bodman, U.S. Secretary of Energy
The Honorable Todd Staples, Commissioner, Texas Department of Agriculture
The Honorable Susan Combs, Comptroller of Public Accounts
Texas Congressional Delegation