

Mike Adams: And welcome back. In an effort to inform the public debate on energy policy, the Renewable Fuels Association and AgriTalk working together to ask each party's presidential candidates and their representatives where they stand on policies that promote the production and use of American renewable fuels.

A few days ago we talked with the Obama campaign and today we're very happy to have with us Jim Moseley, former deputy USDA secretary and a member of the McCain/Palin farm and ranch team. Jim, welcome to AgriTalk. Thank you for being with us.

Jim Moseley: Good morning, Mike, how are you? And hello to all your listeners.

Mike Adams: Very good. We appreciate you being on with us. Jim, I want to start because it's such pressing news or fresh from last night's debate, Senator McCain's comments on what he would cut from his budget to help offset the bailout and the budget deficit. He mentioned some things in particular that we want to discuss this morning.

Again, let's go back and listen to last night's debate.

[Plays audio of McCain] 'One of 'em would be the marketing assistance program. Another one would be uh a number of subsidies for ethanol. I oppose subsidies for ethanol because I thought it distorted the market and created inflation. Senator Obama supported those subsidies. I would eliminate the tariff on imported sugar cane based ethanol from Brazil.'

Alright, Jim, let's start with the subsidy part of that because this has been something that Senator McCain has mentioned at other times out during the campaign and on the trail. Explain for us again why Senator McCain opposes support for the ethanol industry in this country.

Jim Moseley: Well Mike, I'm not surprised that you started there. I watched the debate last night and it was with interest that I saw those issues raised. Of course having done the budget at USDA I recognize that there's a whole host, literally hundreds of places in the federal budget where we could focus to cut spending.

Senator McCain pointed out these areas and I wasn't surprised based on his background. I think we missed the opportunity perhaps to illuminate the public for a host of others.

But this is in compliance with the Senator's long standing view about subsidies and mandates within the federal government broadly. It's not just subsidies for agriculture. It's subsidies across the board. Subsidies for the oil companies. All of those kinds of price based subsidy incentives are problematic for the Senator.

Now I have to tell you as a farmer and a person involved in agriculture all my life, and of course as a former deputy secretary of USDA, politically I would have to advise Senator McCain to avoid this issue. I think that tells us a little bit about who he is as a person and how deeply he feels about some of these issues.

As I set back and listened to the debate and the rhetoric it basically comes down to the issue of when you incentivize something on the price side. We in agriculture, we have a long history of this issue. I think we realize what we end up doing is we set a price, we incentivize to that price and before long we end up with a cost of production that equals that price.

Senator McCain feels like that that is the wrong way to go about providing incentives and that indeed we need to go to the other side of the question and look at incentives that are income based that occur on the demand side and so you get a demand pull, which keeps demand then moving ahead of supply.

All of us farmers know that would be our preference obviously to have a demand that exceeds supply because that's when we actually do have profits in agriculture.

So the Senator comes from a completely different perspective on this particular question and it's one of going through the other side of looking at that demand and providing the incentives to create the demand and keep it then pulling the supply in that direction.

Mike Adams:

So are you saying then if he's going to pursue, or as president he would pursue a course of eliminating subsidies for ethanol that he would also pursue that same approach to the oil industry and work to remove any subsidies or support their getting?

Jim Moseley:

Yes, and he's made that statement very clearly. I had hoped that he would make that statement last night. Obviously he didn't include in that in his list, but he has made that statement that these price support subsidies across the board, no matter where you use them and for what reason you use them, they're market distorting.

We in agriculture understand that. That's the reason why we're having such great difficulties in the trade talks and the DOHA round.

So there's that understanding that when you start to incentivize that price you really are creating a limitation on the industry because you're getting the supply, but that doesn't do anything to really force the price unless the price just continues to drop and drop and drop and so it becomes the absolute cheapest alternative.

We in agriculture know that we're not really interested in providing the cheapest alternative out there in the commodities and the products that we produce for the market.

Mike Adams:

Let me ask you this. He mentioned the tariff on imported ethanol. And while this is a debatable point certainly even within the ethanol industry, there are concerns about the fact that we have ethanol here that's not getting blended into the fuel supply now. So why bring in more ethanol when that really doesn't address the blending issue. Why is he opposed to having a tariff on imported ethanol.

Jim Moseley:

I think there's two issues here, Mike. First of all, you're right and I've raised that point that we are not getting cooperation from the oil industry to get a higher blend of ethanol at this point in time and there again that gets back to the point that you've got to do things over on the demand side.

Create that *[inaudible]* stimulate it, increase it. When you do that then for example, if you're going to do flex-fuel vehicles you don't need them unless you're going to have alcohol based fuels.

So you pull then because of the increase in demand you pull the supply into the direction of it being used.

I think the second issue on the tariffs in particular, besides the fundamental disagreement and the market distorting and the trade agreement issues that are embodied in tariffs, is the question about where are we at in terms of world wide demand for ethanol fuels and frankly if you got rid of the tariff, and there is some ethanol as I understand it, that's flowing through the Caribbean initiative that is coming in, but if you get rid of the tariff, frankly Brazil and where oil prices have been and still are, there's enough demand out there that this ethanol's going to be used close to the point of manufacturing.

Mike Adams: We're talking with Jim Moseley, former deputy USDA secretary, member of the McCain/Palin farm and ranch team getting the positions of the McCain campaign on renewable fuels and in particular ethanol.

Now you mentioned mandates. Now in December of '07 the President signed into law the Energy Independence and Security Act which expanded the renewable fuel standard by requiring 36 billion gallons of renewable fuel be used annually by the year 2022 and specifically required that 21 billion gallons come from advanced biofuels, including cellulosic ethanol.

If Senator McCain is elected president would he continue to support and implement the renewable fuels standard?

Jim Moseley: Well look, first of all that's congressionally mandated and let's talk about the reality of Congress versus the president. The president can make a recommendation that he would not support and I would say that Senator McCain, based upon his philosophy mandates tariffs, subsidies would say ya' know, we need to let that expire.

Again you get back to the point and again it's the short-term political thing. It is politically expedient to say absolutely we need to have it, it's the only way we're going to get there.

But the fact is that with where we are in this industry of energy, where we believe that we're heading, we don't need that mandate. We're getting there. We're going to produce the level that's required in the mandate anyway. I'm absolutely confident of that. The question is where is it all going to come from.

A significant portion right now of course is coming from corn-based ethanol. As we move down the path here we're going to see a transition into the cellulosic side of it. Put those things together with the appropriate incentives on the demand side, we're going to get at that mandate irrespective of whether it's there or not.

What Congress decides to do with it is going to be – it's a question mark frankly in my mind at this point in time, but I can say I think fairly conclusively that Senator McCain would say that ya' know, we don't need that absolute mandate as a push on the price side of this or the supply side of it to keep this working.

Let's go to the other side. Let's work demand. Let's do those things that are necessary to make sure that ethanol alcohol based

fuels are an important part of our overall energy strategy in this country.

Mike Adams: You think without a renewable fuel standard the oil industry will blend ethanol into the fuel supply anyway?

Jim Moseley: The oil industry is going to use ethanol when the system is in place that the consumers say ya' know, it's my preference. I think that's the point of all of this discussion.

Currently today we're not getting all the cooperation we need. Senator McCain is going to have to and will say to the oil companies, look you've got a product out here that is internally grown instead of trading all this capital out of the country, going to other countries of the world that don't necessarily care for us, why don't we do that internally and when you put incentives in place that allow the infrastructure to be built.

For example, the flex-fuel vehicles, the blender pumps and so forth, the infrastructure that delivers it, then the consumer having a choice is going to say I like that ethanol and I know today if I go into Lafayette I can find two blender pumps in that city.

When I pull up to that blender pump I'm buying an 85 percent blend that is some 95 cents under what gasoline is. Consumers are going to look at that and say ya' know, I think I ought to use ethanol.

If you have the flex-fuel vehicle that you can use ethanol, then they're going to make that decision and let them decide what the best system is to satisfy their needs instead of the oil companies trying to continue to push the gasoline market down the consumers' throat.

Mike Adams: And of course flex-fuel vehicle allows you to use any blend of ethanol. All vehicles can already use E10 so just want to clarify that –

Jim Moseley: That's right and that is an important point, but even there I have to say that we are only basically at this point in time, the oil companies have been somewhat resistant. Although they're coming to a new enlightenment it seems on the issue, but basically they're meeting the oxygenate standard that we needed when we lost ETBE.

Mike Adams: I need to take a break. We're talking with Jim Moseley, former deputy USDA secretary, member of the McCain/Palin farm and ranch team getting the positions of Senator McCain and his campaign on ethanol. Stay with us. Much more to come. This is AgriTalk.

[Commercials]

Mike Adams: Welcome back to AgriTalk. We're talking with Jim Moseley, a member of the McCain/Palin farm and ranch team as we discuss ethanol. Jim, we just have a few minutes left so I want to quickly get to a couple important topics.

Based on your explanations of Senator McCain's opposition to subsidies for ethanol and also for mandates such as the renewable fuel standard, why should investors in the ethanol industry support a McCain presidency?

Jim Moseley: Because we go to the investment side for the tax benefits. Senator McCain, I want to make a couple of points. A, Senator McCain has been accused by some of being anti-ethanol or anti-alcohol fuels and that simply is not the case.

He has made strong statements in favor of. It is a matter of the national energy strategy. The reason why that Senator McCain can have the objection and I've pressed this point over and over and over is you've got to have an alternative to it and the alternative is that you go to the demand side and you provide incentive, investments, tax credit, which is an interesting way to do it because you're assuming that you have income and otherwise the tax credits don't work.

You've got to keep the demand obviously ahead of the supply and that's where the investment then, the tax credits need to be made.

So if you look at the industry with an investment tax credit you begin to see there is the incentive for profit here and then you're going to get a tax break on that investment. So if you look at the next generation of ethanol coming from cellulosity, it makes perfect sense for that system to begin to come into production.

It's not going to replace corn-based ethanol. It's there. The infrastructure exists. It's going to continue to happen, but there also is the incentive for additional corn ethanol to be produced as the corn is available and that is a question. We will produce more corn in this country. Prices are going to do that.

I don't like what's just happened in the market, but prices over time are going to incentivize us producing more ethanol.

Mike Adams: Jim, uh –

Jim Moseley: But on the other side of it, the cellulosic component of this whole issue is going to happen because you create the demand and when you create the demand, then you have the market in place so that you can make some money off of it and that is the old argument frankly that we've had with crop subsidies, price support. If we farmers could just get it from the marketplace, we don't have to have crop subsidies.

Same argument exists exactly when you look at the energy industry and agriculture's role in that industry.

Mike Adams: Jim, just a couple minutes left so one final question. Senator McCain said on October 1st here in Missouri that ethanol subsidies inflate the price of food. Not only for Americans, but for people and poverty across the world and he said he proposed to abolish them.

Here we are with lower grain prices, food prices still high though and while it's acknowledged that grain prices and ethanol have a part to play in this, certainly the facts bear out that it's not the major reason for these higher food prices. Is Senator McCain really blaming ethanol and ethanol support on higher food prices?

Jim Moseley: Well I think there's somewhat of a misunderstanding here. I heard that and I think that there are a whole host of folks. I've been on the web. I've read it and there's a whole host of folks that are saying look, the price of corn went up and that's what caused the rise in food prices and so forth. Those of us who have looked closely at this in the industry know that is not the case.

It costs more to ship the box of cereal than what the product increase in the raw commodity going into the product in that cereal really cost. So it's I think a misunderstanding. There is some price response from ethanol. That's the reason why we did it.

We as farmers, we came out of that time when we had excess corn and we were looking for places to put that excess corn. That component of it's working, but the great majority of the food price increase has not come from ethanol production in this country.

Its come from a number of other elements; transportation, for example, overall profits and the retail system and they kind of wanted to hide and conceal that, but it's a fact.

So as we look at the price increase here, some of it came from ethanol, but it was not anyways near a majority of it. In fact, it's not even close to being a majority of it. It came from other areas.

Mike Adams: Jim, we are out of time. We thank you very much for coming on with us and giving us these views on the McCain campaign. I hope that he's listening to you on some of these things where you have some differences with him and we appreciate you giving us some information to kind of take us beyond just the headlines. Thank you very much.

Jim Moseley: Well, thank you, Mike and I'm kind of like Sarah Palin who said, I haven't convinced him on Anwar yet, but one thing about Senator McCain, he will listen.

Mike Adams: Alright; thank you very much, Jim.

Jim Moseley: You're welcome.

Mike Adams: Jim Moseley representing the McCain/Palin farm and ranch team. Thanks to the Renewable Fuels Association for making these broadcasts possible.

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