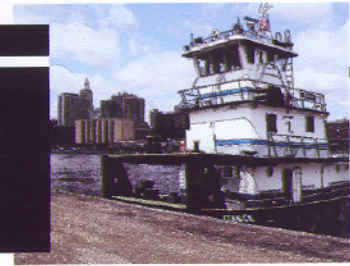


WATERWAYS

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Industry hoping for a conference report, but...

WRDA worries continue

One of the questions asked of Minnesota Congressman John Kline (shown right) during a campaign stop at UMWA member CHS Inc. in early November was, "Will WRDA pass?" Kline, who is a supporter, answered the question the way most Washington observers do: It depends on what Congress does in the upcoming lame duck session.

That uncertainty after getting so close to final passage is one reason that the National Waterways Conference is placing ads in an upcoming issue of Roll Call, a magazine read by almost everyone on Capitol Hill. Draft language says: It's long overdue - Now let's finish the

job! After waiting six years for authorization of water resources projects, the nation urges a WRDA conference report."

The conference and other Washington watchers including Bob Looney, who works for CHS in D.C., see three scenarios for the lame duck session. One involves a perfunctory session and a continuing resolution to keep government

funded till the next congress acts. Another possibility would be a

longer session, running to Thanksgiving and a continuing resolution. And finally, depending on the outcome of the election, and which party is perceived as the incoming power, the lame duck congress could come back,

work to Thanksgiving and come back in December and take up spending bills, either singly or rolled up in a package.



Floodwall work halted at Holman

Part of the floodwall and drainage project at St. Paul's Holman Field has been halted by a technicality. The *St. Paul Pioneer Press* reports that the City of St. Paul ordered a halt to work on the drainage project that parallels construction of a floodwall designed to keep the airport from flooding.

When completed, the new drainage system will consolidate 15 storm-sewer outfalls into a single drainage point and make it easier to keep floodwater from backing up into the storm drains and flooding the airport.

The city action doesn't affect the dike project, but

Metropolitan Airports Commission (MAC) spokesman Pat Hogan told the paper the city hadn't told MAC that it needed a variance for the drainage project until now. The city approved the project last year, but says MAC didn't get a construction permit required by a work agreement. Hogan says the drainage work is only three weeks from completion and the agency hopes it won't be delayed until next spring's flood season.

Hogan says if the project is left unfinished and gets hit with high water in the spring it could damage what has been done.

More Missouri problems

The navigation season on the Missouri River was closed Oct. 23, about 44 days early because of an on-going drought that has dropped river levels again this year. Flows were reduced on Oct. 8, to preserve water for next year. Operators say the closure had little or no effect because the season had all but shutdown in July because of reduced river flows.

Lower river flows also reduced electric power generated by Missouri River dams this year. According to Corps figures, megawatts produced were reduced by about 40% and that trend is likely to continue next year.

At the same time, the tug of

Missouri to 2

Executive Director's Report...

Homegrown energy

Ethanol production, once the domain of small farmers, is now big business, catching the attention of investors, particularly deep-pocket private-equity firms and hedge funds. A recent article in *The Wall Street Journal* says "ethanol generates huge cash" for producers and investors because the federal government now requires gasoline refiners to blend billions of gallons of ethanol with their product by 2012, thus setting a floor for ethanol demand.

That legislated demand along with recent high gas prices and the belief that \$70 crude oil prices will be commonplace, makes further investment that much more attractive.

U.S. ethanol production

According to Matthew Dalton's article, U.S. annual ethanol production capacity is currently 4.8 billion gallons, with another 2.8 billion gallons of capacity under construction. That means there is already enough capacity in place to supply the 7.5 billion gallons of ethanol mandated by 2012 – putting us slightly ahead of schedule.

Dalton points out that since many new plants have larger capacities than older ones, and run on alternative fuels such as coal or even cow manure instead of natural gas, they are more costly to build thus putting them beyond the financial means of farmer co-ops.

Recent concern that supply might outstrip demand caused shares of some publicly traded ethanol producers to fall by double-digit figures since May, according to the article.

Farmer ownership essential

With ADM now owning nearly a quarter of all U.S. ethanol production facilities and the joint-venture between Andersons Inc and Marathon Oil to make ethanol, there is concern that if over-supply causes ethanol prices to fall, the low-cost corporate producers are more likely to survive than the farmer co-ops which operate smaller, older plants.

This latter point raises the

specter that ethanol plants, without farmer ownership, will simply become another market looking for the lowest cost inputs and lose much of their value to rural areas.

Can we produce enough

Looking beyond the question of ethanol plant ownership, there is the larger question of how much foreign oil can be replaced by domestic biomass, corn or otherwise.

For example: USDA projects that about 19 percent of the 2006/2007 corn crop will be used for ethanol. This roughly equates to the 5 billion gallons of ethanol now produced in the U.S.

Pundits claim we can replace most or all of our imported oil with alternative fuels such as ethanol, but can we?

Consider this:

*USDA projects this season's corn crop at 10.9 billion bushels.

*At about 2.5 gallons of ethanol per bushel, this equates to 27.3 billion gallons of ethanol.

*But some argue that since petroleum-based energy is used to grow corn and convert it to a fuel, one gallon of ethanol blended with gasoline replaces only about 1/3 gallon of oil. After converting gallons to barrels, 27.3 billion gallons equals slightly more than 214 million barrels of oil displaced by ethanol.

14 months energy supply

*The U.S. Energy Information Agency says the U.S. used 20.6 million barrels per day in 2005.

*Therefore, in theory at least, if the entire 2006/2007 corn crop were converted to ethanol, it would provide about 14 months' energy use assuming we could all burn ethanol and all that ethanol was produced from corn.

Corn not alone

And that's the rub: it is well known that ethanol can be made from any number of biomass products; Brazil, for example, already uses biomass to power 20 percent of its transportation fuel market. Using sugarcane, Brazil produces ethanol at around 90 cents per gallon, compared to U.S. corn-based ethanol at \$1.70 - \$2 per gallon, making this an aggravation with domestic producers.

Sugarcane use is growing

Aside from Brazil which produces about the same amount of ethanol as the U.S., other sugarcane producers including Columbia, Argentina, Mexico, Peru, Costa Rica, El Salvador, Guatemala and Jamaica have already launched or are planning biofuel programs, according to a recent Forbes article.

Can co-ops compete

This is perhaps one of the unspoken points in the Dalton article – that as our burgeoning ethanol market attracts Wall Street investors, market-driven U.S. gasoline refiners will look for the lowest cost ethanol available that will take them far beyond the financial reach of our domestic industry. This issue apparently has not been lost on the American farmer.

Farmers support river

In his August 2006 testimony before a House Agriculture Subcommittee, a Missouri corn farmer made a case for an energy component in the 2007 Farm Bill, arguing that "The demand for corn created by the ethanol industry..." will have more influence on grain prices than increased exports." He also stated that more could be done to cultivate domestic markets so that farmers have an alternative to all too fickle foreign markets, which may or may not materialize.

However, he wisely hedged his bets on the export market by urging Congress to recognize the value of foreign market access and the role played by efficient, low-cost river transportation.

Missouri from 1

war among states over Missouri levels continues. North Dakota officials met with the Corps recently to ask that water be kept in upstream reservoirs. Downriver, Missouri Governor Matt Blunt has written to the Corps asking the Army to evaluate the cause of river channel degradation. His letter asks the Corps to find a solution to that problem as well as establish navigation targets in the state; keep flood controls in place and increase releases from the upstream reservoirs to maintain navigation on the Mississippi River.