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HEARING TO EXAMINE THE ISSUE OF FEED AVAILABILITY AND ITS EFFECT ON THE LIVESTOCK AND POULTRY INDUSTRIES

HEARING

BEFORE THE

SUBCOMMITTEE ON
LIVESTOCK, DAIRY, AND POULTRY

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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HEARING TO EXAMINE THE ISSUE OF FEED AVAILABILITY AND ITS EFFECT ON THE LIVESTOCK AND POULTRY INDUSTRIES

WEDNESDAY, SEPTEMBER 14, 2011

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON LIVESTOCK, DAIRY, AND POULTRY,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 1:37 p.m., in Room 1300, Longworth House Office Building, Hon. Thomas J. Rooney [Chairman of the Subcommittee] presiding.

Members present: Representatives Rooney, King, Neugebauer, Huelskamp, DesJarlais, Gibson, Ribble, Cardoza, Scott, Courtney, Holden, Boswell, Baca, Schrader, Peterson (*ex officio*), and Costa.

Staff present: Tamara Hinton, Josh Maxwell, Debbie Smith, Patricia Straughn, Lauren Sturgeon, Pete Thomson, Heather Vaughan, Suzanne Watson, Michelle Weber, Liz Friedlander, Mary Knigge, Anne Simmons, John Konya, and Jamie Mitchell.

OPENING STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN CONGRESS FROM FLORIDA

The CHAIRMAN. This hearing of the Subcommittee on Livestock, Dairy, and Poultry for the purpose of examining the issue of feed availability and its effect on the livestock and poultry industries, will come to order.

Good afternoon, and welcome to today's hearing to examine the issue of feed availability and its impact on livestock, dairy and poultry producers. I would like to begin by welcoming our witnesses and thanking them for taking the time out of their busy schedules to participate in this process and share their expertise.

I would also like to thank Ranking Member Cardoza for his assistance in preparing today's hearing. We each represent a district that boasts substantial animal agricultural production, but that is far from the area that produces the bulk of the crops that are fed to those animals. As such, the issue we are examining today is of great important to the constituents we each represent.

Our Subcommittee began this Congress with a series of overview hearings that gave us some perspective about the production practices and public policy challenges of the animal agriculture community. At each of these hearings, we heard a good bit about the issue of feed availability, and I am pleased that we have the opportunity today to examine that issue in greater detail.

The U.S. livestock, dairy and poultry industries are confronting incredibly tight feed supply prospects. Because of the widespread drought throughout the Southwest and the Southeast, this problem is even more pronounced. Earlier this week USDA lowered its corn production estimates for the year even further, putting increased pressure on the growing demand for grain. For the animal agricultural sector, where feed costs account for the lion's share of their operating expenses, this presents significant difficulty. We are fortunate to have an experienced panel assembled here today to provide testimony about those challenges.

Our witnesses today include representatives of each of the affected sectors, beef, pork, turkey, chicken and dairy, as well as a representative of the animal feed industry community. They have been asked to describe the feed situation from their perspective and discuss its implications for their industry.

As the session proceeds, we will explore more topics in greater detail. I appreciate the interest and involvement of my colleagues regarding these matters and welcome everybody's input as we move forward.

[The prepared statement of Mr. Rooney follows:]

PREPARED STATEMENT OF HON. THOMAS J. ROONEY, A REPRESENTATIVE IN CONGRESS FROM FLORIDA

Good afternoon, and welcome to today's hearing to examine the issue of feed availability and its impact on livestock, dairy, and poultry producers. I would like to begin by welcoming our witnesses and thanking them for taking time out of their busy schedules to participate in this process and share their expertise. I would also like to thank Ranking Member Cardoza for his assistance in preparing for today's hearing. We each represent a district that boasts substantial animal agriculture production but that is far from the area that produces the bulk of the crops that are fed to those animals. As such, the issue we are examining today is of great importance to the constituents we each represent.

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Our witnesses today include representatives of each of the effected sectors—beef, pork, turkey, chicken, and dairy—as well as a representative of the animal feed industry community. They have been asked to describe the feed situation from their perspective and discuss its implications for their industry.

As the session proceeds, we will explore more topics in greater detail. I appreciate the interest and involvement of my colleagues regarding these matters and welcome everyone's input as we move forward.

The CHAIRMAN. I would now like to recognize Ranking Member Cardoza for his opening statement.

OPENING STATEMENT OF HON. DENNIS A. CARDOZA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Mr. CARDOZA. Thank you, Mr. Chairman. I want to thank all our witnesses for traveling here today. And I want to give a special

thank you to you, Mr. Chairman, for the gracious way that you have worked with us in conducting these hearings that we have participated in today. If all of Congress worked together as well as our two staffs and our Committee does, it would be a better Congress and a better place to work.

In California, our producers are extremely vulnerable to increases in feed prices and overall feed availability. The West Coast model dictates that the majority of feed grain is shipped to California from other areas of the country where it is cheaper to grow. This leaves producers extremely susceptible to price fluctuations with few avenues available to control these input costs.

Since 2007, producers have been questioning the very business model they have relied upon for years as they watched their costs skyrocket. I expect that we will hear today from these witnesses about the various causes of these price increases. But I also hope to hear about specific steps the Congress and this Committee should take to mitigate the crisis. This input is vital to crafting practical policies, moving forward, and I look forward to the hearing today.

Now, every day when I go home, I pass cornfields in southern Maryland, and I know that hurricanes that have come through in the last few weeks have devastated a lot of those fields and are just going to cause that much more significant pressure on an already overtaxed industry back in my real home, which is California. I am very concerned about this. I heard from my poultry producers earlier this year that they thought that they might actually have to reallocate grain in order to keep their livestock alive for 2 to 3 weeks until the new harvest started coming in.

These are big challenges, these are real issues, and I am grateful that you are having this hearing, and that we are going to try and get to the bottom of anything that we can possibly do about it.

Thanks again for all of you attending. I look forward to your testimony.

[The prepared statement of Mr. Cardoza follows:]

PREPARED STATEMENT OF HON. DENNIS A. CARDOZA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Thank you Mr. Chairman, and thank you to our witnesses for discussing the topic of feed availability. I especially appreciate our witnesses who traveled all the way from California to be here today. Thank you.

In California, our producers are extremely vulnerable to increases in feed prices and overall feed availability. The West Coast model dictates that the majority of feed grain is shipped to California from other areas of the country where it is cheaper to grow.

This leaves producers extremely susceptible to price fluctuations with few avenues available to control these input costs.

Since 2007, producers have been questioning the very business model they have relied upon for years as they've watched their costs skyrocket.

I expect that we will hear today from our witnesses about the various causes of these price increases. But I also hope to hear about specific steps that Congress and this Committee should take to mitigate this crisis.

This input is vital to crafting practical policies, moving forward, and I look forward to hearing from you today. Thank you.

The CHAIRMAN. Thank you, Ranking Member Cardoza.

The chair would request that other Members submit their opening statements for the record so the witnesses may begin their testimony and ensure there is ample time for questions. We are ex-

pecting a series of votes here within the next hour, so please keep that in mind as well.

[The prepared statement of Mr. Baca follows:]

PREPARED STATEMENT OF HON. JOE BACA, A REPRESENTATIVE IN CONGRESS FROM CALIFORNIA

Chairman Rooney and Ranking Member Cardoza:

I am pleased to be here today to review important issues surrounding the cost and availability of feed—and to discuss how this negatively impacts the livestock, poultry, and dairy industries.

I thank the Chairman and Ranking Member for convening this hearing and hope we will be able to gain valuable insight into this critical issue.

I also want to thank our witnesses for coming here today—and taking time from their schedule to help us in Congress better understand this issue of critical importance.

An affordable, reliable, and safe feed supply is absolutely essential to the well being of animal agriculture in America.

Everyone on this Subcommittee is well aware of the impact that record-feed prices have had on production costs for our producers, and market prices for consumers.

In my own Congressional District—in California's Inland Empire—dairy is a significant agricultural and economic product.

The dairy industry has been hit harder than most by the recent economic downturn—and continues to see production costs that are far too high.

We must have a frank discussion about the continued use of ethanol subsidies and fuel mandates in America's energy policy.

As Members of the Subcommittee on Livestock, Dairy, and Poultry, we owe it not only to our agriculture producers—but also to the American public at large, to ensure we always maintain a strong safety net for agricultural production.

America's livestock, dairy, and poultry industries must remain strong and secure.

I look forward to hearing from our witnesses today and again thank the Chairman and Ranking Member for their leadership.

Thank you.

The CHAIRMAN. I would like now to welcome our panel of witnesses at the table: Dr. Steven Roger Meyer, President of Paragon Economics, Adel, Iowa; Mr. Philip Greene, Vice President of Foster Farms, Incorporated, Fresno, California; Mr. Ted Seger, President of Farbest Foods, Huntingburg, Indiana; Mr. Michael Welch, President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia; Dr. Eric Erba, Senior Vice President for Administrative Affairs, California Dairies, Visalia, California; and Mr. Randy Spronk, pork producer, Spronk Brothers, Edgerton, Minnesota.

Dr. Meyer, please begin when you are ready.

STATEMENT OF STEVEN ROGER MEYER, PH.D., PRESIDENT, PARAGON ECONOMICS, ADEL, IA; ON BEHALF OF NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Dr. MEYER. Mr. Chairman, Members of the Subcommittee, my name is Steve Meyer. I am President of Paragon Economics, Incorporated, a livestock and grain market analysis firm based in Adel, Iowa. I am here today on behalf of the National Cattlemen's Beef Association.

I would like to tell you about the declining amount of grains available to livestock and poultry producers and the impact it is having on cattlemen in particular, and more general on livestock and poultry producers.

Since 2000, the amount of corn used for ethanol has increased eightfold, with ¾ of that increase occurring since 2005. Since 2005, the use of corn for feed has fallen by 20 percent.

Let me be clear that I am not opposed to ethanol. I believe it to be a reasonable alternative to expensive and dwindling oil supplies, especially when those supplies are in many cases held by countries that, at best, are unsupportive to America's best interests, and at worst are enemies of our great nation.

Further I realize that we cannot "unring" the bell on ethanol subsidies and tariffs. They have achieved their intended purpose of establishing a significant U.S. corn-based ethanol industry. But when you hear that the government should not be deciding on winners and losers, please realize that the government has already done so, with livestock and poultry producers being the primary losers.

From 2007 to 2010, 30,510 cattle operations and 24,350 beef cow operations exited the industry. Most of them were small. During that same 5 years, 6,350 hog operations exited the industry, and 84 percent of them held 500 or fewer pigs in inventory.

The amount of corn used for ethanol has increased at a much faster pace than has the output of corn, leaving less corn available for other needs. In my written testimony, *Figure 2* shows the amount of U.S. corn and other grains used for feed and residual usage for 2000 through 2012. That has declined 20.7 percent since 2004 and 13.7 percent since 2007, when corn prices first reached this new higher plateau.

The availability of dried distillers grains with solubles has indeed mitigated some of this decline, but it has not fully done so. *Figure 3* in my testimony shows that the addition of DDGs to feed availability slows the downward trend, but it is still falling and this year will fall to 166.8 million metric tons, 5.4 percent lower than just 4 years ago.

U.S. livestock producers have met this challenge by becoming more efficient, but lower feed availability will eventually mean still lower meat and poultry output and still higher meat and poultry prices.

The big question remains, though, what happens when the United States faces a year of widespread drought in major corn-producing areas? As can be seen in *Figure 4* of my testimony, the last major drought in the Midwest occurred in 1988. The national average corn yield that year was 26 percent below the long-term trend. The 1988 shortfall did not cause major disruptions in U.S. livestock and poultry operations because U.S. farmers and the Federal Government held huge stocks of corn at that time. What would happen now if yields fell 26 percent below trend, and we only have a 5.4 percent projected stocks-to-use ratio at the end of the coming crop year?

Most agree that yields will not fall as much as they did in the 1980s because of improved varieties that we use in today's corn production. But even if the impact is half as large as the 1988 decline, the resulting corn crop will be less than 12 billion bushels in a world that needs 13 billion or 14 billion bushels.

A completely free market would push prices to effectively ration the short supply, but today's corn market is not free. The Renewable Fuel Standard says that thou shalt use X gallons of ethanol and thus produce X gallons of ethanol, and thus use X divided by

2.8 billion bushels of corn. They cannot participate in that rationing.

The brunt of rationing will fall on livestock and poultry producers, but they cannot shut down a production system quickly. Animals must be fed or destroyed. Feeding pigs and poultry means using grain. The cattle sector has more flexibility, but even there a forced reduction of corn usage would be very difficult to implement.

If oil and gas prices happen to be high at that time, we would be using corn in the right way, but if they are low, the market would say that we should divert corn away from ethanol and toward livestock.

I urge you to quickly adopt a plan that provides an automatic temporary reduction or waiver of the Renewable Fuel Standard when we face a pending crop failure and see relatively low oil and gas prices. I don't have a specific plan for you today, but I know there are members of the agricultural economics profession who would quickly devise alternatives for Congress should it show interest.

I hope that all of this is just an exercise in futility, but I know that we are living on borrowed time from a sometimes fickle Mother Nature. We should honestly recognize that fact and prepare now for the day when calamity comes.

[The prepared statement of Dr. Meyer follows:]

PREPARED STATEMENT OF STEVEN ROGER MEYER, PH.D., PRESIDENT, PARAGON ECONOMICS, INC., ADEL, IA; ON BEHALF OF NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Mr. Chairman and Members of the Committee, my name is Steve Meyer. I am President of Paragon Economics, Inc., a livestock and grain marketing and economic advisory company based in Adel, Iowa. I have analyzed and advised clients in the livestock and, by extension, poultry industries for the past 24 years since receiving my doctoral degree in agricultural economics from Iowa State University.

I address you today with grave concerns regarding the ability of U.S. livestock and poultry industries to continue to provide affordable, high quality protein in the form of meat, poultry, eggs and dairy products to U.S. consumers as well as customers around the world. My concerns are ongoing but primarily center on what will happen to U.S. producers and their animals in the event of a significantly smaller-than-usual U.S. corn crop any year in the next decade.

My comments today will be confined to the livestock and poultry meat segments since those are the ones with which I am most familiar. They apply equally, though, to the dairy and egg sectors which are also major users of corn.

Though some make some interesting claims about the non-culpability of corn-based ethanol in the current record-high prices, I believe *Figure 1* speaks for itself. While U.S. corn exports and food and industrial usage other than ethanol have remained relatively constant since 2000, the amount of corn used for ethanol has increased eight-fold with ¾ of that increase occurring since 2005. Since 2005, the use of corn for feed has fallen by 20 percent.

First, allow me to point out that I am not opposed to ethanol. I have often joked that I prefer ethanol to be aged in oaken casks or cooled in long-neck bottles. But I am not even opposed to fuel ethanol made from corn. I believe it to be a reasonable reaction to expensive and dwindling oil supplies, especially when those supplies are, in many cases, held by countries that we view as, at best, unsupportive of America's best interests and, at worst, enemies of our great nation.

My difficulties with U.S. fuel ethanol policy arise from the provision of subsidies for the product's usage, protection against imports which have, until recently, been lower-cost that U.S.-produced ethanol, and, most of all a mandate that forces ethanol to be used regardless of the economic circumstances, especially those that pertain to competing users of corn.

We Cannot Go Back To Where We Were

I realize that we cannot "un-ring the bell" on ethanol subsidies and tariffs. In combination with the promise of an ever-growing market through the Renewable Fuel Standard (RFS), these policy instruments drove the rapid construction of an ethanol production segment that has for several years been large enough to meet the ultimate 15 billion gallons of forced ethanol usage in 2015 contained in the RFS. The policies have achieved their intended purpose of establishing a significant U.S. corn-based ethanol industry.

But there is no such thing as a free lunch. Subsidized ethanol has meant record-high corn prices, record-high costs of production for meat and poultry, resulting lower per capita meat and poultry output and, finally, record-high meat prices. The U.S. pork industry lost $6 billion in equity from 2007 through 2009 but improved profitability did not stop the exodus of pork producers in 2010. From 2007 through 2010, 6,350 hog operations exited the industry and 84% of them held 500 of fewer hogs in inventory. During that same 5 year, 30,510 cattle and calf operations and 24,350 beef cow operations exited the industry. The vast majority of these closures, too, was among small operations.

And if you hear from anyone that "The government should not be deciding on winners and losers," please realize that you have already done so. These policies have created a stream of winners who eventually lost the advantage that was handed to them. Ethanol plants were big winners early on when Methyl tert-butyl ether (MTBE) was banned as an oxygenate in gasoline. Plant builders were next as they reaped huge rewards during the pell-mell expansion. Corn farmers saw large profits next as corn prices rose in 2007 and 2008 but even those profits were short-lived as cash rents and input costs rose to take away the extraordinary profits or "rents" as we economists call them. Corn producer profits have returned in 2011 but they, too will be short-lived as cash rents, land prices in input costs rise.

David Ricardo taught us in 1817 that rents, or super-normal returns on capital, accrue to the holders of the scarce resources—those that cannot be duplicated. This chapter in American agriculture will be used for decades as an example of Ricardo's theory as the profits created by these policies accrue to landowners and to owners of non-duplicable technology such as patents and trade secrets. That does not mean that no one between these parties and the producers of ethanol made a profit. It only means that those profits were transitory while the rents accruing to landowners and patent holders will be relatively permanent.

The damage has been done to other users of corn while the benefits from here forward will accrue almost solely to landowners and companies that have patents on various products and processes to provide inputs to corn farmers. Has that been a good deal for American society in general? Perhaps, but it has not been a good deal for those thousands of operations that have ceased producing cattle and hogs—and milk and chickens and turkeys and eggs. One principal of a fair society is that winners compensate losers when policies create winners and losers. There has been no fairness for livestock and poultry producers.

How Have These Policies Impacted Feed Availability

Since 2004, corn used for ethanol production increased from 1.378 billion bushels to an estimated 5.05 billion bushels in 2010–2011. That is a total increase of 382% or an average of 65% per year. During that same period, total corn usage has increased by 24.8% or 6.1% per year. *But corn production has increased by only 5.4% or 0.9% per year.* To be fair, the 2004 corn crop was record large so it may not be the best base year to use for production growth. But comparing the average crops for 2008–2010 to the average for 2003–2005 still shows that corn production has increased by only 16.5% or an average of 2.7% per year.

These differing rates of growth, which I argue were caused primarily by subsidies and a guaranteed market for ethanol which spurred a buildup far too fast to be supported, has caused carryout stocks to fall to unprecedented lows and forced the pricing system to ration potentially scarce corn supplies very early in crop years.

They have also resulted in less and less corn and other feed grains being used (*i.e.,* available) for feed. *Figure 2* shows the amount, in million metric tons, of U.S. corn, wheat, barley, sorghum and oats used for feed and residual for 2000 through 2011–12 as estimated in August by USDA's World Agricultural Outlook Board. From 2000 through 2004–2005, feed/residual usage was relatively stable. But everything changes in 2005–2006 and feed/residual usage has declined in every year but one since then. Projected feed/residual usage in the coming crop year is 20.7% lower than in 2004–2005 and 13.7% lower than in 2007–2008 when corn prices first moved to this much higher plateau.

The availability of DDGS from ethanol plants has indeed mitigated this decline but it has not done so fully by any means. *Figure 3* shows the same data as did

Figure 2 but has domestic DDGS availability (DDGS production less DDGS exports) added to the columns. The downtrend is slower but it is still a downtrend. Total grains plus net DDGS availability is projected to be 166.8 million metric tons in 2011–2012, 5.4% lower than in 2007–2008.

U.S. livestock and poultry producers have met this challenge thus far by becoming more and more efficient. While total feed/residual usage has declined 5.4% since 2007–2008, U.S. beef production declined only 0.4% from 2007 to 2010 while pork and chicken production INCREASED 2.2% and 2.1%, respectively. *But how long can such efficiency improvements continue?* Lower feed availability will eventually mean lower meat and poultry output and still higher meat prices.

There is a concern, however, that is much more immediate: **What happens when the United States faces a year of widespread drought in major corn producing states?**

The United States has enjoyed an almost unprecedented run of good corn growing seasons. As can be seen in *Figure 4,* the last major drought in the Midwest occurred in 1988. That came closely on the heels of a major drought and heat induced crop failure in 1983. The national average yield in those years was 84.6 bushels per acre and 81.1 bushels per acre, respectively. Those yields were 26% and 22% below the 1960–2010 trend yield for those years.

But neither caused major disruptions in the U.S. livestock and poultry industries because U.S. farmers and the Federal Government had HUGE stocks of corn on hand (see *Figure 5*). Having 49% and 55% of an entire year's usage in grain bins around the land provided ample supplies and resulted in only slightly higher prices than were considered the norm for the time.

What would happen if we had a national yield 22% or 26% below the trend yield now? Frankly, I would rather not contemplate the possibility. An 11% shortfall in 1995 pushed 1996 carryout stocks to only 4.9% of total usage and drove corn to then-record highs of just over $5.00 per bushel. A projected 5.2% yield shortfall this year (USDA's August estimate of 153 bushels/acre) has pushed projected year-end stocks to 5.4% of total usage and resulted in corn futures well over $7.50/bushel.

It is clear from *Figure 4* that we have enjoyed an extraordinary stretch of good growing weather. Logically, that stretch must someday be punctuated by another drought. According to Dr. Elwyn Taylor of Iowa State University, the longest period between Iowa droughts in over 400 years of tree ring data is 23 years. 2011 marks 23 years since the 1988 drought and, while growing conditions were not perfect in Iowa this year, 2011 will certainly not be classified as a drought year. So, we are still counting and are now well overdue.

2011–2012 will mark the third straight year in which total corn usage has exceeded 13 billion bushels. The 600 million gallon annual increases in ethanol blending prescribed by the RFS for each of the next 4 years will add 215 million bushels to the ethanol line for corn usage each year. If all other uses were to stay the same, it would mean we would need 14 billion bushels of corn in 2015. If harvested acres remain near 85 million, that crop would require a yield of 165 bushels per acre, a figure that can be reached if yield progress continues at the past trend and the weather is good.

But what happens when a drought hits? That depends on many, many factors. Most agree that the yield reduction will not be as great as in the past due to the drought tolerance characteristics built into today's hybrids. But even if it was 12%, roughly half as large as the 1980s declines, it would mean a corn crop of less than 12 billion bushels in a world that needs well over 13 billion bushels and may need as much as 14 billion bushels. How would the industry ration the demand for 1 to 2 billion bushels of corn?

A completely free market would push prices high enough that the lowest value users would cease buying, reducing pressure on supplies and allowing the short crop to be used in its highest-value uses. But the corn market today is not free. The RFS decrees that "Thou shalt blend XXX billion gallons of ethanol into gasoline or we will fine you." By extension that means that ethanol plants must produce XXX billion gallons of ethanol and use XXX/2.8 billion bushels of corn to do it. The ethanol sector is not free to participate in any rationing that must be done.

Logically, exports would be next in line since corn should have a higher value before transportation than afterward. But in a world with a near-record low U.S. dollar and growing demand for meat and poultry in Asian markets, I don't believe this will be true. We witnessed record large exports in 2007 and have seen relatively strong—considering the price is over $7 in the U.S.!—exports in 2011.

A similar argument can be made for corn usage in high fructose corn syrup. Should a shortfall happen when sugar is expensive, as it is now, HFCS output would not fall by much, if any.

That leaves feed/residual and feed users have a huge problem: They cannot shut down a production system quickly. Most animals—and this especially applies to pigs and chickens—are worth far less if they have to be sold prior to reaching market weight, if they can be sold at all. The hitch is that someone else has to have a place for them and the broiler and pork industries simply do not have a lot of empty facilities sitting idle. The cattle sector has more flexibility given the bovine's wondrous ability to utilize forages but even there, a forced reduction of corn usage would be very difficult to implement.

The only way to effective short-circuit hog and chicken production systems to quickly reduce feed usages is to destroy the animals. This happened in the summer of 2008 when weaned pig values went to zero due to high feed prices, low hog prices and a strong Canadian dollar. There were rumors that it happened on a few occasions in the U.S. in the summer of 2009. Destroying chicks or poults is not an unusual occurrence in the broiler and turkey industries but the scale would be multiplied many times in the case of a drought-driven crop failure under these circumstances.

Destroying animals runs against every fiber in a producer's being! It is wasteful and psychologically draining. Most would do about anything to avoid it but economic realities may force them to do it.

What Can Be Done?

If oil and gasoline are expensive, there is nothing anyone can do without ordering the shutdown of ethanol plants. The market would tell us that corn is needed more for fuel than for other uses. The reason, of course, is that all of those subsidy-driven ethanol plants exist so this "market driven" situation is still a consequence of our past policies. But those cannot be undone so we must deal with facts: High oil prices would mean corn will be used for ethanol and livestock and poultry growers will have to either pay the price or destroy animals to reduce usage quickly.

If oil and gasoline prices are low, however, there will be a conflict between what the market may say should be done and what current law says must be done. Low oil and gasoline prices would mean that corn has a lower value in use for ethanol and that less should be used there and more diverted to livestock feed. But the law does not allow that and the current waiver features put that decision in the hands of the Administrator of the Environmental Protection Agency. Will he/she want to reduce ethanol use and its alleged environmental benefits when gasoline is cheap and the incentive is there for motorists to burn more and thus add to carbon emissions? I think the answer is obvious.

I urge your Committee and the House Agriculture Committee as a whole to quickly adopt a plan to provide an automatic waiver of the RFS in the circumstance of a pending crop failure in major corn growing areas and relatively low oil and gasoline prices. I would envision this "trigger" to be a function primarily of supply indicators such as grain stocks, acreages and crop conditions which, when met, would allow the Secretary of Agriculture to take action regarding the RFS. I believe it is imperative to give the Secretary of Agriculture some authority in this matter since it is so important to our meat and poultry supply.

I may be wrong, but ethanol blenders and, perhaps, manufacturers should support this idea. Do they really want to make and blend ethanol made from $8 or $9 or $10 corn when gasoline prices are cheap? Maybe they believe they will just pass the higher costs along. In that case, U.S. gasoline consumer should be VERY supportive of this idea.

I do not have a specific proposal for you at this time. I know that several agricultural economists have worked on potential trigger mechanisms. I can assure you that some of the best minds in our profession can be assembled quite quickly to devise a plan or a few alternatives that will work.

I sincerely hope that this is all an exercise in futility and that we never have another short corn crop. But I have studied statistics and probability and know that we are living on time borrowed from a sometimes-fickle Mother Nature. We should honestly recognize that fact and prepare for the day when that calamity comes.

CHARTS

Figure 1
U.S. Corn Usage by Category

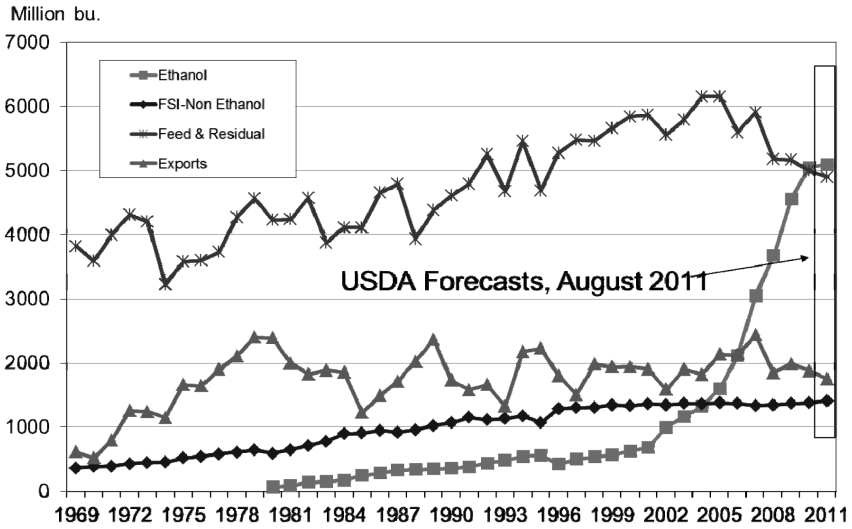


Figure 2
Grain Feed & Residual Usage, United States

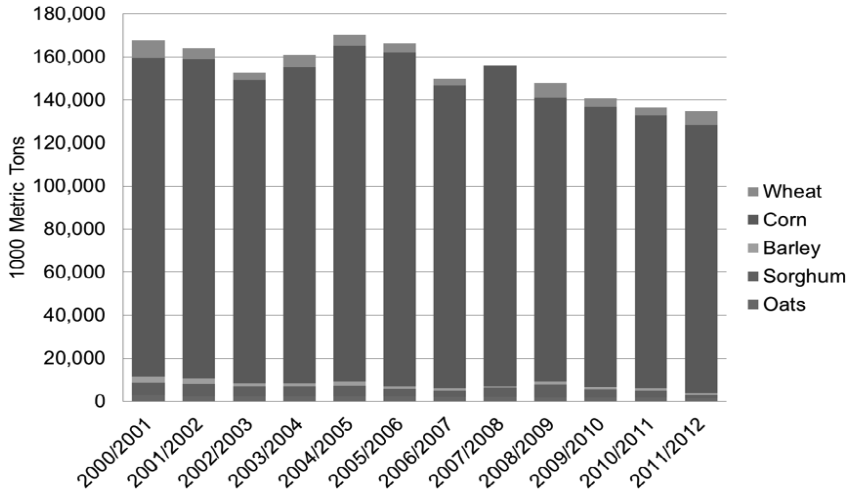


Figure 3
Grain Feed & Residual Usage + Net DDGS Supply, United States

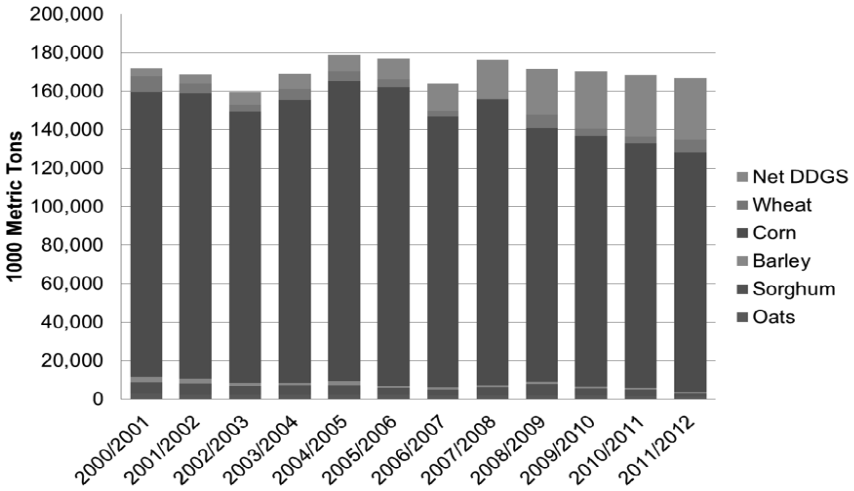


Figure 4
U.S. Corn Yield

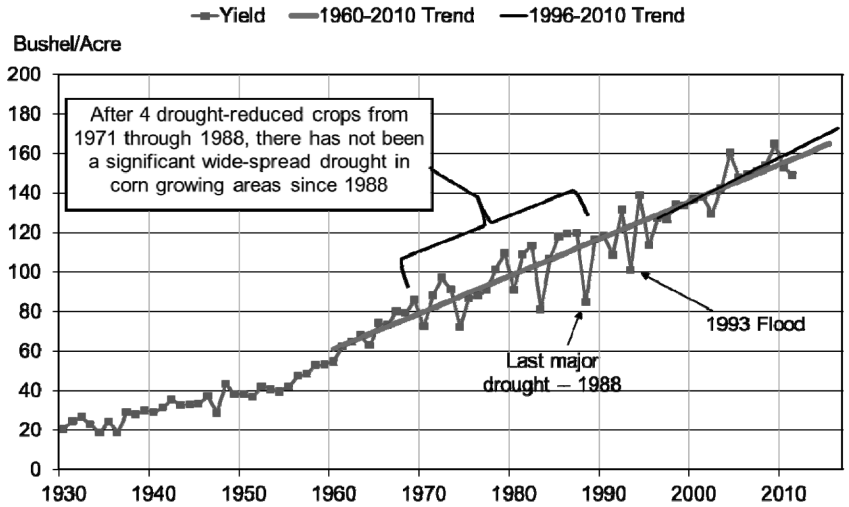
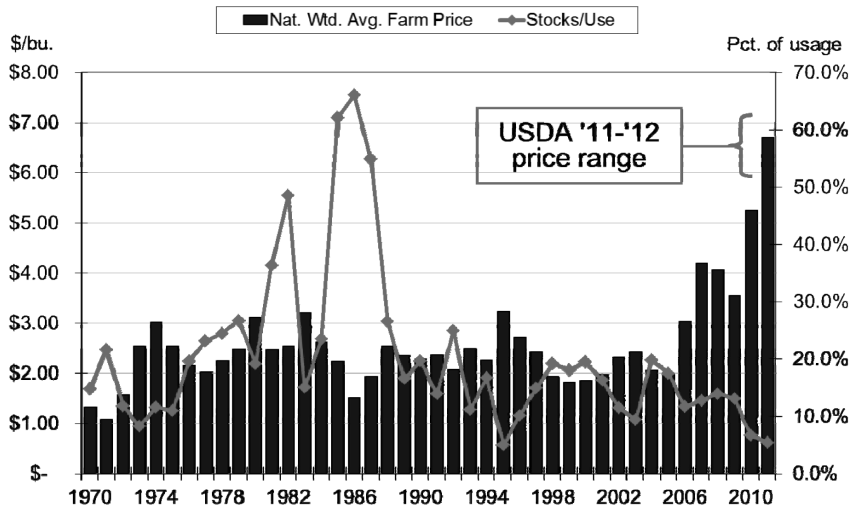


Figure 5
U.S. Corn Price & Stocks/Use Ratio



The CHAIRMAN. Thank you, Dr. Meyer.
Mr. Greene.

STATEMENT OF PHILIP GREENE, VICE PRESIDENT, FOSTER COMMODITIES AND FOSTER POULTRY FARMS, FRESNO, CA; ON BEHALF OF AMERICAN FEED INDUSTRY ASSOCIATION

Mr. GREENE. Chairman Rooney, Ranking Member Cardoza, Members of the Subcommittee, I am Phil Greene, Vice President of Foster Commodities, Fresno, California. Thank you for the opportunity to appear here today on behalf of the American Feed Industry Association, representing their interest of the U.S. animal feed industry and its suppliers.

AFIA companies produce over 75 percent of the feed manufactured in the U.S. each year. Feed represents more than 70 percent of the cost of producing meat, poultry, dairy and eggs. So, anything affecting the cost of feed directly impacts the costs of animals to the processor, retailer and ultimately to the cost of the food for the consumer.

Foster Poultry Farms is a family-run poultry company employing about 12,000 people throughout the country. Foster Commodities, the division that I manage, is one of the largest feed companies in the western United States, with over 500 livestock customers. We move over 4 million tons of feed production per year through our facilities.

Today the feed industry, large or small, integrator or feedlot, faces a perfect storm of historically high supply/demand price pressures. We are in a real crisis. Its consequences are both domestic and global, and it is worsening on a daily basis. The U.S. livestock and poultry industries are beginning massive consolidations as producers faced with record high prices and near record low feed availability liquidate herds and flocks.

At the same time, the U.S. inflation rate is on the cusp of another upward explosion. Just this week the Census Bureau reported the following: The Consumer Price Index for all food stood at 5.4 percent in July, higher than last year. For meat, poultry, fish and eggs, CPI is 7.4 percent higher. All this is happening at a time when those living in poverty has reached the highest level in 46 years. Why? We fool ourselves that using corn for ethanol production doesn't drive up commodity prices, and we Congressionally mandate annual increases while protecting ethanol against imports. We stimulate demand through ethanol and export programs while we shrink farmable acres and keep in place an antiquated Conservation Reserve Program.

Contrary to what we have been led to believe for 8 years, the U.S. annual production yield curves for corn and soybeans are flat, not increasing, and surplus grains are disappearing. We don't define and regulate position limits for institutional speculation or ag futures markets, preventing the *bona fide* hedgers the price protection they need on input purchases. And we do not put enough resources and emphasis on the development of more farmland, better yielding crops, and improved water resource conservation, along with irrigation development. We must increase our investment in ag research to find solutions to meet these production challenges.

All of this is baffling. With the exception of growing global population and food demand, we can control every one of the challenges I have listed. Tyson Foods recently commented that corn at $7 a bushel reflects the doubling of the cost of slaughter-ready chickens to 45¢ per pound over the last decade.

Smithfield Foods sees, and I paraphrase, looming problems for hog farmers, whose grain costs continue to eat away at an already thin profit margin. Eight dollar corn has scared people. Smaller producers are saying, "I am not going do this anymore." The biggest culprit in these markets is Federal energy policy, or lack of a comprehensive Federal energy policy mandating the use of ethanol at annually higher levels while paying oil companies over $6 billion a year to comply with the Federal mandate.

It makes no sense. Look beyond the $6 billion subsidy. If you consider the shift the industry has made from $2 corn to $7 corn, then you understand the industry has absorbed $65 billion per year in additional production costs since 2006, or approximately this amount this year.

You factor in the bean crop, and you can see that ethanol and institutional market speculation has created huge inflation. To date most of this inflation has been absorbed by the feed companies, livestock producers and export customers. The U.S. consumer has only begun to see the beginning of food inflation. Combining government-subsidized fuel production with the 2011 corn crop that will seriously miss earlier predictions, and you get this week's USDA supply and demand estimate setting 2011 ending stocks at just five percent, the equivalent of roughly 2½ weeks' supply of corn. A five percent ending stock signals to the market that USDA believes there isn't enough corn to meet demand, and price rationing must occur to keep the level at this minimum supply. The Department assumes price pressures will cut demand.

How high will prices go? How much demand will we destroy? How many businesses will we close? How many jobs will be lost? How many people will move to the poverty level or join the ranks of the truly hungry?

In the past 2 months, USDA has reduced the demand estimates from 13.5 billion bushels of corn on July 2nd to 12.76 billion bushels this week. A 750 million bushel reduction represents enough corn to sustain almost 20 poultry companies the size of Foster Farms. This number represents an amount equal to 16 times the amount of China's anticipated import demand for this next year. The point is, this is a huge reduction in market-desired supply that must be rationed to everyone except the ethanol user.

The AFIA urges Congress to develop and require the Secretary of Agriculture to use a mechanism that recognizes in time of reduced production and ending stocks, the RFS mandates must be waived to ensure needed livestock/poultry feeds at reasonable prices. The AFIA urges the full House Agriculture Committee, as it writes the 2012 Farm Bill, to adopt policies that put arable farmland back into production, starting with a reinvented CRP that provides enrolled producers with the flexibility to opt out of the program without financial penalty when the U.S. faces yield reductions and stocks drop to the kind of levels predicted by the USDA this week.

AFIA proposes the CFTC begin with position limit parity between the physically settled contacts and cash-settled "look alike" contracts. This meets the four objectives set forth in the Dodd-Frank Act for speculative position limits.

In summary, here is what we believe Congress must do to sustain U.S. feed manufacturing and livestock and poultry production. We must ensure feed ingredient markets are driven by market demand, reworking Federal energy policy to remove the mandated use of food commodities from the list of eligible feedstocks for Federal tax credits in some biofuel production.

Create a mechanism requiring the Secretary of Agriculture to waive the RFS in the event of stocks-to-use ratios falling below a certain amount or prices hit a specified level.

Reinvent the CRP and other acreage-idling programs to get arable acres back into production and ensure these programs don't provide an economic incentive to idle arable acres. Farmers must be allowed an early opt-out option without an economic penalty.

And hold the CFTC to the intent of the Dodd-Frank Act by defining and enforcing Federal speculative position limits for institutional speculators, including derivatives and over-the-counter products. True hedgers must be protected from institutional speculators.

Thank you, Mr. Chairman. I look forward to any questions.

[The prepared statement of Mr. Greene follows:]

PREPARED STATEMENT OF PHILIP GREENE, VICE PRESIDENT, FOSTER COMMODITIES AND FOSTER POULTRY FARMS, FRESNO, CA; ON BEHALF OF AMERICAN FEED INDUSTRY ASSOCIATION

Chairman Rooney, Ranking Member Cardoza, Members of the Subcommittee, I am Philip Greene, Vice President of Foster Commodities, Foster Poultry Farms, Fresno, California.

I thank the Subcommittee for the opportunity to appear today on behalf of the American Feed Industry Association (AFIA), Arlington, Virginia, the world's largest organization devoted exclusively to representing the business, legislative and regulatory interests of the U.S. animal feed industry and its suppliers.

AFIA companies today produce over 75% of the commercial feed and pet food manufactured in the U.S. each year. AFIA members include more than 500 domestic and international companies, as well as state, regional and national associations. Member companies are livestock feed and pet food manufacturers—including complete feeds, premixes and supplements—integrated livestock and poultry producers, pharmaceutical companies, ingredient suppliers, equipment manufacturers and companies supplying products, services and supplies to the animal feed industry.

The feed industry is also the single largest purchaser and user of all major classes of U.S. agricultural production, including feed grains, oilseeds and processed meals and coproducts. These commodities are critical inputs in the high-quality feeds American farmers and ranchers rely on to raise the safe, wholesome and affordable meat, poultry, eggs, milk and fish American consumers enjoy every day.

Feed is the most critical component of livestock, poultry, dairy and egg production in the U.S. and around the world, both to insure animal health and well being, as well as contributing to growth and product quality.

As this Subcommittee is well aware, feed as a component of production, represents more than 70% of the cost of producing U.S. meat, poultry, dairy and eggs. Anything—I repeat, *anything*—that affects the cost of producing feed for livestock and poultry, directly impacts the cost of animals to the processor, meat, dairy and eggs to the retailer, and ultimately, the cost of food to the consumer.

This testimony identifies three primary factors negatively impacting the availability and hence the cost of feed to U.S. livestock and poultry producers, with its resultant negative impact on this nation's commercial feed industry. These are factors, other than the increasing global demand for food, that are all within our control. These challenges are as follows:

- A Federal bioenergy policy that continues to mandate that food crops be used as feedstocks for biofuels at annually increasing levels;
- Arbitrary and outdated acreage reduction programs that must be reinvented to meet their original purpose, namely to maximize U.S. feedstuffs production and minimize supply impacts on feed-deficit areas of the country, and
- The need for the Federal Government to ensure commodity futures markets are regulated in such a way as to ensure the traditional ability of true hedgers to identify prices absent institutional speculation distortion.

AFIA also wishes to stress the current feed availability and cost challenges in the U.S.—reduced production and stocks exacerbated by biofuel and export competition, with futures market institutional speculation adding insult to injury—is not unique to the U.S. Our domestic situation has global ramifications for both food costs and availability.

Corn, Soybean Supply/Demand and the Commercial Feed Industry

As stated, the U.S. livestock and poultry industry is the single largest domestic user of corn and soybeans, as well as their byproducts, through purchases of commercial feeds, through on-farm feed mixing and the use or supplements and premixes.

Feed also represents one of the biggest on-farm costs to U.S. farmers and ranchers. U.S. total farm production expenditures were $289 billion in 2010, up from $287.4 billion in 2009, according to the U.S. Department of Agriculture's (USDA) August, 2011, report from the National Agricultural Statistics Service (NASS). The four largest U.S. on-farm expenditures cumulatively totaled $134.4 billion and accounted for 46.5 percent of total expenditures in 2010. These percentages of total expenditure were feed, 15.7% percent, farm services at 12.4%, labor at 12.4%, and rent at 9%, all increases from the year before.

Today—and for the foreseeable future if Federal policies do not change—the feed industry faces the "perfect storm" of influences that will weigh heavily on ingredient availability, with the cost of ingredients ratcheting higher due to artificial inflation of feedgrain and oilseed prices based on competition with U.S. biofuel production, record export demand, adverse growing/harvesting conditions, and commodity futures markets which continue to be plagued by speculation.

More than 55% of corn produced in the U.S. historically has gone to animal feed uses for livestock and poultry—in 2012 USDA estimates this will drop to 37%—with less than 10% of the U.S. field corn crop used for direct domestic human consumption in corn-based foods such as corn meal, corn starch, and corn flakes, USDA reports. Beef production has the greatest feed use of corn, followed by poultry and swine. However, current USDA estimates show ethanol use of corn is now taking nearly 40% of the domestic corn crop, and this increase in ethanol use shows no signs of abating. The other competitors are exports at 13.8% of use, forecast by USDA to drop to 12.9% in 2012, as well as seed, and other industrial uses.

About 85% of the world's soybeans are processed annually into soybean meal and oil. Approximately 98% of the soybean meal that is crushed is further processed into animal feed, with the balance used to make soy flour and proteins. Of all soybean meal use for feed, the poultry industry demands 40–45% of available supplies, the swine industry takes another 26%, with beef and other feed uses—including pet food—making up the remainder of demand. Of the oil fraction, 95% is consumed as edible oil; the rest is used for industrial products including biodiesel, fatty acids, and consumer products.

The convergence of these factors skews both cash and futures prices, and as feed prices are jammed upwards, our farmer/rancher customers in beef, dairy, poultry and swine production are forced to liquidate herds and flocks because they cannot afford to feed their animals based on the price processors are willing to pay.

Tight domestic supplies of corn and soybeans—even given outstanding crop production last year—are pushing markets above the previously highest levels for corn seen since June 2008, and within a couple of dollars of the all-time high for soybeans. A number of factors, including a rapidly expanding world population, drought, flooding and other natural disasters and higher energy costs are all components of 2011 corn price spikes. But far and away the biggest impact on both corn availability and price is the use of corn as the feedstock of choice for ethanol, or as the industry views it, food has become fuel.

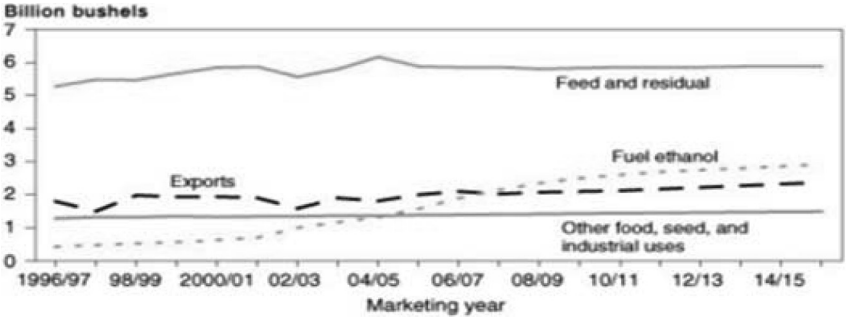
The cost of feed to livestock and poultry producers doubled from 2006 to 2008, retreated slightly in 2009, but resumed its upward march in 2009–2010 and through 2011 to date. While the Administration continues to assert only 4% of current corn price increases can be attributed to competition between feed/food use and ethanol

use, independent studies show 30–40% of the spike in corn prices can be attributed to corn demand for ethanol.

Last week's market rally saw corn move above $7 a bushel again, and reflected a doubling of the cost of slaughter-ready chicken to 45¢ per pound over the last decade, according to Tyson Foods Chief Executive Officer Donnie Smith's address to a Barclay Capital investor's conference. Smith called this a "huge structural shift." In an interview last week with *Bloomberg Businessweek,* Larry Pope, chief executive of Smithfield Foods, said he sees "looming problems for hog farmers as grain costs continue to eat away at already thin profit margins." Said Pope, "We're seeing contraction . . . in terms of the published data that you can see, you can see the sow slaughter . . . has turned dramatically here, and then this $8 corn I think has scared people pretty substantially . . . there are smaller producers who are just saying 'I'm not going to do this anymore.'"

The following chart illustrates the trend in corn demand likely will not shift without policy changes given the cost of production of ethanol and its world market price as a competitive fuel with petroleum.

USDA's Baseline Projections suggest that corn use by ethanol producers will grow much faster than corn use by other industries



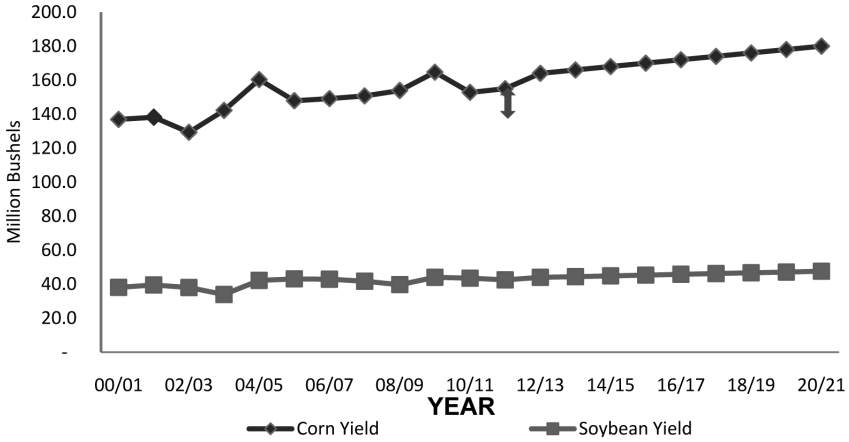
Note: Feed and residual corn use is calculated by subtracting the other three categories plus ending stocks from total supply. Thus the term "residual" refers to a statistical residual.

Source: *USDA Agricultural Baseline Projections to 2015.*

Given the feed/food competitors for corn—and their respective percentage of demand—will likely not shift dramatically over the near term, absent a sea change in the economics of ethanol production and marketing, ethanol corn demand will increase.

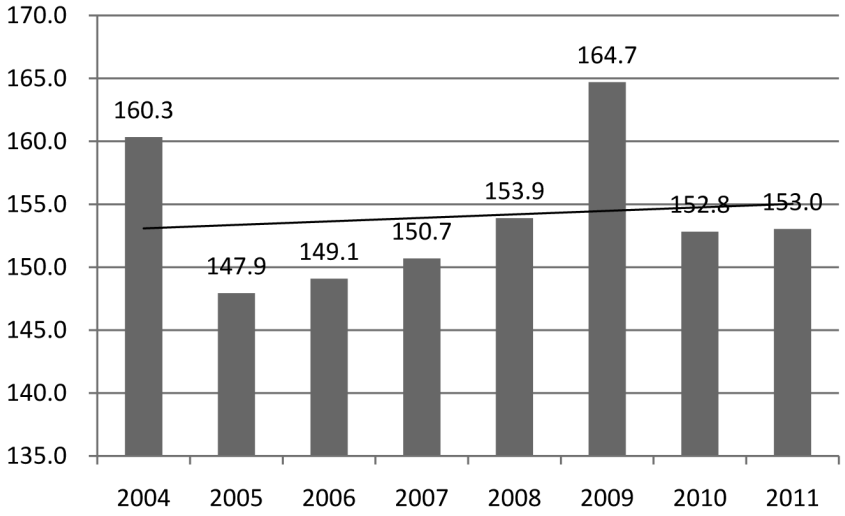
However, the Subcommittee should also be aware that from a corn production standpoint, yield trends are misleading.

20 year corn and soybean yield trends look good . . .

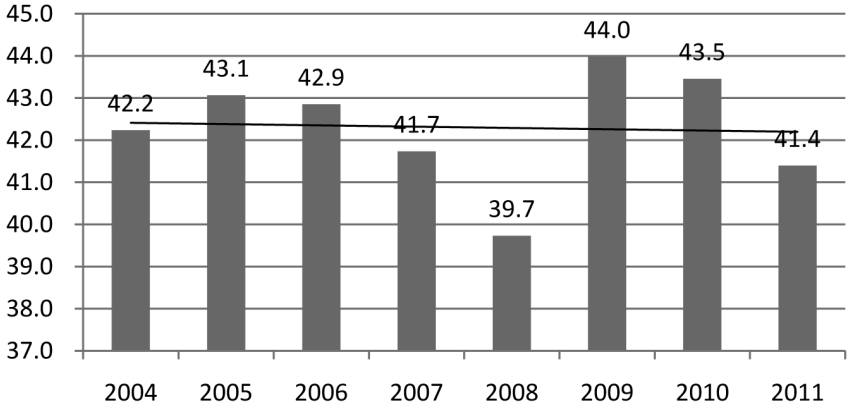


While 8 year yield trends tell a different story

Corn Yield Last 8 Years



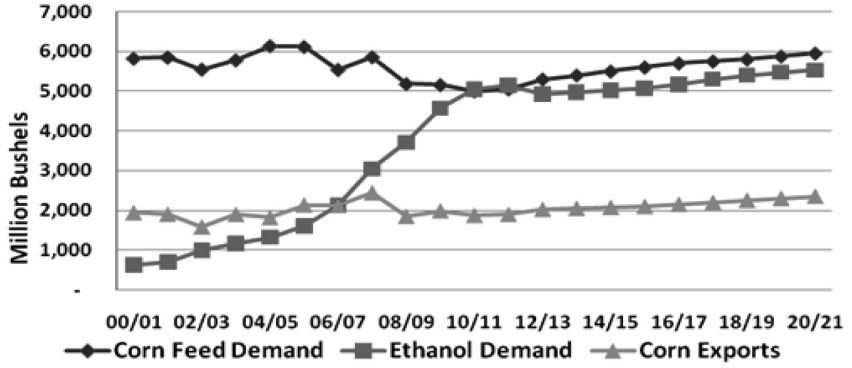
Soybean Yield Last 8 Years



Energy Policy

Through creation of the Renewable Fuel Standard (RFS) in 2005, Congress mandated oil companies use set amounts of ethanol in gasoline blending, with those mandates increasing on an annual basis. Congress also decided to provide a cash subsidy to oil companies to actually do what they're mandated to do. And, if such incentives and mandates were not enough, Congress imposed an import tariff to block import of foreign ethanol into the U.S. These actions—along with record world demand for U.S. commodities—have conspired to shove corn prices to levels never seen in the U.S.

The RFS mandate, the blenders' credit and the import tariff have created an ethanol industry which now requires almost 40% of the overall corn crop to meet production mandates and to be profitable. Ten years ago, ethanol demand for corn was less than 5%. As these mandates increase, corn and soybean production capacity are unable to keep up with the rapid growth demanded by these government actions.



Despite the Administration's continued assertion only 4–5% of current livestock/poultry production cost increases—and resulting consumer food price inflation—are due to ethanol competing with the feed/food industries for corn, it cannot be denied the significant increase in corn demand, driven in large part by this biofuel mandate and a prospective crop that will miss previous predictions and bring ending stocks to lows not seen since the mid-1990s, means the corn prices will inevitably continue to rise throughout 2012 and beyond.

It should be noted a 5% ending stock signals the market that USDA believes there is not enough corn or soybeans to meet demand, and that price rationing must occur to keep the level at this minimum supply. USDA will adjust demand in its estimates to ensure 5% is maintained; to do otherwise would be to admit that we have a critical food shortage. In the past 2 months USDA has reduced its demand estimate from 13.5 billion bushels in its July 12, 2011 report to 12.76 billion bushels in the Sept.12, 2011 report—a precipitous fall of 5.5% in demand is required to keep us

from running out of corn this year. Demand has not been reduced in a significant way yet, and this may signal the market may test all time price highs as it works to rationalize the declining availability of corn and other feedstocks.

AFIA supports a comprehensive Federal energy policy, including energy research to find alternative non-food crop biofuel feedstocks, as well as legislative initiatives to end the blenders' tax credit and import tariff protections for corn-based ethanol. However, until these actions are taken, AFIA remains concerned about the impact of the Administration's corn-ethanol policy and the potential additional adverse effects any expansion or extension of policy, *e.g.,* increasing the 10% ethanol blend limit for gasoline to 15%, will have on the domestic livestock and poultry industries.

U.S. Annual Ethanol Production

Corn prices have doubled in the last year, now bouncing around $6–$8 a bushel—"the new normal," as some call it. The overall concern over this fall's grain supply has some speculating corn prices could reach $10–$12 a bushel. *PorkNetwork* reported last week that more than 4,500 call options in the CME Group's corn market at a strike price of $11 and $12 a bushel were held by traders, 15% higher than a month ago. More conservative analysts don't deny $9–$10 corn is possible this fall if yields continue to shrink and fewer acres are harvested.

The impact of $10 a bushel corn on livestock and poultry producers would be disastrous; herds and flocks would be further liquidated to avoid losses, cutting both producer income and seriously—and negatively—impacting feed companies, farmer-owned cooperatives, exporters and consumer food prices. This market has only one certainty: Ethanol refiners and speculators will continue to be the two interests moving to buy massive ownership positions in corn.

What the poultry and livestock industry predicted in 2005, is now coming to pass. When the RFS was debated and ultimately enacted, poultry and livestock interests warned lawmakers all it would take to create market price chaos, herd/flock liquidations and serious consumer food price inflation going through the roof would be "one bad crop year, one drought, one major disaster."

In a Sept. 9, 2011, *Feed Grain Market Report, Bloomberg News* reported the consensus estimate of 30 private analysts surveyed was that "difficult growing conditions this spring and summer and the hottest summer since 1955 in parts of the Midwest, have significantly eroded corn yields." Bloomberg's survey now sees a crop of about 12.554 billion bushels, down almost 3% from USDA's August prediction of 12.914 billion bushels, and nearly 1% less than produced last year.

This leads to the lowest ending corn stocks since 1996 at likely just over 5.2%, according to the latest World Supply & Demand Estimate issued Sept. 12, 2011, by USDA. Analysts say the crop could get smaller, putting even more pressure on prices to move higher, and predicted supplies will be tight for at least another year, putting a premium on adding acreage to produce a crop sufficient to replace inventories.

The University of Illinois reported last week it expects to see greater use of lower-quality wheat and other less-than-preferred commodities to replace corn in livestock rations. Corn prices are not expected to drop—again because of incentives needed to get farmers to shift acres to corn production in the face of increasing ethanol and export demand. Unfortunately, as the industry seeks alternative feed ingredients, we're confronted with the fact U.S. production of feed crops has declined for the past several years

AFIA supports letting the free market determine where our corn and soybean supplies are utilized, and urges Congress to take action to remove mandated biofuel competition from the market for corn for feed use. Absent that resolve, AFIA urges Congress to develop and implement a mechanism that recognizes in times of re-

duced production and ending stocks, RFS mandates are to be waived to ensure needed commodities at reasonable prices for livestock and poultry feeds.

Modernize Conservation Programs

One Federal program in need of significant reinvention is the Conservation Reserve Program (CRP) and programs related to it which take arable acreage out of production. CRP was intended to take truly environmentally fragile land out of production to preserve that land. However, CRP has morphed into what it was never intended to be, namely a program by which farmers can collect checks for simply idling land—any land—and for some, the program is actually little more than a government-paid annuity.

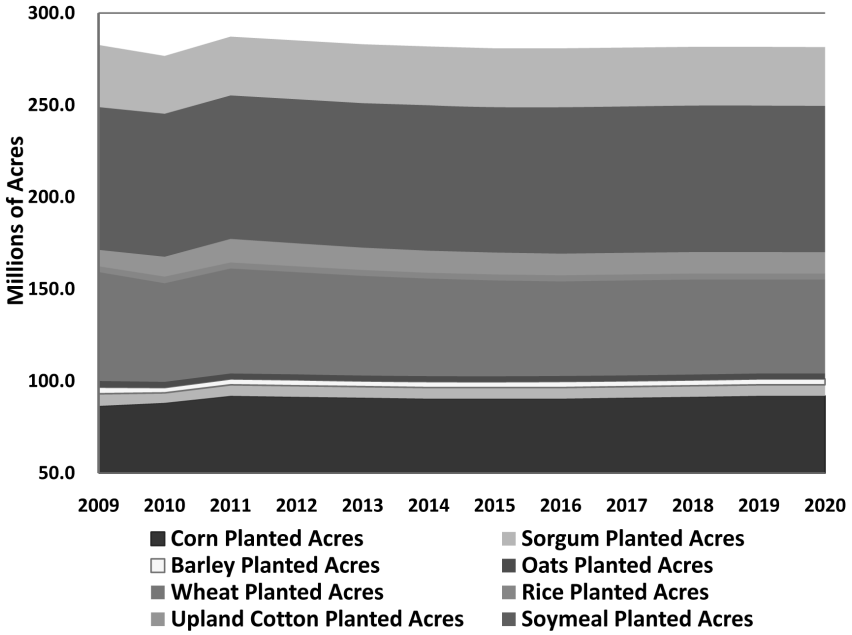
For more than a decade, AFIA has joined with other like-minded commodity organizations and companies to prevail upon USDA to allow farmers enrolled in CRP to take an early-out option without the prescribed penalty if they wished to move enrolled acres back into production. For more than a decade, USDA has turned either a deaf ear or flatly refused to exercise this administrative option open to the Secretary.

As recently as spring of this year, AFIA joined several national, state and regional organizations in providing to USDA yet another private study supporting the Secretary taking action to allow CRP-enrolled producers an early-out option without penalty.

The most recent study concludes the world may be short of grain supplies going forward, must take action now, and plan for the long-term impact of multiple grain-deficit years. The study recognizes the U.S. hasn't competed to produce additional supplies of grains and oilseeds for several years, keeping millions of acres of land idled in the CRP. This has left the U.S. unable to respond to market conditions that would normally direct more plantings to fill grain and oilseed needs for feed companies, processors, livestock and poultry producers and others. The major conclusions of the study include the following:

- Over the last 10 years, the price index for energy commodities has tripled;
- Global trade is strong; China imports soybeans equal to production on 48 million acres or one row in every four planted in the U.S.;
- Acreage expansion, including that envisioned in CRP changes, could be an effective hedge against risks of climate change variability;
- A 5% reduction in yields would force prices to further ration demand, and
- In the last 140 years, there's been a 25% chance of a yield decline of at least 5% in any given year.

AFIA urges the full House Agriculture Committee as it moves through its process of identifying program and policy priorities affordable under the 2012 Farm Bill, to actively consider and adopt a revamped CRP that provides enrolled producers with non-environmentally sensitive acres in the program, with the flexibility to opt out of the program without financial penalty when the U.S. faces yield reductions and stocks drop.



Foster Commodities' Experience

I'd like to use my company's experience to illustrate the current feed availability situation.

The Subcommittee knows not all regions of the country produce all the corn and soybeans they need to feed local livestock and poultry, nor do they enjoy and abundance of these feed ingredients from which finished feeds can be manufactured. So-called feed deficit regions of the U.S. include the Southeast and Deep South, New England, and states west of the Rocky Mountains to the Pacific Ocean and into the Pacific Northwest. Commodities—either raw or processed—must be moved by truck or train into these regions for feeding.

Due to our unique customer combination, the Foster Commodities division is one of the largest feed companies in the western U.S. We have over 500 livestock customers, and move over 4 million tons of feed production per year through our facilities. The business breaks into two different areas of responsibilities: (1) The largest customer is Foster Poultry Farms, and (2) 500 feed customers, including dairies, farmers and livestock producers. Our merchandising and purchasing teams also procure ingredients and manage the logistics for Foster Farms chicken and turkey feed mills throughout the country. Our feed plants manufacture, transload and sell livestock feed, feed ingredients, liquid feeds, and feed supplements to our 500+ dairy and other livestock customers in California and the western U.S.

California has about 1,800,000 milking cows and a significant beef cattle herd. We estimate cattle in California consume over $3 billion worth of feed in annually. For us to service these producers, we rely upon strategic rail access to 100 car unit trains. With the combined demand of our internal requirements and our external sales we better utilize the numerous assets we have constructed to facilitate rail and truck traffic. We regularly receive and store corn, soybean meal, dried distillers grains (DDGs), canola, wheat and other primary livestock feed ingredients.

We seasonally purchase, when available, locally grown corn and wheat at all of our feed mill locations. We also bring in numerous other rail and truck-load products. Seven days a week Foster Commodities ships about 170 truckloads of products to customers throughout the western U.S.

On average my company has approximately 1,600 cars (100 tons each) of corn and soybean meal moving to its California operations monthly from sources across the country. Our biggest volumes are in train loads of corn, soybean meal, canola, soy pellets, DDGs and other bulk rail commodities we buy for our own use and sell to outside accounts. These trains come from as far away as Nebraska, Iowa and Minnesota. In some cases we receive products, such as canola, from Canada. Wheat gen-

erally comes from local sources, but can be quoted from Canada and/or cargo ships. The Subcommittee should be aware soybean meal from South America is being offered at the port of Stockton, California. With current crop shortages and higher grain prices, we are beginning to get inquiries as to Foster's ability to take container ships of imported grains into West Coast. To my knowledge, these are offerings only at this time.

Grain Procurement Challenges

Like most commercial feed companies and cooperatives in the U.S., Foster Commodities has grain merchandisers trading in futures markets.

The conventional practice of the industry used to be to buy according to nearby needs, generally using the futures market as the price discovery mechanism. Quotes contrasting futures and cash prices would allow a company to decide on a supplier, give the supplier the futures contract and convert the transaction to a cash sales contract. The markets don't operate that way anymore.

Today a buyer must consider the cost of waiting for/hoping for price drops, a game that can be expensive. We saw corn prices last year on Sept. 14, 2010, at $4.66, only to watch them skyrocket to $7.99 on June 10, 2011. Some decided to buy ahead, but were hit with margin calls, as some experienced during the March market collapse. At that time prices went from a high of $7.34 on March 4, 2011, to a low of $6.08 on March 16, 2011. What I'm illustrating is that while commodity markets have always been volatile, we have never seen the type of volatility we are seeing today.

Often dairy customers want a contract that gives them what we call a "clock," an annual contract for feed generally signed in the fall. However, if hedged sales are used for a customer, there is the risk the customer will default on the agreement if the market price falls. If a hedged ingredient purchase is put on with a farmer, the risk is he or she will be unable or unwilling to deliver against the account. Then there is the risk of increased margin calls. A market position may be perfectly hedged, but find you find yourself in an unsustainable cash flow drain that ultimately causes liquidation and default.

These situations are occurring with greater frequency, creating significant stress on our feed business, and we know we are not alone as this is a national problem faced by the broad feed industry, as well as those integrators attempting to lock in prices for their own ingredient needs.

In the past few years speculators have entered the agricultural commodities markets creating another significant challenge. Feed companies and others seeking to hedge real inventory needs must now compete for commodity purchases against institutional investors who offset our trades and extract their profits. These speculators have no interest in owning the commodity; their goal is to get in front of commercial traders like us by bidding up the price of a contract, taking the profit out of our losses. This environment has created weekly price moves that used to take a year to achieve.

This unregulated speculation is exacerbating the impact of ethanol competition for corn.

AFIA and Market Speculation

AFIA is well aware the House Agriculture Committee has confronted the impact of unregulated speculation on legitimate users of futures markets. We applaud this Committee's leadership in this area, but want to restate for the record the U.S. feed industry's position on pending rulemakings which impact the cost of our ingredients and the profitability of our businesses.

The commercial feed industry, as I've illustrated, is a major user of agriculture-based derivatives markets, including both exchange-traded futures contracts as well as over-the-counter products. AFIA has been an active participant in efforts to convince the CFTC of the need to revisit its position limit regulations, as well as its definitions of speculator activity.

Participation in the agriculture-based derivatives markets allows our member companies not only to hedge their exposure to price fluctuation in these commodities, but also to determine the prices of inputs and goods produced. When input prices, as reflected in futures markets, either (a) become distorted and fail to accurately reflect true supply and demand, or (b) become unduly volatile, the pain is felt not only by AFIA members, but throughout the supply chain to the consumer.

Futures contracts on agriculture commodities were established to provide commercial producers and *bona fide* end-users of critical goods with an efficient mechanism to manage risks and determine fair prices. Our industry is very concerned with the current Commodity Futures Trading Commission (CFTC) proposal to permit speculators in financial contracts, who hold no positions in the core agricultural commod-

ities futures contracts, to hold up to five times a core contract's spot month limit, while also holding up to 25% of the core agricultural commodity futures contract's deliverable supplies.

This CFTC proposal is contrary to the guidance set forth in the Dodd-Frank "Wall Street Reform and Consumer Protection Act" for setting position limits, in that it will *not* accomplish the following:

- Diminish, eliminate or prevent excessive speculation;
- Deter and prevent market manipulation, squeezes and corners;
- Ensure sufficient market liquidity for *bona fide* hedgers, and/or
- Ensure the price discovery function of the underlying market is not disrupted.

Spot market position limits are the most important tool in maintaining the utility and integrity of commodity futures contracts as essential financial instruments for *bona fide* users of agricultural commodities. For *bona fide* end-users, the spot month is an important time for rolling, liquidating or making/taking delivery of contracts. The proposed expansion of spot month limits for speculators in financial contracts would negatively impact the conditional spot month limits by increasing volatility, potentially reducing liquidity, possibly increasing costs and reducing the options available to *bona fide* end-users during these critical spot month periods.

Further, the CFTC offers no data, qualified information or analysis in support of this proposal to significantly increase financial speculative position limits, which could increase the volatility, encourage price manipulation and interfere with the critical price discovery function that *bona fide* end-users depend on. The Commodity Exchange Act (CEA) made this purpose explicit, stating the goal of this law is to serve the "national public interest" in these markets "as a means for managing and assuming price risks, discovering prices, or disseminating price information through trading in liquid, fair and financially secure trading facilities," and included the specific mission "to deter and prevent price manipulation or any other disruptions to market integrity."

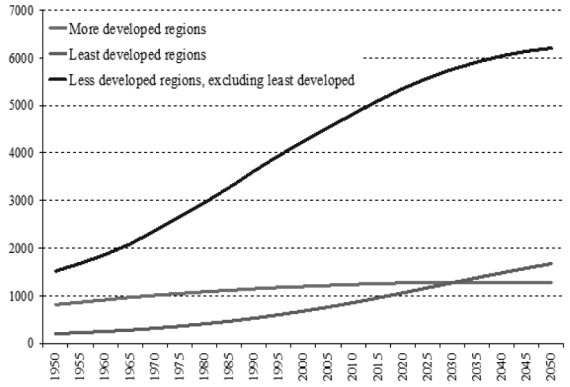
AFIA proposes the CFTC begin with position limit parity between the physically settled contract and the cash-settled "look alike" contract. This would meet the purpose of the CEA and the four objectives set forth in Dodd-Frank for speculative position limits.

Absent this type of adult supervision of speculators, the legitimate hedger will continue to suffer by not being able to analyze market trends and make informed market moves. During the past 3 years we have seen numerous accounts go broke, downsize and or suffer greatly.

Global Food Implications

In 2009, the Food & Agriculture Organization (FAO) of the United Nations, warned that by 2050, the world will need to produce 70% more food than it does today in order to feed an expected 2.3 billion additional people worldwide. This is a 33.3% increase in the world's population. The biggest challenges are more efficient use of scarce natural resources (acreage) and adapting to climate changes.

Population estimates and projections 1950–2050, world regions according to development level (millions).



Source: United Nations 2008

On Aug. 8, 2011, FAO reported world cereal grain production in 2011—even though expanded from 2010—is insufficient to halt the continuing precipitous drop in global stocks. Said FAO, "Among the major cereals, the maize (corn) supply situation is a cause for concern, and is a factor already reflected in high international maize prices . . . 36% higher than in August, 2010." Of all global cereal inventories, only rice stocks are expected to rise significantly, with corn inventories dropping to their lowest levels since 2007.

The U.S. feed industry is highly competitive—with no one company dominating the industry—and it's broadly accepted the only expansion of feed production in the U.S. is predicated upon expansion in livestock and poultry numbers, notably through export market expansion. Simply stated, increased livestock and poultry product exports translates to larger domestic herds and flocks, which translates to greater feed purchases, which translates to a profitable U.S. feed industry.

Given shifting and increasing food demand by developing economies is generally characterized by an increased demand for animal protein, this should bode well for the global livestock and poultry sector, including the feed industry. However, as feed price and availability impacts hit foreign producers of livestock and poultry—arguably less able to withstand such economic pressures over the long term—will there be an affordable U.S. supply to take advantage of these markets?

If cost of production increases in the U.S. lead to expected herd and flock liquidations, the livestock and poultry producer is hit with a double whammy—lost domestic sales AND lost export markets. The feed industry suffers along with its customers.

Conclusion

The current economics of the commercial feed industry and its livestock and poultry producer customers are driven by three primary challenges: The lack of an overall comprehensive Federal energy policy, but a current Federal bioenergy policy that continues to allow the use of food crops for biofuel feedstocks. Exacerbating this competition between feed/food use of corn and biofuel demand, the government maintains archaic land-idling programs Congressionally authorized to enhance conservation of environmentally fragile lands, but which, in reality, take desperately needed arable, environmentally non-sensitive acres out of production, compounding supply challenges during times of low yield, high demand and dwindling end stocks. Further, continued unfettered speculation in futures markets by institutional investors robs futures markets of their purpose of providing true hedgers an ability to minimize price risk on necessary agricultural inventories.

AFIA urges Congress to take bold steps to help the feed industry and its farmer/rancher customers to mitigate these challenges. Actions to be actively and seriously considered include the following:

- Return agricultural commodity markets to operations driven by market demand by reworking Federal energy policy to remove the mandated use of food commodities from the list of eligible feedstocks for Federal assistance in bioenergy development. Absent that, ensure there is a mechanism in place which requires the Secretary of Agriculture to waive the RFS in the event stocks-to-use ratios fall below a prescribed amount or prices hit specified levels;
- Reinvent the CRP and related government acreage-idling programs to ensure such programs do not provide an economic incentive take much-need non-environmentally sensitive arable acres out of production, while allowing idled acres to be planted without an economic penalty to the producer, and
- Hold CFTC to the true intent of the Dodd-Frank Act by defining and enforcing Federal speculative position limits on ag commodities futures markets, including derivatives and over-the-counter products. At the same time, true hedgers should be protected from the price impact of institutional speculators.

These policy decisions must be made in the context of both domestic and global industry economic health. Such actions not only help to preserve independent farming and ranching in the U.S., they will mitigate what's now estimated to be annual consumer food cost inflation of 4–6% for the next several years.

Given the increasing demand across the planet for animal protein, it's only common sense we would act to assist our domestic industries in remaining competitive both at home and abroad by removing from the production equation arbitrary and controllable negative cost-of-production influences.

Thank you for consideration of our views.

The CHAIRMAN. Thank you.

The chair would ask the witnesses to try to keep their testimonies within 5 minutes as we are going to be called to vote here shortly. I want to try to get as much done before we recess.

Mr. Seger.

STATEMENT OF TED SEGER, PRESIDENT, FARBEST FOODS, INC., HUNTINGBURG, IN; ON BEHALF OF NATIONAL TURKEY FEDERATION

Mr. SEGER. Good afternoon, Chairman Rooney, Ranking Member Cardoza and Members of the Subcommittee. I want to thank you for the opportunity to testify today. My name is Ted Seger, and I am President and part owner of Farbest Foods, Incorporated, in Huntingburg, Indiana. I am also past Chairman of the National Turkey Federation.

Farbest is a vertically integrated turkey company that raises more than 9.3 million turkeys from about 150 contract growers, and we employ more than 850 employees. Nationally the turkey industry produces more than 5 billion pounds of ready-to-cook turkey meat from 244 million turkeys annually, with an estimated wholesale value of more than $16 billion.

For the turkey industry this hearing could not have come at a more important time. We have serious, immediate concerns about the availability and cost of feed ingredients caused by the mandated use of corn-based ethanol. Feed accounts for 70 percent of the cost of raising a turkey, and corn is the major ingredient in most turkey feed rations.

I testified before this Committee in 2007 that the corn stocks-to-use ratio for 2007 and 2008 would fall to levels last seen in 1995 and 1996, when weather problems increased corn prices and forced cutbacks in turkey production. Those predictions were accurate, as 2007 and 2008 corn prices reached a record of $8 per bushel, and turkey production dropped 11 percent. Until 1995/1996, 2007 and 2008 was a record crop year, and the massive diversion of corn from food and feed to ethanol was to blame.

When Congress created the Renewable Fuel Standard in 2005, corn traded for about $2 per bushel, and the turkey industry raised around 249 million turkeys that produced 5.5 billion pounds of turkey meat. Corn prices began increasing in late 2006, but favorable overall economic conditions and strong turkey meat prices spurred an expansion of industry production that continued through the end of 2007. For a time the industry was able to use the futures market as a hedge, but by 2008 corn prices were flirting with $8 per bushel. Agriculture economist Tom Elam calculated the RFS already had cost the industry more than $1 billion in additional feed costs.

In 2008, three turkey plants either closed their doors or temporarily suspended operation, and more than 3,000 people in the industry lost their jobs. High export demand driven by the low value of the dollar was the only bright spot during that time of record high grain prices. The turkey industry was forced to cut back production roughly 11 percent between mid-2008 and 2010. Effectively the industry wiped out 3 years of production increases in an 18 month period and reduced production to the lowest levels in more than 20 years.

The current situation remains highly volatile. A tight corn supply and elevated prices are the new normal. Any weather event could put someone out of business.

Our company this year has purchased a large quantity of wheat because we were worried there may not be enough corn. We are actually doing that as we speak today because of the late planting season and the fear of this late harvest. As we speak, in Indiana our harvest is coming in about 10 to 20 percent less than what they had been projecting.

The ethanol policy caused grain and other commodity prices to increase by reducing the supply of grains available for food production. Even including DDGs, that ethanol production added back to U.S. feed supply, the net U.S. feed grains available to non-ethanol producers has declined precipitously since 2007.

Since ethanol production is protected by the RFS, feed and food users have been forced to adjust to lower net grain supplies. Absent alterations in the U.S. biofuels policy, U.S. food production costs will likely continue to increase, and production will decline further. This means job loss in rural America.

Congress should reevaluate the corn-based RFS schedule for 2012 through 2015. A balanced approached would give increased weight to food production cost and food security and less to biofuel production. The VEETC, or blender's credit, is no longer needed to support ethanol and should expire this year. Farbest Foods, the National Turkey Federation strongly support reducing dependence on foreign oil, but hopes to do so through ever-increasing corn yields is short-sighted and does not fix the problem. The turkey industry is seeking ethanol policy reform through the creation of a safety net that ensures corn availability and that prices will be less volatile.

Finally, we have grave concerns about any new Federal investment in infrastructure for ethanol. Moving from one Federal support structure to another only exacerbates financial problems, and after 30 years of Federal support, the ethanol industry should stand on its own.

Fixing the low cornstocks problem is a complex challenge, but Congress must do something to protect livestock and poultry producers from the excessively high corn prices and volatile availability. Requiring an ethanol policy that takes half of the current supply away from food and feed is a good place to start. Corn prices today are 200 percent higher than the average costs from when the mandate was created in 2005. More poultry companies will go bankrupt, more jobs will be lost, and more industry consolidation will occur if high prices persist. When a company goes bankrupt, more than the company and its employees lose; the community churches, the hardware stores, and even the grocery stores all are impacted.

In closing, I would like to thank the Committee for allowing me to testify today on the most important issue to the turkey industry, and I look forward to answering questions as we wrap it up. Thank you.

[The prepared statement of Mr. Seger follows:]

PREPARED STATEMENT OF TED SEGER, PRESIDENT, FARBEST FOODS, INC., HUNTINGBURG, IN; ON BEHALF OF NATIONAL TURKEY FEDERATION

Good afternoon, Chairman Rooney, Ranking Member Cardoza and Members of the Subcommittee, I want to thank you for the opportunity to testify today. My name is Ted Seger and I am President and part owner of Farbest Foods, Inc., located in Huntingburg, Indiana. I am also past Chairman of the National Turkey Federation (NTF) and currently sit on the association's Executive Committee. For nearly 30 years I have served in various capacities at Farbest, from sales manager to President. Farbest, the fourth largest U.S. turkey producer in the United States, is an integrated turkey company involved in grain procurement, feed manufacturing, growing, processing and marketing of turkey meat around the world. Our company raises more than 9.3 million turkeys from about 150 contract growers, which produces 374 million pounds of processed turkey meat in our plant, and we employ more than 850 people.

The National Turkey Federation represents the interests of all segments of the U.S. turkey industry, including producers, processors, breeders, hatchery owners, contract turkey growers and allied companies. The turkey industry raises 244 million turkeys annually, which produces 7.2 billion pounds of live weight per year, with an estimated wholesale value of more than $16 billion annually.

On behalf of the U.S. turkey industry, Mr. Chairman, this hearing could not have come at a more important time as we have real problems, and immediate and legitimate concerns about the availability and cost of feed ingredients due to the mandated use of corn-based ethanol.

I first testified before this Committee in 2007 about this very subject, and unfortunately wish I could report that everything we predicted that day had not come to pass. For example, I mentioned in my testimony that the corn stock ratio for 2007–2008 would fall to levels last seen in 1995–1996 when corn prices reached a record $5 per bushel and turkey production fell by more than ten percent. In 2007–2008, predictions came true, corn prices reached a new record of $8 and turkey production fell by 11 percent. In 1995–1996 the feed price increase was caused by weather, but in 2007–2008, in a record crop year, it was because of the Federal ethanol mandate. It has been clear, from the minute the government chose to subsidize corn as an energy source, livestock and poultry interests have taken a back seat to an ethanol industry. Until recently, was steadily gaining favor with the Federal Government as it promoted American corn-based ethanol as a way to have less reliance on foreign oil. The interesting thing is we are no less dependent on that oil today and we are now jeopardizing our food supply in the process.

It is my hope that these comments can paint a more complete picture since I last testified in 2007 of the impact the Renewable Fuels Standard (RFS) and other renewable fuel programs have had on our poultry production and the livelihoods of thousands of farm families and processing employees involved in turkey production in rural America.

The Role of Corn in the Turkey Industry

Before fully analyzing the effect of the U.S. biofuels policy on the turkey industry, it is important to understand the vital role corn plays in turkey production. Feed accounts for 70 percent of the cost of raising a turkey, and corn is the major ingredient in most turkey feed rations. For the average turkey, it takes about 2.5 pounds of feed to produce 1 pound of turkey live weight. Therefore, increases in the price of corn have a significant impact on the price of raising a turkey. It also is important to understand that a change in the price of one commodity used in feed rations tends to affect the price of other commodities used in a ration. So, when corn prices rise, so does the price of soybean meal, the second-largest ingredient in turkey rations.

Prior to the creation of the original RFS and its expansion, elected leaders from NTF, including myself, warned Congress of the potential severe impact this could have on the turkey industry. In July 2005, Jim Mason of the Virginia Poultry Growers' Cooperative told the House Agriculture Committee during a hearing that creating a RFS would begin tightening the corn supply and forcing feed prices up. By March of 2007, when I testified before the same Committee, corn prices already were more than 20 percent higher than their pre-RFS level. And, early this year Paul Hill of West Liberty Foods told this Committee that corn prices had increased to more than $7 per bushel with record low carry over stocks. Since earlier this year, corn prices have continued to skyrocket, ultimately topping out at $8 per bushel, while corn stock levels plummeted to record lows, below five percent carry over. This spring, farmers planted the second-largest crop since World War II, but high temperatures have significant deteriorated the harvest projections. This troubling

news can be seen in the latest corn report released 2 days ago. USDA cut its corn yield estimates almost 5 bushels per acre from August. Additionally, cutting corn use by 400 million bushels and reporting ending stocks down 42 million bushels from last month.

Impact on the Turkey Industry

Many factors play a role in corn pricing, however the only one that the Federal Government can ultimately control is the one that it put in place back in 2005 and expanded in 2007. While hindering profitability almost from it's inception, the RFS' did not begin crippling the turkey industry until 2008. That year was a perfect example of what happens when you have a tight corn supply based in large part on a Federal mandate. It led to a downsizing of turkey production to a level that is not likely to change significantly for several years—roughly 11 percent.

In 2005, the turkey industry produced 249.6 million turkeys that produced 5.5 billion pounds of ready to eat turkey meat. Favorable economic conditions and strong prices for turkey meat spurred an expansion of industry production that continued through the end of 2007. As earlier stated, corn and feed prices began to rise during this period, but most turkey companies—like all livestock and poultry companies—use the commodity markets and other instruments to lock-in long-term corn supplies and to hedge against market volatility. This insulated most companies from the full impact of feed-price increases, but not all. By 2008, as corn prices flirted briefly with $8 per bushel, Dr. Tom Elam, an agricultural economist, calculated that the industry had paid more than $1 billion in additional feed costs. Regardless of what anyone says, these increased costs cannot be passed along easily and that was reflected in the largest chicken company going bankrupt that year. Also, in 2008, three turkey plants either closed their doors or temporarily suspended operations, and more than 3,000 people involved in the industry had lost their jobs. The industry no longer could sustain production at levels originally planned for the year. Cutbacks began in mid-year and continued throughout 2009. High domestic product demand and export demand, driven by the low value of the dollar, is really the only thing that has helped the industry survive during these record high grain prices

Turkey production cannot be turned off with the flick of a switch or the shutting of a valve. Once a poult—baby turkey—is placed in a growout facility, it takes as long as 20 weeks to bring it to market weight. Factoring the time it takes to incubate the eggs and the lead time necessary to place orders for eggs, it generally takes 6 months or longer for a company to implement a major cutback in production. So while production overall increased by about 2.5 percent from 2007 to 2008, original economic indicators had been for a larger expansion. Meanwhile, 2008 saw consumer purchasing of meat and poultry plummet and significant losses ensued in the turkey business as a result of the higher corn prices. Since then turkey production has declined by 11 percent to about 244 million turkeys raised in 2010. Effectively, the industry wiped out 3 years of production increases in an 18 month period and reduced production to the lowest levels in more than 20 years. Initial forecasts indicate turkey production will remain largely unchanged in 2011. This means the turkey industry will likely not increase production or ultimately be able to create new jobs.

The general economic recession obviously exacerbated the situation. Softening consumer demand depressed prices for the most valuable cuts of turkey (as it did for all other meat proteins), and that made it even more difficult to sustain production during a period of extremely high feed prices. But, just as use of various hedging tools slowed the impact of higher feed costs, those same tools delayed the inevitable of lower demand. Most turkey companies did not enjoy any benefits of lower feed prices until well into 2009. More importantly, since 2005, when the RFS was created, corn prices are 64 percent higher than the average cost from when the mandate was created.

The facts of the impact to turkey production costs are as follows:

(1.) Industry Turkey Live Weight Slaughter for 2010 was approximately 7.2 billion pounds:

At average feed conversion of 2.5 pounds of feed per pound live weight, industry consumption of feed is approximately 18 billion pounds of feed or 9 million tons annually.

Corn is approximately 52 percent of the ration, or 4.68 million tons, which equates to 167 million bushels of corn

- 2010 Average Price of Production: $901.8 million at $5.40/bu
- 2011 Projected Price of Production: $1.085 billion at $6.50/bu

Soybean Meal is approximately 20 percent of the ration, or 1.8 million tons

- 2010 Average Price of Production: $621 million at $345.00/tn
- 2011 Projected Average Price of Production: $666 million at $370.00/tn

The current situation for corn is unlike any other in the history of this commodity. Usually high prices are a result of a poor weather that limits production for just 1 year and the next year production rebounds. However, the current dilemma is that the demand side of the equation for corn is far outstripping the supply side, and the demand side is continuing to grow at a rapid pace. Meanwhile, there is limited opportunity for continued growth in supply and no one knows what Mother Nature might do to the potential crop. The reality for my company and many other turkey companies is that there is no economically feasible substitute for a grain-based diet. Feeding more wheat, barley, sorghum, milo or soybean meal is no advantage because wheat and soybeans trade at energy equivalent values similar to corn. All the commodities eventually find their economic value based on the strongest commodity, which is corn. This has placed a premium on improved feed conversion with companies continuing to try new feed improvements such as the use of enzymes in feed rations to help cut down on waste. But it is unlikely that these relatively new innovations can do enough to offset the corn-based ethanol factor. In fact, just a couple of months ago, our company purchased a large quantity of wheat to replace corn, simply because we were worried that the local supply of corn may not even be enough to sustain us until this year's later than usual harvest.

Ethanol Policy and its Impact on the Food Sector

I would like to discuss further the impact of ethanol on the food sector. How did ethanol policy cause grain and other commodity prices to increase? The policy has reduced the supply of grains available for food production. Including the tonnage of distiller's grains (DDGs) production added back to the U.S. feed supply, net U.S. feedgrain production available to users other than ethanol plants, has declined precipitously since 2007. From the 2007 total U.S. feedgrain crop there was a net of 298 million metric tons (mmt) of grain and DDGS left after ethanol use. From the 2010 crop alone there was only 250 mmt left for all users after ethanol production. The United States is covering a portion of that 48 million tons of loss volume by drawing down the feedgrain stocks from 48 million tons last year to only 21 million on Sept. 1, 2011. That 21 million ton figure is barely enough to keep the grain supply system running, and is the basic reason that corn prices are more than $7 per bushel, and extremely volatile. At these prices it is likely that more poultry companies will struggle with potential plant closures and layoffs are highly possible.

Since the use and production of ethanol enjoys the protection of the RFS, feed and food users have been forced to make the entire adjustment to lower net grain supplies. USDA is forecasting that 2011–2012 U.S. feedgrain and soybean supplies will remain very tight, and prices high and volatile. Absent alterations in the U.S. biofuels policy, U.S. food production costs will likely continue to increase and production is likely to decline further. Once again, this means job loss in rural America. We have actually reached a point where any significant weather issues that would affect the 2011 U.S. grain crops will only dig deeper into the projected poor harvest this fall. The U.S. reserve stocks are depleted with stocks-to-use ratio being in the 3–4 percent range, new record low, which is dangerous, uncharted territory. The United States cannot fall back on reserves this year and projections for next year are just as bad or worse. Meanwhile for 2012, there is another increase in the corn-based ethanol RFS, which can be summed up very easily by saying everything better go right and Mother Nature better not mess with next year's corn harvest or we're in a world of trouble.

Limited acreage expansion capability for corn production together with the expanded RFS has driven net feed supplies and stocks available for uses other than ethanol to critically low levels. In light of the realities of grain supply and demand, Congress should reevaluate the corn-based RFS schedule for 2012 through 2015. A fair and balanced approach for the overall good of the U.S. economy would give increased weight to food production costs and food security, and less weight to biofuel production. The Volumetric Ethanol Excise Tax Credit (VEETC), or blender's credit, is not required to support ethanol production and it should simply go away at the end of the year. It was nice to see that Congress is now moving in the right direction and it would be our hope that Congress finally do away with the VEETC once and for all. It will help with corn prices but is also just good government.

Farbest Foods and the National Turkey Federation strongly support the reduction of dependence on foreign oil. However, we believe the goal of achieving less reliance on foreign sources simply through increased corn yields is short sighted and in reality does not fix the problem alone. If we as a country are truly interested in reducing our dependence on foreign oil, then please tell me why the ethanol industry will

be allowed to export nearly 1.0 billion gallons of ethanol. Why are the U.S. taxpayers subsidizing another country's dependence on oil? What the turkey industry is looking for is reform of the existing ethanol policy by providing a safety net that ensures that corn prices and availability will be less volatile in the future.

Finally, we have grave concerns about any new Federal investment in "infrastructure" for ethanol. It is hard to believe that the Federal Government would entertain such a venture when it is having trouble paying its bills and would put another taxpayer funded program on the books. To move from one Federal support structure to another only goes to exacerbate financial problems and it is time for Federal Government to stop supporting this more than 30 year old industry. With a guaranteed market for their product, it would seem reasonable that the ethanol industry should be profitable enough to begin developing its own infrastructure.

While no one item is a silver bullet to fixing the low corn stocks problem, we must do something to protect livestock and poultry producers from the excessively high corn prices due to the fact that the government has mandated the use of half of the corn supply in the nations fuel supply. Within just the last 3 years, 22% of the broiler chicken industry volume was sold to foreign owned companies because the United States companies went bankrupt. More poultry companies will go bankrupt, more jobs will be lost, and more consolidation will happen if these high prices persist. Once a company goes bankrupt it is not just them that are the losers, so are the community churches, the hardware stores and even the grocery stores all get impacted.

In closing, I would like to thank the Committee for allowing me to testify today on this most important issue to the turkey industry, and I hope that I have been able to enumerate the impact on feed and food prices for you. I look forward to answering any questions.

The CHAIRMAN. Thank you, Mr. Seger.

Mr. Welch.

STATEMENT OF MICHAEL A. WELCH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HARRISON POULTRY, BETHLEHEM, GA; ON BEHALF OF NATIONAL CHICKEN COUNCIL

Mr. WELCH. Good afternoon, Chairman Rooney, Congressman Cardoza and Members of the Subcommittee. Thank you, Chairman Rooney, for the opportunity to participate in this critically important and very timely hearing on the issues of feed availability. Permit me to suggest that a more appropriate title of this hearing would be "Feed Unavailability."

My name is Michael Welch, and I am the President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia. Harrison Poultry is a small, privately held company operating one slaughter plant producing a variety of products. More than 1,000 outstanding, dedicated employees work diligently every day to make Harrison Poultry successful. Also, over 125 family farmers contract to grow broilers, and an additional 40 family farmers contract to produce hatching eggs for the company-owned hatchery.

You have heard the statistics from the witnesses, and I can assure you they are true. Broiler companies have increasingly been squeezed throughout the past corn crop year between rising feed costs and declining prices for chicken products. This cost/price squeeze continues and may get worse before it gets better. A number of companies have already succumbed to the severe cost/price squeeze by ceasing operations or having to sell their assets at fire sale values.

Broiler companies can no longer withstand the storm of high feed costs and low chicken prices. Companies are trimming their production plans, which means family farms who grow broilers will receive fewer chicks to grow market-ready broilers, and processing plant work shifts are being reduced or even eliminated. With less

work time, more and more workers are being laid off. As a result, not only will hundreds or thousands of workers lose their jobs, but more and more contract broiler growers are losing their poultry farming income, which they use to repay mortgages on their grow-out houses. Banks and other lending institutions are moving to foreclose on these farms.

Family farms who have contracted to grow broilers for decades now find it very difficult, if not impossible, to sign on with another company since essentially all companies are in a retrenching mode.

During 2011, it is estimated that over 1 billion gallons of corn-based ethanol will be exported by the United States to a number of foreign companies. This 1 billion gallons is the equivalent of over 350 million bushels of corn. The National Chicken Council questions whether it was the intent of Congress, when it passed the Energy Independence and Security Act of 2007, to annually have 350 million bushels of corn indirectly exported in the form of ethanol. If this is the law intent for the United States to move toward greater energy independence, why is energy being exported?

Picking one market as the winner at the expense of the loser should not be the function of government. Mandating the use of ethanol, subsidizing its cost, and protecting ethanol from competition is triple overkill. Greater energy independence is a worthy goal for the United States, but the negative and unintended consequences of moving too far too fast with corn-based ethanol have become abundantly clear.

I have outlined several problems in my written statement. It is now time for the United States to shift from a policy of abundance in agriculture to a policy of shortage. None of these issues, however, is more paramount than the very unfortunate situation being forced on family farmers who have or will be losing their contracts to grow broilers. Disrupting or ceasing financial flow generated by the contract payments results in not just broiler operations being jeopardized, but in many cases results in the entire family farm being put in jeopardy. I suggest that if you would ask these family farmers if current ethanol policy is good policy, you would not be able to find a supporter of the program.

Equally and critically important are the tremendous number of good people that the chicken industry employs. We have all been hearing that the upcoming national elections are themed all about jobs, job, jobs. If the intent is to create more jobs, why then is our government continuing policies and programs that are causing Americans to lose their jobs?

Thank you, Chairman Rooney, Congressman Cardoza, Members of the Subcommittee, for the opportunity to share thoughts, comments and recommendations of the National Chicken Council.

[The prepared statement of Mr. Welch follows:]

PREPARED STATEMENT OF MICHAEL A. WELCH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, HARRISON POULTRY, BETHLEHEM, GA; ON BEHALF OF NATIONAL CHICKEN COUNCIL

Good afternoon, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee. Thank you, Chairman Rooney, for the opportunity to participate in this critically important and very timely hearing on the issues of feed availability. Permit me to suggest that a more appropriate title of the hearing would be "Feed Unavailability."

On behalf of the National Chicken Council, I appreciate your invitation to provide comments and recommendations regarding the precarious position of feed supplies confronting the chicken industry. Chicken producer/processors will certainly need the Subcommittee's strong support and wisdom if the industry is to successfully overcome the increasingly difficult issues and challenges that I will outline in my statement. As a point of clarification, I will use the word "broiler" and "chicken" interchangeably in my statement.

My name is Michael Welch and I am President and Chief Executive Officer of Harrison Poultry in Bethlehem, Georgia. I have been President of Harrison Poultry since 1992. Harrison Poultry is a small, privately held company operating one slaughter plant producing a variety of products that are carefully and specifically tailored to our end-customer requirements. More than 1,000 dedicated employees work diligently every day to make Harrison Poultry successful. Also, over 125 family farmers contract to grow broilers and an additional 40 family farmers contract to produce hatching eggs for the company-owned hatchery. Each week Harrison Poultry processes more than 6 million pounds of broilers on a liveweight basis. Some of Harrison Poultry growers have been growing broilers since Harrison Poultry became vertically-integrated more than 40 years ago, even though the company contract is considered a flock-to-flock arrangement. Harrison Poultry and other companies in the chicken industry provide good, steady income for family farmers across the United States where broilers are produced.

Harrison Poultry is a proud member of the National Chicken Council; and I, as a former Chairman of the organization, am pleased to present this statement on behalf of the National Chicken Council. More than 95 percent of the young meat chicken (broilers) produced and processed in the United States come from the Council's members.

Mr. Chairman, it is becoming much more difficult to secure an adequate and dependable supply of feed ingredients that can be procured at a cost that is both manageable and predictable. The more than 40 vertically-integrated chicken companies that comprise the broiler industry have financially struggled for the past four calendar quarters. Broiler companies have increasingly been squeezed throughout the past corn crop year between rising feed costs and declining prices for chicken products. A number of companies have succumbed to the severe cost/price squeeze by ceasing operations or having to sell their assets at fire-sale values.

National Chicken Council's Feed Security Priorities

Shortly after USDA reported in October last year that there would be a significant shortfall in the corn crop, the National Chicken Council formed a "Feed Security Task Force". This group of top broiler executives identified actionable policy and program changes to better address the precarious situation for feed. Needed actions identified by the Task Force are as follows:

- Elimination of the Volumetric Ethanol Excise Tax Credit (VEETC) and import duty on ethanol.
- Have a partial or full waiver of the Renewable Fuels Standard (RFS) by filing a legal challenge with the Environmental Protection Agency or have legislation passed to permit individual states to opt-out of the Federal ethanol mandate and/or legislation mandating a stocks-to-use trigger mechanism for the RFS.
- Minimize or prohibit further government subsidies and Federal grants funding the building and expansion of infrastructure that encourages the manufacturing, distribution, and selling of corn-based ethanol.
- Remove without penalty non-environmentally sensitive cropland from USDA's Conservation Reserve Program (CRP).

As you will note, the actions or priorities include efforts impacting the demand and supply for corn. To achieve success for the Task Force's plan it will be necessary to convince USDA, other appropriate Departments of the Administration, and Congress that current policies and programs must now be thoroughly re-evaluated and significantly changed. Continuing to pursue these outdated policies and programs are devastating the poultry, livestock, and other sectors of animal agriculture. The facts evidenced by the situation since 2006 should be enough to convince policy-makers that it is time to change the policies and programs. We are not naive, however. We understand and realize that the facts and hard evidence are not enough to elicit change. Putting additional, artificial demand on corn at a time when there is not an adequate and assured supply of corn is simply the wrong policy, especially when there is no viable relief valve available for the artificial demand. At the same time, new policies and programs are needed that recognize there is not an over-abundance of basic agricultural commodities, but rather there will be an ongoing continued

tight supply of grain and oilseeds, not just in the United States but also globally. Encouraging productive American agriculture to produce to its capacity must be one of the primary threads that weave the new fabric of policies and programs.

***"What's Driving Food Prices In 2011?"* Report**

The National Chicken Council was most pleased to see that a recent, well-done and well-documented study supports our call for change. This issue report, "What's Driving Food Prices in 2011?", was conducted by the Farm Foundation and confirms the National Chicken Council Task Force's thinking and plans.

Permit me to quote from the report, "U.S. agricultural policy has primarily been a 'policy of abundance', designed to reduce supply, restrict land use and increase demand to help increase and stabilize farm incomes. That policy was developed because the United States has generally been blessed with the ability to produce more than could be consumed at profitable prices for producers. A shift to a "policy of shortage" would emphasize programs that stimulate supply and do not subsidize demand with taxpayer funds or political mandates." I ask this Committee to support this well-reasoned conclusion of the report.

Economic Difficulties Confront the Broiler Industry

Broiler companies, since last October when the sudden, unexpectedly run-up in corn and other feed ingredient costs occurred, have tried to weather the storm of very high, very volatile corn prices. Companies, however, can no longer withstand the storm. Companies are trimming their production plans, which means growers will receive fewer chicks to grow to market-ready broilers and processing plant work shifts are being reduced or even eliminated. With less work time, more and more workers are being laid-off. A broiler company in Georgia this summer announced 300 workers will no longer be needed. Also, this summer, a fourth-generation family broiler company in Delaware filed for bankruptcy and in assets has been purchased by a foreign company. Further, another company in Arkansas has consolidated two processing plant operations into one location and similarly has combined two hatcheries into a single facility. This consolidation will result in 223 jobs being eliminated. The company in its announcement indicated that eliminating these jobs will give it a better chance to survive. Earlier in 2011 this same company eliminated about 300 jobs in an attempt to stay in operation. In May this year, a third-generation broiler company with a complex in North Carolina and another complex in Arkansas succumbed to the financial stress of high feed costs. The result in this case is that its complex in North Carolina is now owned by a foreign company and the Arkansas complex is now owned by another broiler company that not only had the borrowing capacity to purchase the assets but the reserves that will undoubtedly be necessary to carry financial loses until the broiler market improves to at least a breakeven position. Ironically, the foreign company that purchased the North Carolina is ceasing operations at the end of this month with apparently no opportunity to allow for alternative ownership. As a result, not only will hundreds of workers lose their jobs, contract growers are in jeopardy of losing their poultry farming income which they use to repay mortgages on their growout houses. Undoubtedly, banks and other lending institutions will move to foreclose on these farms. A third-generation company in Mississippi closed its doors earlier this year as the corn cost/chicken price squeeze became intolerable. Jobs have been and are being lost. Family farms who have contracted to grow broilers for decades now find it very difficult, if not impossible, to sign-on with another company, since essentially all companies are in a re-trenching mode.

I would like to tell this Committee that the above noted situations are the end of the broiler industry's financial problems. I cannot tell you that conclusion because there are a number of other companies on the financial bubble. Banks and other lending institutions are telling these companies, "enough is enough," meaning sell your assets and repay your outstanding debt. What some analysts say about the broiler industry survivors being only "ten companies in 10 years" may become a reality, and perhaps, sooner than in a decade.

Track Record of Increasing Production Is History

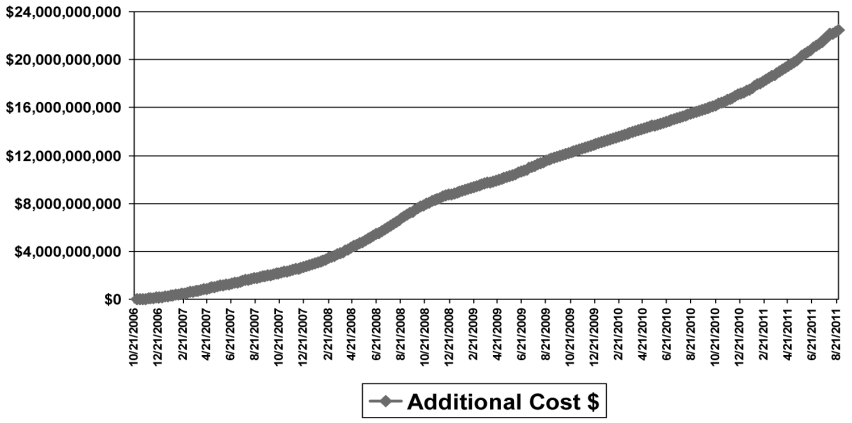
Over the past 5 decades broiler production has only decreased on an annual basis only three times: 2 years in the mid-1970s and again in 2009. With this very steady track-record of ever-increasing production, the industry's growth has offered increased opportunities for growers to expand their operations and build the incomes and net worth of their family farms. That strong track record of growth is in very serious jeopardy because an over-abundance of corn is being diverted to fuel production and thus squeezing-out corn that should be available for feed.

In 2010 almost 50 billion pounds, liveweight, of chickens were produced using more than 55 million tons of feed for broilers and the broiler breeder flocks that pro-

vide the fertile eggs for hatching. Of the 55 million tons of feed, over 36 million tons or about 1.3 billion bushels of corn or corn products were mixed into the finished feed. The average cost of chicken feed before the corn price began to rapidly escalate in mid-October, 2006 was $139.20 per ton. This month (September 2011) the same ton of feed is costing over $325 per ton, a more than doubling of cost since the second Renewable Fuels Standard became mandatory. The vast majority of the run-up in feed costs was the result of corn more than tripling in price since 2006. Last year (2010) the chicken industry's feed bill was almost $13.0 billion compared with total feed costs in 2006 of less than $7.0 billion. On a cumulative basis with the higher feed costs, the chicken industry has had to pay about $$22.5 billion more for feed since October 2006.

Cumulative additional cost to the broiler industry in broiler feed ingredient expense since October 2006:

Total over the last 253 weeks $22,481,473,423



Do DDGs Help?

Some supporters of ethanol point to dried distillers grains with solubles (DDGs) as a feed ingredient that can provide relief from high corn prices. The facts are, however, that the majority of the feed energy has been removed by the ethanol manufacturing process. The co-product (DDGs) is low in energy and high in fiber. It does have reasonable protein value and competes in the feed ration more with soybean meal than with corn. The broiler industry does use some DDGs but it is not a preferred ingredient due to the nature of its composition. Inclusion of DDGs in a broiler feed ration is usually limited to five percent of the total ration.

USDA in its *World Agricultural Supply and Demand Estimate* report does footnote in the corn supply and use data table that the Department's World Agricultural Outlook Board's estimate for corn allocated for ethanol also includes ethanol's by-products. Statistically, such a footnote is correct, but at the same time, provides little, if any, solace to traditional uses of corn who find DDGs prices essentially the same as corn when adjusted for the feed value while adding to the complications of running a feed mill.

Corn-Based Ethanol Exports: Why?

During 2011 it is estimated that over 1 billion gallons of corn-based ethanol will be exported by the United States to a number of foreign countries, including such markets as Brazil, European Union, and other destinations. The 1 billion gallon is the equivalent of over 350 million bushels of corn. The National Chicken Council questions whether it was the intent of Congress when it passed The Energy Independence and Security Act of 2007 to annually have 350 million bushels of corn indirectly exported in the form of ethanol. If this law's intent is for the United States to move toward greater energy independence, why is energy being exported?

Just Cope: We Have Been Here Before

In the 1970s it took more than 2.25 pounds of feed to produce a pound of liveweight chicken. Today the feed conversion is better than 1.9 to 1.0, with many companies having conversion ratios of better than 1.8 to 1.0. Even very efficient feed conversion rates cannot mitigate the high corn prices and the significant impact on

the cost of producing chicken. Based on commodity futures prices that reflect essentially only, at best, a pipeline quantity of corn available as carryover stocks at the end of this current crop year, it appears there will be further escalation in corn prices. Higher feed costs are most likely for the rest of this year and the year beyond. Also, not only will corn prices most likely be higher, the volatility in corn prices will be much greater.

If corn prices increase to double digit dollars per bushel, as a number of agricultural commodity analysts have predicted, and if other companion feed ingredient cost escalate in tandem with corn, the cost to produce chicken will increase more than 25 percent. This higher cost will have to be passed on to consumers at some point so that broiler companies can stop losing money and begin to at least break even.

Certain analysts have suggested that "we have been here before." That is, animal agriculture, including the broiler industry, has weathered high prices for feedgrains/oilseeds in years past and, for the most part, has survived. It is true that there have been high feed costs before now and, at certain times, the quick run-up in prices have come upon the market unexpectedly. In the past, the problem has been a 1 year or so supply problem. But now, however, the situation is not only supply-driven but also demand driven. U.S. animal agriculture has not been here before. Government policy for corn-based ethanol that subsidizes, mandates, and protects it from competition has significantly changed how the demand for corn for ethanol reacts to normal market forces and how it is put to the head of the line when competing for corn. Corn used for ethanol for the 2005/06 crop year was 1.6 billion bushels or 14 percent of total usage. For 2011/12 USDA is estimating 5 billion bushels or a share approaching 40 percent of total corn usage and, for the first time in history, the ethanol usage will exceed that quantity used for feed. The increase in the usage of corn for ethanol over these 6 years has more than tripled.

Also, the international demand for U.S. agricultural commodities must now more seriously and fully take into account the China factor. Chinese Government trade policy is often difficult to predict. Nonetheless, China's rapidly growing need for more agricultural imports seems somewhat evident. Many, if not most agricultural commodity analysts, believe China is poised to become a large net importer of corn on a consistent going forward basis.

An ever increasing demand for corn is being placed on a limited supply of corn, at least for the foreseeable future. Corn stocks will likely in the next few years continue to hover around minimum pipeline requirements. There is no cushion, no extra bushels in inventory to carry the needs of the users of corn through to the next harvest in 2012. To assume that an adequate number of acres will be planted to corn next year and the next few years and to further assume favorable weather conditions for crops next year and for the next few years are not assumptions the U.S. chicken industry is prepared to make, nor should prudent U.S. Government policymakers be willing to make.

Time to Stop Picking Winners and Losers

Since October 2008 when corn prices escalated to record high levels, it has become more and more evident that the national policy regarding corn-based ethanol has been heavily tilted toward using more and more corn for fuel rather than allowing for a level playing field of competition. The need to re-balance the policy is long overdue. Picking one market for corn to be the winner at the expense of losers should not be the function of government. Mandating the use of ethanol, subsidizing its cost, and protecting ethanol from competition is triple over-kill. Greater energy independence is a worthy goal for the United States, but the negative and unintended consequences of moving too far too fast with corn-based ethanol have become overly clear. For the chicken industry, like other animal agriculture producers, fewer pounds of product have been produced and will continue to not be produced in the foreseeable years. Consumers who have sufficient incomes to devote to cover the higher costs of food will reach deeper into their pocketbooks and pay the higher food prices. Consumers in this country and around the world who do not have an adequate income and, therefore, cannot continue to afford animal protein in their diets will have to shift to other foods, and in some cases, no food. With land being a limiting factor in the production of food, it is most likely all foods, not just corn, will be higher in price and tighter in supply, whether of animal origin or not.

New Plan-of-Action Needed

Foremost is the need for a credible, equitable, and workable plan-of-action to adroitly address the significant shortfalls in the back-to-back corn crops and the great likelihood there will be an ongoing tightness in grain and oilseed supplies. Unless there are near-perfect crop conditions next year and the years beyond to plant,

grow, and harvest a record quantity of corn and other feed crops, animal agriculture will continue to experience major disruptions while ethanol producers will continue to outbid non-subsidized buyers of corn.

With the weakened U.S. dollar, overseas buyers of U.S. commodities, like corn, see these commodities as being relatively more affordable than domestic U.S. buyers. Thus, it can reasonably be argued that U.S. animal agriculture is the most vulnerable corn buyer the supply of corn has a shortfall. It is highly unlikely the current shortfall crisis will be a 2 year problem. The essentially non-existent stocks of corn means more and more acres of corn will be required as will higher and higher corn yields for the next few years or more. More acres are needed, not just for corn, but also for soybeans, wheat, cotton, and other crops that compete with corn for acreage.

While there are many critical issues impacting the viability of the chicken industry, I suggest no issue is more critical than having an adequate supply of grain and oilseeds at reasonable costs.

The rules of the game should be re-balanced and the playing field should be leveled to permit chicken producers and other animal agriculture producers to more fairly compete for the limited supplies of corn this year and in the next few years. Included in this effort must be a safety-valve to adjust the Renewable Fuels Standard when there is a shortfall in corn supplies. In addition, a plan should be implemented to allow a reasonable number of good, productive cropland to opt out of the Conservation Reserve Program on a penalty-free basis. These provisions must be acted upon as soon as possible. Congress will very quickly have to make a choice between corn for food or fuel. We are now at the point where, annually, there is not enough corn for both uses.

Conclusion

The National Chicken Council, its members, and the many allied industry companies that support poultry production, processing, and marketing look forward to working more closely with the Committee and others in Congress so that poultry producers have a better opportunity to successfully manage the increasingly difficult challenges and issues. Improving the viability of the poultry industry not only helps poultry companies and poultry farmers but, perhaps, more importantly will allow consumers of poultry products to continue to enjoy an ongoing, adequate supply of animal protein at reasonable prices.

I have outlined several critical problems, but none is more paramount than the very unfortunate situation being forced on the family farms who have or are now losing their contracts to grow broilers. Disrupting or ceasing the financial flow generated by the contract payments results in not just the broiler operations being jeopardized, but in many cases results in the entire family farm being put in jeopardy. I suggest that if you ask these family farmers if current ethanol policy is good policy you would not be able to find a supporter of the program.

Thank you, Chairman Rooney, Congressman Cardoza, and Members of the Subcommittee, for the opportunity to share the thoughts, comments, and recommendations of the National Chicken Council. I request that my statement be entered into the record of the hearing and I look forward to your questions and comments.

The CHAIRMAN. Thank you, Mr. Welch.

Dr. Erba.

STATEMENT OF ERIC ERBA, PH.D., SENIOR VICE PRESIDENT OF ADMINISTRATIVE AFFAIRS, CALIFORNIA DAIRIES, INC., VISALIA, CA

Dr. ERBA. Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee, good afternoon. My name is Dr. Eric Erba, and I hold the position of Senior Vice President of Administrative Affairs for California Dairies, Inc., whom I am representing here today. California Dairies is a full-service milk-processing cooperative owned by approximately 450 producer-members located throughout the State of California. Our producer-members collectively produce almost 42 percent of the California milk supply and about nine percent of the total U.S. milk production.

We appreciate your willingness to convene a hearing to gather information on feed availability, and hopefully leave you with a

sense of the cost of feed, which is a topic which resonates strongly with our producer-members.

The basic theme of the dairy producers since 2009 has been one of survivability, and a huge piece of the equation is cost of production. These costs represent almost 65 percent of the cost of producing milk, and the skyrocketing cost of feed since 2007 have caused many dairy producers to question the very manner in which they operate their dairies.

Let me explain what I mean by that. The hallmark of dairying in California is a western style of dairying in which dairy producers buy a high percentage of the feed in bulk instead of growing the feed on or near their dairies. This model for dairying relies heavily on almost all grains and some of the forages shipped into California from other states, where they can be grown more cheaply than they can in California.

Most California dairy producers do grow a high percentage of corn, but that corn is for silage, not for grain. This model has been in place for decades. It has worked very well until just recently. High-priced land and lack of affordable water in California's agricultural areas represent insurmountable obstacles that prevent dairy producers from becoming even more diversified as crop farmers in addition to being dairy producers.

From our point of view, the problem is not feed availability, it is the price of feed. Application of elementary economic principles suggests that the two are intertwined. As the supply of feed decreases, the price increases. Applied to what we see in the California dairy landscape, that basic principle can be refined to an axiom that suggests that feed has been and continues to be available, but not necessarily at prices which make good financial sense for dairy producers.

There truly has been an issue, however, with the availability of hay no matter what the price. In California we have seen tremendous decreases in the alfalfa acreage in just the last 2 years. Alfalfa hay has been a staple for many dairy rations, representing 10 to 15 percent of the mixed rations fed to dairy cows. We have heard alarming reports that hay fields are being torn out and replaced with higher-value crops such as cotton, tomatoes, and fruit and almond orchards. These crops may be able to provide some marginal value to dairy producers through feed by-products, but they are in no way a substitute for what alfalfa hay means to the dairy industry.

There is no one cause for high feed prices, which affects how much feed is available at prices which will sustain dairy farms. High feed prices may be the result of unfavorable weather patterns, high energy prices, speculation in feed markets, a weak dollar, and high demand for feed from other countries. One very conspicuous disruption to the demand side of feed is the Federal ethanol program. USDA forecasts that soon more corn will be consumed by ethanol plants than by livestock, a spectacular change in historical trends.

We have heard alternative energy proponents suggest that the impact on the ethanol industry and corn prices is minimal. It is economically illogical to suggest that almost half the supply of any commodity can be removed from the market from a relatively new,

large and defined demand source without any impact on price. It just doesn't make any sense. Other studies suggest the impact of Federal ethanol program on corn prices may be increases in the range of 20 percent to 40 percent.

The California Department of Food and Agriculture collects and publishes costs of feed data obtained from California dairy producers. California dairy producers paid an average of $300 per ton for rolled corn and $275 per ton for alfalfa hay in 2011. From 2000 to 2008, those same commodities averaged $125 per ton and $160 per ton respectively, which computes to an increase of 145 percent in the corn price and 70 percent in the price for alfalfa hay.

Dairy producers are critical of the Federal policy that favors fuel over food because of evidence that these policies put animal agriculture at tremendous risk for higher production costs with no guarantee of higher milk prices. In addition, feed markets, particularly the corn market, have become very sensitized to forecasts and reports on plantings, stocks and yields. Markets that are so tightly bound to informational releases have a tendency to overreact, making volatile markets even more difficult to navigate through.

Thank you for inviting me to present this testimony today. I look forward to your questions.

[The prepared statement of Dr. Erba follows:]

PREPARED STATEMENT OF ERIC ERBA, PH.D., SENIOR VICE PRESIDENT OF ADMINISTRATIVE AFFAIRS, CALIFORNIA DAIRIES, INC., VISALIA, CA

Chairman Rooney, Ranking Member Cardoza and Members of the Subcommittee:

Good afternoon. My name is Dr. Eric Erba and I hold the position of Senior Vice President of Administrative Affairs for California Dairies, Inc. ("California Dairies"), whom I am representing here today. California Dairies is a full-service milk processing cooperative owned by approximately 450 producer-members located throughout the State of California. Our producer-members collectively produce almost 42% of the milk supply in California and 9% of the total U.S. milk supply. Our producer-members have also invested over $500 million in large processing plants at six locations in California.

We appreciate your willingness to convene a hearing to gather information on feed availability and hope to leave you with a sense of the feed costs, which is a topic that resonates strongly with our producer-members.

Feed and the California Dairy Industry

The basic theme for dairy producers since 2009 has been one of survivability, and a huge piece of the equation is cost of production. Feed costs represent almost 65% of the cost of producing milk, and the skyrocketing costs of feed since 2007 have caused dairy producers to question the very manner in which they operated their dairies. Let me explain what I mean. The hallmark of dairying in California is a Western style of dairying, in which dairy producers buy a high percentage of feed bulk quantities instead of growing the feed on or near the dairy. This model for dairying relies heavily on almost all of the grains and some of the forages being shipped into California from other states, where they can be grown cheaper than they can in California. Most California dairy producers do grow a high percentage of corn but it is for silage, not grain. This model has been in place for decades and worked very well until relatively recently. High priced land and lack of affordable water in California's agricultural areas represent insurmountable obstacles that prevent California dairy producers from becoming more diversified as crop farmers in addition to being dairy producers.

Feed Availability or Feed Price?

From our point of view, the problem is not feed availability; it is the price of feed. Application of elementary economic principles suggests that the two are intertwined—as the supply of feed decreases, the price increases. Applied to what we see in the California dairy landscape, that basic principle can be refined to an axiom

that suggests that feed has been and continues to be available . . . but not necessarily at prices that always makes good financial sense for dairy producers.

We note that there has been more competition recently for U.S. grown feed from other countries, particularly for the high quality hay that is usually sold to dairy producers. For example, some of the countries have concluded that it makes more sense to buy hay from the U.S. than to use their own resources, particularly water, to grow their own hay, even if those countries must pay a little more for U.S. grown hay.

Let me take the example of alfalfa hay a step further. The specific matter of feed availability is most easily and directly applied to this feed, where there truly has become an issue with the availability of hay, no matter what the price. Part of this is from increased demand for hay from both domestic and international buyers, but a large part of what is affecting the hay availability issue has to do with supply. In California, we have seen a tremendous decrease in the alfalfa acreage in just the last 2 years. Alfalfa hay has been a staple of many dairy rations, representing ten to fifteen percent of the mixed rations. We have heard alarming reports of hay fields being torn out and replaced with higher valued crops, such as cotton, tomatoes, and fruit and almond orchards. California pioneered the use of feed byproducts as ancillary ingredients for dairy rations, but byproducts have a significant downside—they are typically available only intermittently. They may be useful when they are available, but ration consistency is a key for ideal milk production. Simply put, cows like consistency in rations, not variety. So while byproducts may be available from these higher valued crops, they are in no way substitutes for alfalfa hay.

Ethanol and Feed Prices

There is no one cause for high feed prices, which affects how much feed is available at prices that will sustain dairy farms. High feed prices may be the result of unfavorable weather patterns, high energy prices, speculation in feed markets, a weak dollar and high demand for feed from other countries. One very conspicuous disruption on the demand side of feed is the Federal ethanol program. USDA's Crop Production and Supply/Demand Report forecasts that more corn will be "consumed" by ethanol plants than by livestock, a spectacular change in historical trends. Is there an impact on corn price because of the Federal ethanol policies? We have heard alternative energy proponents suggest that the impact of the ethanol industry on corn prices is minimal. It is economically illogical to suggest that almost half of the supply of any commodity can be removed from the market from a relatively new, large and defined demand source without any impact on price. It just doesn't make sense. Other studies suggest that the impact of the Federal ethanol program on corn prices may be increases in the range of 20% to 40%. These results seem to be more consistent with current corn prices and our producer-member experiences. Alternative energy proponents also point out that ethanol production results in a new feed source, dried distillers grain (DDG). That is a hollow argument. DDG is a lower quality feed that lacks the starch that corn contains and making corn such an important ingredient in dairy rations. Also, the conversion rate is horrible—dairy producers give up 3 pounds of corn and get back 1 pound of DDG. Finally, current DDG prices are about the same as for corn, even though DDG must be supplemented by other starch and energy sources to be used effectively as a livestock feed.

The California Department of Food and Agriculture (Department) collects and publishes cost of feed data obtained from California dairy producers. The data reveals that California dairy producers' cost of production is dominated by feed costs, responsible for 65% of the cost of producing milk. Prior to 2008, the cost of feed made up less than 50% of total milk production costs. The recent price increases for rolled corn and alfalfa hay are even more dramatic. California dairy producers paid an average of $300 per ton and $275 per ton for rolled corn and alfalfa hay, respectively, in 2011. From 2000 to 2008, the same commodities averaged $125 per ton and $160 per ton, respectively, which computes to an increase of 145% in the corn price and an increase of 60% in the price for alfalfa hay.

Alternative Feed Rations

With the prevailing high prices in the corn and hay markets, there may be some question as to why producers do not attempt to seek alternative feed rations that are far less dependent on corn and hay as the foundational ingredients. The reality is that nutritionists have tried repeatedly to find alternative rations with very limited success. Bear in mind that prices for almost all feeds have increased simultaneously, the so-called "sympathetic" price increases that are evident across all feedstuffs when the price of one major commodity increases suddenly. This effect limits the ability of dairy producers to substitute away from higher priced feeds. Notably, commodities like whole cottonseed, soybeans and wheat have been nearly

priced out of consideration by many dairy producers who must purchase feeds for their dairy cow rations. Even substituting more lower-priced roughage for concentrates may have the unwanted consequence of lowering milk output and altering milk component levels. In other words, there may be no change in dairy farm profitability if the feed substitutes that appear to be less expensive result in decreased milk production or decreased milk components or both.

Concluding Remarks

Dairy producers are critical of the Federal policy that favors fuel over food because of the evidence that policies put animal agriculture at tremendous risk for higher production costs with no guarantee of higher prices for product produced. In addition, feed markets, particularly the corn market, have become very sensitized to forecasts and reports on plantings, stocks, and yields. Markets that are so tightly bound to informational releases have a tendency to overreact, making volatile markets even more difficult to navigate through. In combination with already high feed prices, a new challenge has been presented for dairy producers—developing some proficiency with hedging and forward contracting in feed markets that are characterized by extreme price volatility. Needless to say, inexperience and lack of knowledge when making decisions in these kinds of markets are principal ingredients for disastrous results. But there is no avoiding the issue, and dairy producers will need to develop the skills necessary to navigate through unpredictable feed markets. No producer can count on corn or any other feed price returning to more stable and predictable levels anytime soon.

Thank you for inviting me to present this testimony to you today, and I look forward to your questions.

The CHAIRMAN. Thank you, Dr. Erba.

Mr. Spronk.

STATEMENT OF RANDY SPRONK, PORK PRODUCER AND MANAGING PARTNER, SPRONK BROTHERS III LLP AND RANGER FARMS LLP; VICE PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, EDGERTON, MN

Mr. SPRONK. Good afternoon, Chairman Rooney, Ranking Member Cardoza, and Members of the Subcommittee. I am Randy Spronk, a pork producer from Edgerton, Minnesota, where I own and operate with my brother and son the same farm I grew up on. In addition to my family, my farm also employs about 20 workers, and we finish about 125,000 head of pigs a year, farm about 2,000 acres of corn and soybeans, and our pigs are sent to markets in Minnesota and South Dakota.

As Vice President of the National Pork Producers Council, I appreciate the opportunity to testify on behalf of the NPPC and America's 67,000 pork producers.

I would like to talk about some of the struggles producers like me are having with the current feed grain situation, and the impact tight supplies and high prices have on the ability to feed our animals and satisfy the world's demand for pork products.

Pork is by far the favored protein of consumers around the globe. As long as we have sufficient supply of feed grains, the U.S. pork industry will continue to be the lowest-cost producers of pork in the world, continue to meet global demand, and continue to help generate nearly $35 billion of U.S. gross national product, and to support the more than 550,000 mostly rural American jobs. However, in the past year a combination of bad weather and bad policy has created a situation today where we are questioning whether there will be an adequate supply of feed.

For a hog farmer like me, feed comprises approximately 60 to 70 percent of the cost of raising a hog, primarily fed a mixture of corn and soybean meal. Some producers like me also have begun to in-

clude in feed rations dried distillers grain with solubles, DDGs, a by-product of ethanol production. But be aware, DDGs is not without issues. On my farm we routinely have problems handling DDGs. They don't flow from trailers and feed bins as easily as corn and soybeans, causing feed outage issues. In addition, because of their impact on meat quality, we have to be careful about the level of DDGs we include in our rations.

Today the pork industry, like all livestock groups, stand at the edge of a frightening precipice. We face a feed supply situation worse than the one we have been warning Congress and the Administration about the last several years. After a year in which we have been hit with historic record low year-end stocks of corn, just 17 days' worth, we are now looking at an even smaller supply next year. Following the cold, wet spring, the droughts in the South and Southeast, the record heat this summer, projections for this fall corn crop are not good.

On Monday, the USDA dropped its corn yield estimate to 148.1 bushels an acre, down from 153. And with a prediction of an early frost in some parts of the Corn Belt—in particular on my farm it is supposed to reach down to 29° tonight—that number could go lower.

The other time we faced a grain shortage of this magnitude was back in 1996. Back then my mill simply did not have enough grain on hand, and we couldn't source it locally to feed out the pigs. I was forced to hire two semi trucks and send them on a 540 mile round trip to Blunt, South Dakota, to secure that grain.

Thankfully it appears that most producers heeded early warnings and secured a supply of corn to get them through this year's harvest. For next year, however, there simply may not be enough corn to go around in the livestock industry, and pork producers such as me and my family will suffer.

It is a real possibility that next year's corn will need to be rationed, and NPPC believes that the rationing ought to be applied equally to all corn users, including the ethanol industry.

Please be aware I am not here to attack the ethanol industry. In fact, the U.S. pork industry always has been a strong supporter of the ethanol production as a way to reduce our dependence on foreign oil. But the ethanol industry is using more and more of the nation's corn supply. This year it is expected to overtake the livestock and poultry producers as the largest user of corn, but its growth has been driven almost entirely by the Renewable Fuel Standard mandate, which—and this is the most important point that I am going to make here today—makes no provision for rationing or a short corn crop.

The U.S. livestock and poultry industries will bear almost 100 percent of the risk of a short corn crop. We cannot easily switch our production on and off. We can't simply not feed animals. Ethically and morally I must care for my livestock.

America's pork producers are asking Congress to consider all policy options in order to address the looming feed grain supply challenges. In particular, we encourage you to, first of all, require the ethanol industry to bear some of the same risk from the corn market supply and price shocks that pork producers and others do; second, adopt measures to assist livestock and poultry producers who

suffer losses because of corn rationing. Even with policy changes designed to deal with the inflexibility in ethanol's demand for corn, *i.e.,* the mandate, other corn users still bear a disproportionate share of the supply risk that is associated with weather and other factors; and last, adopt policies that would fairly and smoothly transition the U.S. ethanol industry to full reliance on the private market for its supply signals and away from signals provided by the government through the Renewable Fuel Standard and the subsidies.

Thank you again very much for allowing me to testify. I would be happy to answer any of your questions.

[The prepared statement of Mr. Spronk follows:]

PREPARED STATEMENT OF RANDY SPRONK, PORK PRODUCER AND MANAGING PARTNER, SPRONK BROTHERS III LLP AND RANGER FARMS LLP; VICE PRESIDENT, NATIONAL PORK PRODUCERS COUNCIL, EDGERTON, MN

Introduction

The National Pork Producers Council (NPPC) is an association of 43 state pork producer organizations and serves in Washington, D.C., as the voice for the nation's pork producers. The U.S. pork industry represents a significant value-added activity in the agriculture economy and the overall U.S. economy. Nationwide, more than 67,000 pork producers marketed more than 110 million hogs in 2010, and those animals provided total gross receipts of $15 billion. Overall, an estimated $21 billion of personal income and $34.5 billion of gross national product are supported by the U.S. pork industry. Economists Dan Otto and John Lawrence at Iowa State University estimate that the U.S. pork industry is directly responsible for the creation of 34,720 full-time equivalent pork industry jobs and generates 127,492 jobs in the rest of agriculture. It is responsible for 110,665 jobs in the manufacturing sector, mostly in the packing industry, and 65,224 jobs in professional services such as veterinarians, real estate agents and bankers. All told, the U.S. pork industry helps generate more than 550,000 mostly rural jobs in the United States.

Exports of pork continue to grow. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for 17 of the past 19 years. In 2010, the United States exported more than $4.8 billion of pork, which added $56 to the price that producers received for each hog marketed. (That amount represents about ⅓ of the total price producers receive for each hog.) Net exports last year represented about 20 percent of pork production. The U.S. pork industry today provides 21 billion pounds of safe, wholesome and nutritious meat protein to consumers worldwide, making it the No. 1 exporter of pork.

The demand for meat protein is on the rise in much of the world. Global competitiveness is a function of production economics, regulations, labor costs and productivity. The U.S. pork industry can continue to be a leader in food production and meet the needs of increased consumer demands as long as exports continue to grow, producers are allowed to operate without undue legislative and regulatory burdens and feed grains are available. It is that last point that is of concern to producers now.

Feed Grains Situation

Feed comprises 60–70 percent of the cost of raising a hog to market weight (about 260–280 pounds). Primarily, hogs are fed corn and soybean meal—each market pig consumes approximately 10.5 bushels of corn and 4 bushels of soybeans in the form of meal. Some producers include dried distillers grains with solubles (DDGS, a by-product of ethanol production) in rations. In certain areas of the country—generally outside the Corn Belt—hog rations may include other grains such as wheat, milo or barley. But corn is used in hog production in nearly every state that has production.

An adequate corn supply is critically important to the U.S. pork industry. So the current feed grains situation has pork producers understandably very nervous.

It now appears that the 2011 U.S. corn crop could be smaller than the U.S. Department of Agriculture's initial projection of 12.914 billion bushels. Preliminary certified acreage data released by USDA's Farm Service Agency (FSA) suggests that planted acres fell short of USDA's National Agricultural Statistics Service (NASS) estimate of 92.282 million acres. Summer weather conditions have dropped USDA's

U.S. average corn yield to 148.1 bushels per acre, according to the agency's Sept. 12 grain report, from its initial forecast of 153 bushels. The new project would be the lowest yield since the 2005–2006 crop year. Chris Hurt, an agriculture economist at Purdue University, estimates an average yield of just 147 bushels an acre; Pro Farmer analysts estimate the yield at 147.9 bushels. (Estimates from other sources range from 146.3 to 151 bushels; USDA will release new production forecasts Oct. 12.) The final FSA acreage data, along with any additional information from the monthly NASS surveys, will be incorporated in the October production forecast. History suggests that the October yield forecast will be reasonably close to the final estimate.

USDA's initial forecast of 41.4 bushels an acre for the U.S. average yield for soybeans was relatively small. Additionally, August weather was not favorable for soybean crop development, and FSA acreage data suggests that planted acres may have been less than the 74.958 million estimated by NASS. Recent prices suggest that the market is expecting a smaller crop than the current USDA forecast of 3.085 billion bushels.

[USDA's yield forecasts are based in part on crop conditions. For the week ending Sept. 4, the agency downgraded the conditions for corn and soybeans. It reported 52 percent of the corn crop in good or excellent condition compared with 69 percent a year ago at the same time; it rated 21 percent of the crop in poor or very poor condition compared with 11 percent at this time last year. For soybeans, USDA reported 56 percent of the crop in good or excellent condition compared with 64 percent a year ago and 16 percent of the crop in poor or very poor condition compared with 12 percent a year ago.]

The 2011–2012 corn numbers are coming after a 2010–2011 marketing year that, while the third largest harvest on record, saw year-end stocks of just 17 days. That's a historic low. The last time the carryover was that small—fall 1996—corn was so scarce in Iowa—the No. 1 corn-producing state—it had to be shipped in from Texas, and other areas suffered similar shortages.

If the 2011–2012 grains forecasts prove true, corn and soybean consumption will need to be reduced. Indeed, USDA is projecting supplies for 2011–2012 to be their lowest since 2006–2007. Based on the most recent USDA projections and the assumption that year-ending stocks should be maintained at or above five percent of consumption, corn use would need to be reduced by about 30 million bushels, or 0.2 percent, during the 2011–2012 marketing year. Soybean consumption would need to be reduced by 122 million bushels, or 3.7 percent. The actual reductions will depend on the final consumption estimates for the 2010–2011 marketing year, the 2010–2011 crop inventories on Sept. 1 and the size of the 2011 harvest.

Some of the reductions in corn and soybean consumption during the 2011–2012 marketing year may occur as a result of weaker demand, which may be prompted by a generally weak economy and continued high unemployment that likely would weaken demand for meat and poultry products; by the current abundance of competitively priced wheat that could be substituted for corn and soybean meal in livestock feed rations; by lower energy prices that would weaken demand for biofuels; and by larger South American crops in response to the current high grain prices.

But, depending on the size of the 2011 harvest and on the crop inventories at the beginning of the 2011–2012 marketing year, weaker demand may not be enough to ration supplies. Grain prices may need to go even higher. The market clearly is expecting a substantial reduction in the forecast for the 2011–2012 marketing year corn supplies. Corn futures traded at the Chicago Mercantile Exchange (CME) already have climbed to the highest levels in more than 3 years. Futures indicate prices will remain above $7 a bushel through at least the middle of next year. Recently, traders held more than 4,500 call options in CME Group's corn market at strike prices—the price at which the option can be bought—of $11 and $12 a bushel. The number of such positions was up 15 percent from a month earlier, an indication of growing concern that this year's harvest will fall short of projections.

Last fall, $10 corn call options traded for the first time, with large firms such as JPMorgan Chase & Co. and MF Global Holdings Ltd. among the buyers of those calls, and analyst Kevin Van Trump, of Farm Direction, in Kansas City, Mo., says $9 or $10 corn could happen.

If corn goes to $10 a bushel or higher, there could be an unprecedented contraction in the pork industry, with many producers forced to liquidate herds as losses grow. Corn at $10 "will put a lot of sows in packing plants," University of Missouri agriculture economist Ron Plain told one publication. In fact, producers have reduced the breeding herd by more than six percent over the past 2 years—although higher productivity has mitigated the impact of that reduction on pork output.

The pork industry has seen the effects of tight grain supplies before, most recently just a few years ago. Despite (at the time) a record harvest in 2007, increasing de-

mand saw prices for corn begin a rapid ascent, increasing from about $3.50 a bushel in mid-2007 to a peak of nearly $7.90 a bushel in mid-2008. While corn prices moderated over the next year and a half, falling back to around $3.50 a bushel, they began rising again as oil prices rose. The result was soaring costs of production. Total industry losses from October 2007 through January 2010 were more than $6 billion, and the average farrow-to-finish operations lost nearly $23 for each animal marketed. More than 6,300 pork operations went out of business. This financial disaster occurred despite near-record hog prices in 2008 and hog prices in 2009 high enough to have provided profits at the average production-cost levels that prevailed from 1999 to 2006.

Certainly, since early 2010 producers have been profitable, with hog prices recently at nearly historic highs. But a major reason for those higher prices is lower production relative to just 3 years ago, the result of producers' responses to sharply higher costs of production. Costs for typical farrow-to-finish producers will average about $87 per hundred pounds carcass weight for 2011 based on corn and soybean meal futures on Aug. 31. That is 27 percent higher than last year and 66 percent higher than the average for 1999–2006. These costs are now being passed along to consumers in the form of higher retail pork prices, which set six record monthly highs during 2010 and are almost certain to set new highs this year. Indeed, USDA in its April 25 food inflation forecast projected that retail meat prices will rise six to seven percent this year, the largest jump since 2004. Further, because of the continued high feed grain prices and weak economy, hog prices have started to moderate. Pork producers now are projected for next year to see production costs above hog prices, with average losses of around $10 a head.

While other factors are pushing up meat prices, including increased global demand for protein—as developing countries switch from grain-based diets—and higher transportation costs because of higher fuel prices, production costs are the main driver—and, as stated above, 60–70 percent of those costs are feed grains. And grain prices, like almost all commodities, are set by supply and demand.

U.S. Biofuels Policy's Role In High Corn Demand

While a number of factors combined to affect the profitability and competitiveness of the pork industry from October 2007 through January 2010, including the overall worldwide financial crisis, the relative value of the U.S. dollar and the emergence of the H1N1 flu and its associated trade impacts, the effects of drastic changes in grain markets that are in large measure driven by the increase in demand for corn from the ethanol industry have had the most significant impact on the pork industry.

Following passage in the fall of 2007 of the Energy Independence and Security Act (EISA), which included a Renewable Fuels Standard (RFS2) that quickly accelerated the mandated production of corn ethanol, pork producers struggled to adjust to rapidly escalating prices and increased volatility in grain markets, which resulted in a reduction in hog production. An effort to include a safety valve that would have adjusted the RFS2 in the event of a short-term crop shortage failed in the Senate as the EISA was being debated. Recently, debate over renewable fuels and their government-supported mandates and subsidies has intensified, with efforts to eliminate tax subsidies gaining significant support. In 2010, as the Volumetric Ethanol Excise Tax Credit (VEETC) was expiring, the ethanol and corn industries fought for a 5 year extension of the subsidy. Congress approved a 1 year extension, which expires Dec. 31, 2011. At the same time, the ethanol industry has sought to allow blends of up to 15 percent ethanol in motor vehicle fuels and subsidies to finance construction of ethanol pipelines, storage and other infrastructure.

USDA estimates that corn use for ethanol production increased following passage of the EISA from 1.603 billion bushels during the 2005–2006 marketing year to 5.05 billion bushels during the 2010–2011 marketing year. It is expected to absorb 5.15 billion bushels in the 2011–2012 marketing year. Ethanol use accounted for approximately 14 percent of total corn use in 2005–2006, was more than 37 percent in 2010–2011 and is expected to grow to about 39 percent in the current marketing year. Over the same period, use of corn for feed fell from about 55 percent to about 37 percent and exports dropped from almost 19 percent to about 13 percent.

Those bushels of corn going to ethanol production could be put to better use. Economist John Lawrence of Iowa State University has calculated that a 100 million gallon ethanol plant creates about 80 jobs. But the same number of bushels needed to create that much ethanol support 800 pork industry jobs.

Furthermore, if ethanol is supposed to be the answer, or at least an answer, to how the United States reduces its dependence on foreign oil—ethanol displaces about 4.6 percent of "pure" gasoline—why did the ethanol industry *export* nearly 400 million gallons last year, a four-fold increase over 2009? And with tight world sugar

supplies (other countries use sugar cane to produce ethanol), many analysts expect demand for the U.S. ethanol exports to strengthen.

The passage of EISA and the associated increase in the RFS-driven demand for corn are reflected in the breakout of the costs to produce hogs, with corn prices at levels about $10 per carcass hundredweight higher than historical averages would have suggested. This increase occurred despite a significant increase in the use of DDGS by the pork industry.

The higher corn cost premium is directly attributable to the ethanol demand for corn, the price of which now is largely a function of the price of petroleum, which is set by the demand for gasoline and diesel. A very strong case can be made that, as a result of the RFS and the ethanol blender's tax credit (VEETC), higher corn yields will have less of an effect on corn prices and instead will lead to greater ethanol production. Starting shortly after the advent of the modern RFS program in the middle part of this decade, the price of corn has closely tracked its energy value. As long as the market expects an expansion of ethanol production, there will be a symbiotic relationship between ethanol and the price of corn. And as long as the ethanol industry is receiving strong signals from the Federal Government that growth in the industry will be sustained, higher corn yields are not going to provide the level of relief in the form of lower prices to feed-grain users such as pork producers. Larger corn crops from increasing yields will instead lead to greater flows into ethanol plants.

So U.S. pork producers are understandably concerned about the impact on their industry of the increased use of corn for ethanol production. The U.S. pork industry strongly believes the country needs a vigorous renewable energy sector, but it cannot come at the expense of the U.S. livestock and poultry industries. Reducing the use of imported oil—becoming energy independent—and focusing on renewable fuels are laudable, but markets must be neither distorted by subsidies and taxes nor compelled—or constrained—by mandates to the point where they cannot send effective price signals.

Where mandates and subsidies are allowed to exist, it is unconscionable that long-established laws would be ignored to drive greater ethanol production. But this is the path the Obama Administration has taken in response to demands to allow an increase to 15 percent (E15) from the current ten percent in the amount of ethanol that can be blended into gasoline. Despite the clear language in the Clean Air Act that fuel additives be safe in—that is, not harm—all vehicles, the U.S. Environmental Protection Agency approved E15 for 2001 and newer model year vehicles. NPPC and other stakeholders filed suit against EPA over its decision. Pork producers obey the rule of law, and they expect the U.S. Government to do the same.

Additionally, it is NPPC's contention that the United States must invest in research and development for *other* energy alternatives, such as using animal manure and fat and biomass, including switchgrass and corn stover. The U.S. pork industry wants to emphasize that the right balance is needed to meet the needs of fuel *and* feed security.

Dried Distillers Grains with Solubles (DDGS)

It was noted above that pork producers are including more DDGS in their feed rations. But that product does little to allay the concerns of pork producers about the future cost and availability of feed grains and, consequently, the well-being of animals and the cost of pork to U.S. consumers.

The ethanol industry has claimed that feed problems created by its use of a substantial portion of the nation's corn supply are irrelevant because of the production of DDGS.

But there are several issues with feeding DDGS to pigs. They are inconsistent from ethanol plant to ethanol plant and even within a plant. There is variability in their nutrient content—protein, fat, phosphorus. If the fermentation or drying process for DDGS is changed or varies from batch to batch, it can have an impact on the digestibility of nutrients. Additionally, corn can contain mycotoxins that are, in some instances, detrimental to pig performance. The presence of mycotoxins varies by growing season, location and environmental factors. Since the ethanol production process removes the starch (⅔ of the volume) from corn, DDGS produced from mycotoxin-contaminated corn will have three times the level of mycotoxin that was present in the corn itself. Depending on the percentage of DDGS fed and which toxins are present, pigs can experience multiple problems, including immune challenges, abortion and feed refusal. This is a severe limit on the widespread use of DDGS in gestation and lactation diets.

As pigs are fed increasing levels of DDGS, the corn oil present (also at three times the concentration as in corn grain) can increase the iodine value, leading to soft fat, of the carcass. This can result in belly slicing problems and possible rancidity or

shelf-life issues. A higher percentage of DDGS in the diet also can have a negative effect on carcass weights, most likely because of the increased fiber content of the DDGS.

DDGS are far more useful in diets for beef and dairy cattle than they are for pork and poultry. This affects pork producers in two ways, both of them bad. First, DDGS will not be a cost-effective substitute for corn because beef and dairy producers will pay more for DDGS, preventing the products' use in swine diets. This already is happening. Second, the cost of producing beef and dairy products using DDGS will be lower relative to pork, providing a market advantage to those two sources of protein.

There also are handling issues with DDGS—humidity tends to make it clump, making it stick in railcars and feed bins—concerns over increased phosphorous levels in finishing hogs fed DDGS and issues with "pelleting" DDGS at feed mills. Additionally, the amount of DDGS returned to livestock producers as feed has been overestimated by USDA.

Finally, it should be noted that the ethanol industry is exporting DDGS. In 2010, it exported 9 million metric tons, a 60 percent increase over the amount exported in 2009 and double what was exported in 2008.

Tight Grain Supplies + Ethanol Corn Demand + Weather = Disaster

Any difficulties with the 2011–2012 U.S. corn and soybean crops could be disastrous for U.S. pork producers. Ethical care of animals *requires* producers to feed their hogs even when feed prices are high. But if there are feed shortages, livestock producers cannot simply turn a light switch to stop production and cannot stop feeding their animals. Taking animals to market before they reach market weight really isn't an option. Such an action likely would severely depress livestock prices, hurting producers' bottom line, and would make it harder to rebuild the U.S. swine herd. Producers will do all in their power to secure feed to care for their animals.

Producers may or may not adjust to higher feed-grain prices, but there's not much they can do about a lack of available feed supplies. While NPPC has faith in the American farmers' ability to produce feed grains sufficient to meet demand, it is concerned about factors beyond their control, particularly the weather.

The last real drought in the major corn-growing states happened in 1988, 23 years ago. Texas is experiencing the worst drought in its history—81 percent of the state has the worst drought classification—and there have been reports of widespread crop failures in the state because of it. Oklahoma, Kansas and parts of the Southeast also have drought conditions that are affecting crops. Of course, too much rain also can cause problems. Flooding along the Mississippi and Missouri rivers earlier this year inundated millions of acres of cropland. Should the Corn Belt suffer a weather event that reduces the harvest, there *will* be regional shortages of feed.

Some weather experts are forecasting an earlier-than-usual frost for some parts of the corn growing regions, including the Eastern Corn Belt, something farmers don't need after being hampered by a cold, wet spring and extreme heat over the summer. In a Sept. 1 report, Jack Scoville, an analyst with Price Futures Group in Chicago, said: "Corn losses are certain this year from the hot and dry weather seen in July and the poor spring weather that hurt planting."

Corn Yields and Weather

The advent of hybrid corn varieties has revolutionized corn production in the United States and has supported the profitable growth in feed grain-using sectors such as the pork industry. Yield increases have been strong and give many indications that they will continue, and some of the yield growth appears to be directly attributable to greater drought tolerance or resilience. But the empirical evidence is mixed on this matter, and it may be just as plausible that the sustained growth in yields since the mid-1990s has as much to do with favorable growing conditions as it does with corn genetics. University of Illinois agriculture economists Darrel Good and Scott Irwin in a recent analysis said that a significant portion of the sustained growth in yields may be because of better-than-average growing conditions or because there simply has been too little variability in weather since the 1990s to effectively test the hypothesis that the newer corn genetics have created effectively greater drought and bad weather tolerance.

Looking at the long record of corn data, it is clear that yields and total production could be highly vulnerable to severe and widespread drought. In fact, yield decreases from recent trends would not even need to be as large as they were in 1988 to cause major disruptions for the livestock and poultry industries. A yield decrease of only ten percent would be very disruptive not only to those industries but to export markets and other corn consumers—other than the ethanol industry. And, as estimated by Irwin and Good, a poor weather scenario, with a 1-in-10 chance of oc-

currence, would result in a yield reduction of about 14 percent, with corn use by livestock dropping more than 16 percent and corn prices rising in excess of $6.44 a bushel, possibly higher than $7 per bushel.

Other Factors to Consider

Another factor that could affect U.S. feed-grain supplies is a major corn purchase by another country. According to the U.S. Grains Council, China's corn reserves are 10 million to 12 million metric tons lower than previously estimated, and it is expected to import an additional 2 million to 3 million metric tons before the end of the current crop year. Such a major purchase would make tight U.S. supplies even tighter.

Changes in the cost structure of the U.S. pork industry and other factors have affected pork producers' ability to adapt to shocks to the feed grain supply. Modern confinement buildings, which have enabled so much progress in achieving economies of scale and in using inputs and energy more efficiently, have added greatly to the pork sector's fixed costs even while allowing producers to reduce their variable costs. It is now far more difficult for a pork producer to temporarily cut back on production given the need to continue to make payments on those fixed assets. Furthermore, production systems do not allow producers to shift animals quickly out of production. So while poultry producers may be able to adjust their supply in a matter of a few months in response to sustained higher corn prices and beef producers can move cattle to relatively more forages and pasture, pork producers have a more or less fixed supply of pigs for 9 months, unless pregnant sows are slaughtered or baby pigs are euthanized. But, as noted above, the ethical and humane treatment of animals requires that producers maintain care even if producers are losing money, and the result is huge equity losses in pork operations that could lead to widespread bankruptcies and major disruptions in pork supply and prices.

In addition to the challenges of higher input costs, the dramatic increase in price risk and market volatility have made historic risk management tools less effective and more expensive. Changing grain demands and higher transportation costs have increased basis levels and basis risk. When using hedges to offset actual grain price risk, producers are facing significant margin calls as prices have moved far beyond their historic normal ranges. These margin calls have, in turn, added to short-term credit issues with lenders. In addition, the capital needed simply to fund the increased cost of producing a pig has increased by more than 50 percent, resulting in significantly greater working capital requirements.

[As an aside, under the Dodd-Frank Wall Street and Consumer Protection Act, livestock and poultry producers using hedges to lock in feed grain prices could be regulated as swap dealers. This will only make it more difficult for producers to manage their risks. Another risk-management tool currently used by producers also is in jeopardy. USDA has proposed a regulation that could limit livestock and poultry marketing contracts, which allow producers to lock in prices for their animals. The GIPSA rule, if approved as proposed, would devastate the livestock and poultry industries.]

The increased need for capital comes at a time when there exists a serious credit crunch in the United States. The government's response has been to provide funding for the nation's largest banks, most of which have little or no presence in agriculture. Most of the banks that were provided Federal Troubled Asset Relief Program (TARP) funds and that are lenders to the swine industry appear to be interested in reducing their exposure in agriculture and in middle-market credits (which comprise the majority of livestock businesses).

In a business environment where input price risk is dramatically increased for the foreseeable future and where U.S. lenders have a significantly smaller appetite for production agriculture and middle-market credits, the amount of capital available to the U.S. pork industry will be less and will only be obtained at a higher cost. Some producers have been unable to finance and sustain their operations, with the result being many otherwise profitable and highly performing producers exiting the business. For those producers who have been able to maintain the necessary levels of equity to stay in business, this will dampen their ability to invest in the next generation of genetics, technology and other improvements necessary to maintain the U.S. pork industry's world leadership position.

U.S. agriculture has provided significant benefits to this country and the world. It is often noted that because of the productivity of the U.S. farmer and food system, Americans pay on average less than ten percent of their personal income on food. Hidden in this average is the fact that the working poor, the lowest 20 percent in personal income, pay more than 30 percent of their annual incomes for food. The food price increases that already have occurred are falling disproportionately on them. As lower-income people adjust their diets to reduce meat consumption, less

healthy substitutes such as low-cost starches and carbohydrates likely will fill the place previously occupied by meat on the dinner plate, raising the specter of reduced health and increased health care costs.

Conclusion

The U.S. pork industry is the lowest-cost producer and No. 1 exporter of pork in the world, and U.S. pork producers continue to produce the most abundant, safest, most nutritious pork in the world. They have proved very resilient, most recently weathering financial crises in 1998–1999 and 2007–2009 as well as the vagaries of a free market economy, all while investing in and adopting new technologies that have promoted animal health, protected the environment and added thousands of jobs and billions in national income to the American economy.

But the rapid development of the corn-based ethanol industry—prompted mostly by Federal subsidies and policy mandates—coupled with weather issues and economic conditions, have created challenges for pork producers. The potential long-term impacts have threatened the U.S. pork industry's competitiveness and the survivability of producers. The markets have rationalized demand for corn over time, but the potential for short-term dramatic price swings, as well as localized feed shortages, is jeopardizing the industry's competitiveness and reliability as a domestic food supplier and as an exporter.

Should the U.S. pork industry—and the beef and poultry industries as well—need to contract more than it has over the past few years, not only will consumers around the globe be affected through higher retail prices, but corn growers no doubt also would feel the effects of the corresponding drop in feed demand.

NPPC has asked USDA to address potential feed-grain shortages, requesting that non-environmentally sensitive farm acres enrolled in the Conservation Reserve Program be released early and without penalty so that they may be planted to crops. Additionally, it asked the agency to consider allowing farmers to plant crops after they have received "prevented-planting" insurance payments. It also has requested that a contingency plan be developed should corn demand exceed supply. USDA has yet to take action to address the potential feed-grain crisis.

NPPC asks that Congress consider all policy options to help address and mitigate some of the unintended consequences of the transition to greater reliance on domestic renewable energy sources, including:

- Requiring the ethanol industry to bear some of the same risks that pork producers and other corn users bear from market supply and price shocks. It is bad public policy to force users of corn except the ethanol industry to bear almost 100 percent of the rationing that must occur if there is a short corn crop. Policies are needed that require the ethanol industry to share directly in this supply risk beyond simply the increase in prices paid for the raw material. With government mandates in the form of the RFS, the increase in ethanol feedstock costs can be passed on to consumers, but that is not possible for the U.S. pork industry.

  [Such a policy would be for dealing with relatively extreme market conditions, where corn is in relatively short supply and price increases are substantial if not at near-historic levels. The policy would simply lead to a greater sharing of the rationing in corn use among all users. Returns to corn producers with a crop to market in these circumstances would remain very substantial.]
- Providing relief to U.S. livestock and poultry producers for losses suffered because of high grain prices that were prompted by severe weather conditions or other natural disasters. Even with policy changes designed to reduce the inflexibility in ethanol's demand for corn, pork producers and other corn users still will bear a disproportionate share of the corn supply risks associated with weather and other forces. Pork producers and consumers (especially lower-income consumers) are also bearing a disproportionate share of the societal costs of helping to transition to less reliance on imported fossil fuels.
- Adopting mechanisms that would fairly and smoothly transition the ethanol industry to full reliance on the private marketplace for its supply signals and away from the signals provided by the public sector through the RFS, the VEETC and the ethanol import tariff. While such public-sector mechanisms may have been essential during its initial phases in the late 1970s, the ethanol industry now is a mature industry.

The CHAIRMAN. Thank you, Mr. Spronk.

The chair would like to remind Members that they will be recognized for questioning in order of seniority for Members who were

here at the start of hearing. After that, Members will be recognized in order of their arrival. I appreciate Members' understanding. In the interest of time, I will reserve my questions until other Members of the Subcommittee have had a chance to ask theirs.

I now recognize Mr. Cardoza.

Mr. CARDOZA. Thank you, Mr. Chairman.

Mr. Greene, with the huge increases in the costs of corn in just the last year, how do companies plan to survive these cost increases, and can the cost of chicken and turkey go up enough to cover the costs?

Mr. GREENE. Thank you.

It is going to be very difficult for many companies to survive this next year with these higher grain prices. I imagine the smaller under-capitalized companies won't survive, they won't be able to. We already see negative equity coming out of dairies, we see negative equity in the poultry industry with many of the poultry companies, and we see a tight lending environment. So those things all appear to be coming together in a way that makes it very difficult for many producers to survive.

I think, in addition, as far as increased costs, the poultry industry has been producing chicken on average at 5¢ to 15¢ per pound below cost this past year. So if you were to put that into—if you were to just gain that, you were almost looking at a 15 percent increase in poultry prices coming forward this next year, and that would be to just bring it back to even, not to moving it forward. So our expectation would be that significant food inflation is on its way.

Mr. CARDOZA. Dr. Erba, in your testimony you discussed western-style dairying and its inherent vulnerability to feed scarcities and, therefore, fluctuating prices. Do you think it is even possible that California dairymen could or should consider other business models? And is it practical or economical to ask them to do so?

Dr. ERBA. I think it is very unlikely. I think the model that has been built has been established decades ago. That change may come. It will not come easily, it will not come quickly. I think with the availability of land, high-priced land, the availability of water, these are issues that are just simply insurmountable. If anything, we will see a contraction of the California dairy industry.

Mr. CARDOZA. Yes. When we already have 20 percent unemployment in those regions, you reduce the poultry and dairy production in those areas, unemployment will be even higher.

Mr. Chairman, I am going to yield back my time in recognition of the fact that we do have votes coming up.

The CHAIRMAN. Thank you, Mr. Cardoza.

Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

A couple of you mentioned DDGs, what percent of DDGs can be used in feed rationing for the different groups that are represented here, livestock and poultry? Is there a mix when you are looking at that of how much DDGs you can use?

Mr. SEGER. Well, just speaking for the turkey industry and our operation——

Mr. NEUGEBAUER. Push your button there, please.

Mr. SEGER. I am sorry, I thought I did.

For the turkey industry it is fairly low, as we are using around five percent right now. So that is all that is available to us nutritionally.

Mr. NEUGEBAUER. Just as a follow-up, I want to go—what would the ration be for corn? What percentage of your ration would be corn?

Mr. SEGER. Corn?

Mr. NEUGEBAUER. Yes.

Mr. SEGER. Corn is 50 percent of the ration.

Mr. NEUGEBAUER. So——

Mr. SEGER. Soybean meal is 20 percent.

Mr. NEUGEBAUER. So when you don't have corn, the DDGs don't really provide much of a substitute——

Mr. SEGER. For the turkeys it does not create any type of significant opportunity for us.

Mr. NEUGEBAUER. Dr. Meyer.

Dr. MEYER. For beef cattle, DDGs are by far better feed for beef cattle than any other species. The content of low-quality protein and a lot of soluble fiber is very easily used by ruminants, so it fits in the feedlot applications, it fits into cow/calf operations. Probably the beef industry is the industry that can use them best.

There has been one thing about it is a lot of the cattle aren't where the DDGs are, though, so you have substantial transportation costs in many cases on that.

There has been some growth of beef feedlot business back into Iowa and southern Minnesota, and that is probably going to continue to grow some. It is not by any means going to displace the southern Plains as the beef cattle-feeding area, but probably this product fits the beef industry better than any others.

Mr. NEUGEBAUER. So in the pricing structure of the DDGs, are they priced appropriately as a substitute when you are looking at the future ration?

Dr. MEYER. Yes, the price of DDGs over the long run is based off the price of corn. There is some fluctuation. It runs on an equal volume basis between 8/10 and 9/10 of the price of corn. At one time when DDGs were in less supply, in the wintertime, we would price DDGs out of the diets of other species because they are such good cattle feed. Basically cow/calf operations and feedlots would drive up the price of DDGs relative to corn and price them away from everyone else. That hasn't happened the last 3 years, and I don't think it will happen because we have plenty of DDGs available, and they will priced relative to the value of corn.

Did you want to——

Mr. GREENE. I would make a comment because I bring in large trainloads of DDGs at times in the California market for the dairy industry and for the poultry industry. And it is a good feed for the dairymen, and they use quite a bit of it.

For the poultry industry we can use a small amount. But we don't really see that as a replacement for corn so much as a replacement for soybean meal. It is not a high-energy product. All the energy has been pulled out that you would get out of the corn, which is typically what you are buying that for. It is really more of a protein. You can only put it in at a small levels, but you can

use it. If it is priced right, it will move. For the dairymen, they do like that product.

Mr. NEUGEBAUER. Who is our pork guy?

Mr. SPRONK. For the swine industry actually the limiting factor has actually been from the packer side of it. I have sold to three different packers in the Upper Midwest, and they are actually limiting the amount of DDGs that I can put in my rations due to harmful characteristics that happen with the meat quality. So we are going to be limited to 20 percent, and so from then on we would need to use corn. So it is from a quality standpoint that we have been limited.

Mr. NEUGEBAUER. Dr. Erba, did you want to——

Dr. ERBA. Yes. I wanted to follow up on Mr. Greene's comment on using DDGs as a dairy—dairy rations. It can be used sparingly, but it has to be supplemented on both the starches which are removed, which are very important for the quality of milk, and also be supplemented for energy. So it is a substitute, but I consider it to be a lower-quality substitute that corn itself.

Mr. NEUGEBAUER. I want to talk about availability. In Texas, we have had a huge drought, and we have folks thinning their herds, and their feed supply is diminished substantially. We are going into the wintertime. What are you hearing about hay availability? I am not hearing good things about hay availability. And the price, it seems to—people are trying to decide whether to hold gold or hay right now, and some people are saying hay may be a better investment.

Dr. MEYER. It is not as easily stored.

Mr. NEUGEBAUER. Good answer.

Dr. MEYER. Yes. Hay availability is going to be an issue. I grew up in Oklahoma and have relatives that live there and lots of friends in Texas. One friend told me last week, he said, "Well, we have already used this winter's hay supply to get them through the summer." That is probably a little bit of an overstatement, but not much.

And so we are going to see haystocks get very tight through the end of the year. You have already seen hay prices go up dramatically during the summer months. That is one of those weather-induced kind of things that I fear is going to happen—the same kind of thing could happen to corn if we get a short crop at some point, given this usage base that we have built and the fact that a user of—the largest user of that corn doesn't really have any flexibility.

Mr. NEUGEBAUER. Thank you.

The CHAIRMAN. Thank you, Mr. Neugebauer.

The gentleman from California, Mr. Costa, who is also not a Member of this Subcommittee, has joined us today. I have consulted with Ranking Member Cardoza, and, without objection, we are pleased to welcome him and to join in the questioning of witnesses when his turn comes around. Welcome.

Now we will proceed to Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

You know, I represent Georgia, and in my state is the leading poultry-producing region in the whole world, not to just mention the United States. The poultry industry is by far the largest contributor to Georgia's agriculture economy, and agriculture is the

biggest part of our state's economy. So anything that affects the health of the poultry industry is very dear to me and certainly needs to be examined very closely, and especially the issue of the feed prices and the competition with corn and ethanol.

So I am pleased, very pleased, to see and have with us Mr. Michael Welch, who is the CEO and President of the Harrison Poultry Company from Bethlehem, Georgia. I certainly want to welcome him, and certainly appreciate having his perspectives on the poultry industry and this particular issue and its impact on Georgia and throughout our nation.

And with that, Mr. Chairman, I also would like to seek unanimous consent to enter into the record an article that we have here from the *Atlanta Journal-Constitution* of last week, which is entitled, *Higher Corn Prices Pluck Georgia's Poultry Farmers.* I would like that entered into the record.

The CHAIRMAN. Without objection, so ordered.

Mr. SCOTT. Thank you very much, Mr. Chairman.

[The document referred to is located on p. 67.]

Mr. SCOTT. Mr. Chairman, I was contacted back in February by Mr. Mike Giles, who heads up the Georgia Poultry Federation. And also, Mr. Welch, Mr. Giles asked me to say hello to you as well. I let him know you were here. But back in February, Mr. Giles told my staff and I that the University of Georgia's economist predicted that Georgia's poultry farmers will pay an extra $454 million above and beyond their normal costs in 2011 alone just for corn due to the price increase between 2009 and early 2011. And unfortunately, as we all know, the price of corn has risen even more since then.

So, Mr. Welch, I would like to start with you. Can you tell the Committee how much extra money you have had to spend this year for fuel, for feed, and what changes, if any, have you had to make to your operation in order to free up that extra cash?

Mr. WELCH. Representative Scott, thank you for the question. At our company I guess we haven't calculated it, but it would be easy to calculate. If we use approximately 7 million bushels of corn a year, and we are a small company, multiply that times whatever you call the price increase of corn, whether it was—as stated earlier by one of the witnesses, a few years ago it was $2, and now it is almost $8, or if it was last year's price in the $4. And so take any dollar number you want and multiply it times seven million and that becomes the increased cost to us, and that is just on the corn side.

So if you pick a number of 3 million—$3 or $4 a bushel increase, you would have $20 million to $30 million that it has just affected us as a small company.

Industry-wide it has been studied and said that, since 2006, it has raised the price of the entire industry $22 billion or something like that. And so it is a significant number, and that is just the corn alone.

Any grain affects the price of any other grain, and so the soybean used in our production, all of the energy we purchase to run all of our trucks to deliver the feed, and pick up the chickens, and haul the product to the dressed markets are all critically impacted by this as well.

Mr. SCOTT. Let me ask you, it would be very helpful for us to know, at what corn price would it have to be for you to consider simply closing up your business?

Mr. WELCH. Well, the price is there now if the exact same circumstances happen over for an elongated period of time. One of the colleagues here said earlier, I think it was Mr. Greene, that maybe 15 percent. We think that poultry prices are going to raise 20 to 25 percent to get to a level of break-even or slight profitability, which that in and of itself, besides if the industry is able to right itself, provides a tremendous tax on the consumer, the user of product. It is a latent tax based primarily on the government policy.

Mr. SCOTT. I would like to see if we could get a price on that, what that price would be before firms like yours and others would just simply have to close the door.

Let me ask you, Dr. Meyer, you are an economist on that. You have heard what Mr. Welch has said. In your own opinion, what corn price would it be, do you think, that would make a profit-obtaining poultry operation unattainable? When do you predict we might get to that point?

Dr. MEYER. Well, I am not terribly familiar with the specific economics of the chicken operation. I can tell you this, that the corn price is already unprofitable given the price situation and the price situation in the poultry business, and it has been since last fall. This industry has been making major cutbacks in egg sets and chick placements since the early summer months to try to reduce supplies and push prices up.

You know, one thing we always need to remember is these are commodity businesses. We don't get to go out and tell people what the price is going to be. We have to adjust our supply in order to get prices there, and you have seen reductions in all of these species. You are going to see major reductions in the beef industry over the next year and a half in order to push prices higher to cover costs of production. In the case of chickens, they are already below break-even, so I could argue that the corn price is already too high for them. In the case of pork, we have had some profits this year, but this corn price, where it is right now in my models, has losses projected for the next year.

The beef cattle industry is a little more flexible than that because we can feed roughages. You have sectors of the beef industry that don't use very much grain, those that are very grass based, but the feedlot industry has seen their average cost of production go up 20 percent in the last 2 years, and so that has to be covered. And I can tell you that some of those cattle are coming out at losses now as well.

So it all—it changes not weekly, but very frequently, but there are some of these businesses already seeing corn prices that are too high to be sustainable.

Mr. SEGER. Congressman Scott, if I could weigh in on the answer to that question, I think a good testament to that is what has happened in the broiler industry just in the last 3 years where three major companies have filed bankruptcy, and 22 percent of the equity of the broiler industry is now foreign owned because of that. So the answer to the question is we are already there for a certain sector.

Mr. SCOTT. Thank you very much. Very good information. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Scott.

Mr. Gibson.

Mr. GIBSON. Thanks, Mr. Chairman, and to our panelists.

I will keep this very brief. I want to associate myself with the remarks of the panelists and would just urge that we take action consequent to what we are hearing and certainly what we are all hearing back home among our farmers. I look forward to—hope this is a bipartisan effort to do so and yield back.

The CHAIRMAN. Thank you, Mr. Gibson.

Mr. Boswell.

Mr. BOSWELL. Well, thank you, Mr. Chairman, and thank you for holding this hearing. It comes at a unique place for me. I am on both sides of the issue. I am a livestock producer and over the years have raised a lot of corn, and I was still in uniform when we had the first fuel crisis. Some of you have heard that story and witness what people just like us in this room do when they can't get fuel, and I realized back in those days, that was the early 1970s, that we were in kind of a bondage to OPEC. I have tried pretty hard to be part of trying to get out of that and think of things we can renew and grow out of the ground and turn into fuel and so on. I have been involved in that for a number of years.

I think we are going to have a vote here in a little bit. I will try to get to the point here. I don't feel personally that I have tried to be on both sides of it. We have a livestock operation and raised a lot of corn. When I was drafted and went off to the Army, my dad was getting basically $2 corn. Some of you remember that. Guess what it was when I came back? Still $2 corn.

I don't know, how many years did we subsidize corn so that folks in the commodity side of it on food packaging made a profit? Quite a long time. That information is there, too. I still think it is somewhere around—the percentage of the cost of food ingredient that goes to the farmers is like 19 percent or less. And so I have listened to producers, and I have been part of it, complaining about not having any parts of the value-added side of it for years, years, years. Then, along came the prospect of renewable fuels and a chance to do that, ethanol, and here was a chance to do it, and science has not gone as far as it can possibly go.

Then we learned what to do with the distilled grain. We find out that it is good feed. Yes, it costs to transport it, but maybe some of those transportation costs or some of those livestock operations would come to where the grain is, help something, or where the ethanol plant is.

So, we have to think carefully what we are thinking about doing here. I have a long memory about what happened when I watched what people were doing when they couldn't get fuel for their car or their delivery truck, good people, and it is a serious situation. We don't want to go there. So we ought to have this dialogue.

I don't think that ethanol is causing the problem. I haven't seen how it is yet. You know, 12.5 billion bushels of corn this year, that is probably the third—some said, I think you said, the third largest in our history. I am not so sure it is the problem, and I would like

to hear from you, if I could, what data leads you to claim that the high prices are directly tied to ethanol consumption and not market speculation. I would like to hear any of you speak to me about that if you would, please.

Mr. GREENE. Well, I guess I would say that I think it is tied to both market speculation and to ethanol, and you can draw that conclusion when you look and you say, as you did, that the price of corn was $2, $1.80 to $2.50, for this period of time, maybe 20 years or so. Yields improved during that period of time, but that seemed to be the stable price.

We introduced the ethanol program in 2006, and we took that $2 to $2.50 corn, and we now have a corn market that last year, a year ago was $4. We are now at a $6 to $7 market, and as I stated in my testimony, if you do the numbers, the math on that, that is effectively a $60 billion cost to the public for this upcoming year. So when we think about that $6 billion subsidy, the real cost is $60 billion more, and I do that by taking this $5 spread, $2 to $7, taking that $5 times the 13 billion bushels, and I get to a number like that.

Because we haven't controlled the speculative interests as well as we should have, and that money, much of it, leaves this country, I think the speculator has jumped on to the ethanol program now that we have made corn part of the energy process, and he is in there playing. So since ethanol is mandated, what we have done is we have actually made—we have made a product within the corn sector that is willing to pay and will pay any price for corn. It is not constrained because the mandate says you must use it. So it doesn't matter if the price of corn is $5, $10, $20 a bushel, you still have to use corn for ethanol. You don't have to use it for feeding livestock.

So what we are seeing, if you look at the latest USDA report, the latest USDA report shows that ethanol moves ahead of feeding livestock. The reductions the USDA made in this week's report were reductions in livestock feeding, reductions in exports, and only very slight reduction in ethanol. So what we have done because of the mandate is we have created a situation where one component of the corn demand sector has a demand, and a growing demand, mandated by the government and insensitive or not sensitive to any prices whatsoever.

Mr. SEGER. And I think, if I could add to that——

Mr. BOSWELL. Just a moment. My time is about up, and I know the Chairman is going to—it is already up. I am sorry.

Well, if I could close, Mr. Chairman, if I could, just this comment. I respect your being here and presenting to us, and we need to have this dialogue, but I am not convinced that there are facts before us that ethanol is the cause of this. I think there are many, many other factors, and this process, Mr. Chairman, will probably bring that out and will give us a chance to decide what we need to do. And I thank you for the time and yield back.

The CHAIRMAN. Mr. Boswell—Mr. Seger, were you answering, were you going to address——

Mr. SEGER. Yes, just as another aside to his question on how do we know that it is a real market as opposed to speculation. I can tell you from a local basis level on what procurement people pay

for corn, for example, this year in our area where normally the local basis might be 40¢ under a December board price, this year we are 10¢ under and really can't buy the local corn. So that tells me that the local corn just isn't there. Irregardless of what Chicago is bidding up on a board price, locally it is just not there in any type of quantity that it used to be.

Dr. MEYER. Mr. Chairman, may I respond to Congressman Boswell?

The CHAIRMAN. Please do.

Dr. MEYER. Thank you.

Congressman Boswell, I guess I would refer you first to *Figure 1* in my written testimony. If you look at that, the usage of corn for feed and residual is lower than it has been—is lower now than it was 5, 10 years ago. If you look, non-ethanol food and industrial usage is roughly the same. Exports goes up and down, but generally on a level playing field as well.

The only one of the four major uses of corn that has gone up is ethanol, and it has gone up eightfold, and 75 percent of that in the last 5 years. At the same time, the corn crop has gone up, but not nearly by the amount of these usages.

Now, given all the others are the same, we have more corn to work with, and ethanol is the one that has gone up by a factor of eight, who is driving the market? I mean, I don't think there is any question that it is ethanol.

Now, does speculation play a part of it? It certainly did in 2008 and 2009, but speculators like the market to go up and down, and if we look at the market this year, it has just gone up and stayed up. It is not a speculator's playground other than day trading, which is always going on.

And so I would happen to agree. I think we need to put tighter limits on speculative positions. Hedging against inflation, you should be having—if you are going to be counted as a hedger and thus be exempt from limitation, position limits, you should be hedging against the commodity in question, not against some general inflation or moving the economy.

But still I don't think there is any question that ethanol has been the driver here, and the real question is what happens when we don't have enough corn, and are we going to allow and require ethanol to participate in the rationing? That is my biggest fear is that one of these years we are not going to have it, and you remember 1983 and 1988 in Iowa, it was pretty ugly. If we hit one of those, given our policy at the present time, it is going to be a very, very bad situation.

The CHAIRMAN. Thank you.

Just for information, we have been called for a vote. We are going to try to not go into recess. I am going to try to be substituted by Mr. King. I know Mr. Ribble and Mr. Costa are awaiting questioning, so I am going to yield to Mr. Ribble for his questions, and hopefully Mr. King returns in time so we don't have to go into recess and come back.

Mr. Ribble.

Mr. RIBBLE. Thank you, Mr. Chairman, I will be very brief.

My question is specifically for Dr. Erba. Welcome. I am from Wisconsin, where we have happy cows. My question specifically, so we

can get right to it, what changes would you suggest to our current ethanol policy with respect to the food *versus* fuel debate, and do you believe that we need to look more broadly even at the Renewable Fuel Standard as well?

Dr. ERBA. I think so. I think these gentlemen who have joined me today have outlined some very good programs which would mirror what we would suggest in the dairy industry, and that is a good, hard look at the ethanol policy in the U.S., the RFS, all of us have mentioned in one form or another, as being a driver behind it. Even if you address the tax credits and the tariffs, you still have the RFS, which drives everything. If you don't address that, you may not really solve anything at all. So, it has to start there. There may be more comprehensive programs as well, but I think that is the low-hanging fruit that is before us right now.

Mr. RIBBLE. Okay. Thank you very much.

We have been called for votes. Mr. Chairman, I will go ahead and yield back the remainder of my time.

The CHAIRMAN. Thank you, Mr. Ribble.

I will go ahead and ask a question to try to give Mr. King enough time to get back here. It has been touched on a bit, but I think that it is important for me to ask this on behalf of my constituents, that I think it is important for all of us to consider that this is not a problem that is felt uniformly across the country or by all livestock producers in the same way. Florida, like Mr. Cardoza's California, and New England, is a feed-deficit region. My constituents feel a particular vulnerability during our current feed availability conditions. Mr. Greene and/or Dr. Erba, can you please shed some light on the additional challenges that folks in our part of the nation have to wrestle with today?

Mr. GREENE. Thank you. I will be glad to.

In these feed deficit areas, it becomes difficult to manage the supply chain when our supply chain is not hours or even a day or 2. We have to manage a supply chain that deals with rail logistics, which often can be challenging; weather, as far as weather getting in the wintertime in particular. So that supply chain for us runs approximately 10 days, can run 8–12, and to manage around that we have to spend capital for increased storage infrastructure. We rely upon other people to store. We bring in trainloads of 100 rail cars at a time to help manage that supply. So it is much more capital-intensive when you bring in 100 rail cars instead of 25 or 5, as many other people do, so it is very much a challenge.

When we get into a period of time like we have this year, I would say, the feed companies in California have done a great job in making sure that the customers were able to have a pretty reliable supply chain, but I would tell you behind the scenes, we put grain in storage in the Midwest. We have never done that before. We put grain in storage in other terminals throughout California, which we typically do not do during the summer months. We brought in and used wheat at a level that we have never used before. We have—and even with all those actions, we have multiple facilities, we found it necessary for both corn and soybeans to truck between facilities to make sure that the supplies are where they need it when they need it. So it has been very much of a challenge, and I expect

with short crops and short supply chains, those challenges will do nothing but increase over time.

The CHAIRMAN. Thank you, Mr. Greene.

Mr. King. This is what happens when you have a rookie Chairman, but we are doing our best. Mr. King, thank you.

Mr. KING [presiding.] Thank you, Mr. Chairman. I ran back from voting here, and I do appreciate the testimony from all the witnesses, and I had a brain full of things when I ran over there. Now I will see if I can recover some of that now.

I just want to reflect that, as I listen to the testimony, I am hearing from different perspectives, whether it be from hogs or cattle or dairy or turkeys, and I happen to live in the middle of a lot of this, as you all know. And I know I was asked up here am I for feed or fuel, and I said both. And I happen to represent the district that is number one in pork, that is number one in eggs, it is number one in renewable energy of all kinds, and I have lived through the farm crisis when your land values were dropping so fast, you couldn't sell it fast enough to get rid of it. I watched as people's hope and opportunity dimmed and the sparkle that was in their eyes, and I watched it destroy some people's lives along the way. We have recovered from that. We have come back.

The ideas on ethanol took place in the 1970s, the foundation from it, really building the network, followed through in the 1980s during the farm crisis years. One of the things that I have seen in the cycle, when things are bad, when things are hard, you start to generate new ideas to try to solve that situation. Ethanol was one of those. So when I hear kind of a broadside against ethanol from each of you, from each of your perspectives, I wonder if you have actually stepped back and looked at this.

And I would make this point, that the real question that is before us is not specifically how does it—how does ethanol affect feed prices for poultry or hogs or cattle, any of the other feed sources that might be out there, but we are really dealing with an equation here that is the global equation of energy and food. What is the cost of that production, what are the market forces that move that, and what are the subsidies and government incentives that adjust those market forces which turn out to be more or less supply depending on how the producers and the consumers react to that? That is the equation.

So I don't want to posture myself as I am in here looking at it through a particular lens, and I don't think any of you have proposed it in that way, but I would just take you back to something, I am just here kind of doodling and dusting off a memory, and that would be in the year 2009, we produced 13.1 billion bushels of corn, and of that we exported 2.5 billion bushels. That is more than we had ever exported before. We converted 3.1 billion bushels into ethanol, and of that you have to add half of that back in as feed value, and so we ended up with 9.1 billion bushels of corn available for domestic consumption in that year, from the crop year 2009.

And so I thought, okay, what then would be the corn available for domestic consumption in the years prior to that in the decade, which would be clearly representative, and that number comes up to be 7.5 billion bushels would be the average available for domestic consumption.

So we saw more domestic consumption, more bushels of corn available to the tune of 1.6 billion more bushels available than the average of the previous years in that 2009 year.

I know I picked the best year we have had for corn, but we have still seen high market prices, we have—and I am watching as each industry goes through its own pains. I recall some numbers that we saw that showed that food prices went up 4.6 percent, and that was pointed to as food *versus* fuel, that ethanol had brought that about, but energy prices in the same period went up over 18 percent. And so about 24 percent of the gallons of fuel that go through the nozzle into a gas-burning car in America of the domestic—of a domestic source are ethanol.

So that tells you a little bit about some of this bigger equation that we have. And I understand that—one of the gentlemen mentioned that we exported 350 million bushels of corn through the course of the 1 million gallons of ethanol that we exported. That was the gentleman from Georgia Mr. Welch. And so are you also concerned about the corn that we export from our domestic market, Mr. Welch? Because that competes also with your feed supply.

Mr. WELCH. Yes, United States, you are very correct, exports corn also. The U.S. exports a lot of chicken, and as one of the Secretary of Agricultures used to say, chicken is merely condensed corn. And so the question becomes is it exporting food, is it exporting fuel? What are the ramifications thereof?

The interesting—just on Labor Day weekend, in *The Wall Street Journal,* the Chairman of Nestlé had come up with an article that was written about, and the title was *Can the World Still Feed Itself?* And the thing it said that people do not understand between the food market and energy market, there is a close link. That link is the calorie. And so if you take calories in whatever form to feed people or to fuel our cars or the balance in between, your mathematics are correct as to the crop has increased.

I would disagree somewhat with the dried distillers grains is going back as a feed. The others commented, I know, in the chicken industry DDGs don't work very well and for a variety of reasons. Some of it is the logistics, the moving the material and so on. Others is just the nutritional value.

The nutritional value, when the computer least-costs the feed, and you offer it DDGs, are they priced appropriately? Well, the marketplace has decided the price, so apparently we don't discount what the marketplace says. Apparently enough DDGs are exported that it works better out of the country than it does in the country, and it is removing the energy from the feed product. And so what does the chicken industry do if you use DDGs? You turn right around and add chicken fat back. You pull out energy to turn right around and put the energy right back in. It seems somewhat inefficient.

Mr. KING. Well, thank you, Mr. Welch, and you have characterized a lot of this correctly in that transportation hasn't adjusted itself to the different supply, and producers find themselves in places where they are at a disadvantage.

I am also watching, as Dr. Meyer said, watching some of the cattle feeding industry come back into the corn country where it can take advantage of the DDGs that are there, and I am watching a

lot of my neighbors mow and bail the ditches it didn't before, and I am watching them feed cornstalks that never bailed them before. All of that is an added value. I am watching them reduce their corn as a grain ration going into cattle. All of that is part of this equation we are talking about.

But I would turn to Dr. Erba, our dairyman here, and ask you, you talked also about high grain prices, and we saw raw milk prices nearly double over the last 3 years, if I recall. And when it was down around $10, what would corn have had to be to break even at $10 raw milk prices?

Dr. ERBA. I think free probably would be the answer there. You know, corn is a major component of dairy rations, but I don't know that you could get the corn price low enough to deal with the $10 milk price. There was a time that maybe that was possible, but those days are past us now. There would have to be an extremely low feed price, not just corn, but all feed across the board, to get to anything that looks like a break-even at $10 milk prices. It is really astronomically under what cost production really is.

Mr. KING. So you would agree, I would think, that even though grain prices at that time were about what they are now, 2008 until 2011, milk prices are about double what they were. So the grain prices didn't affect the—well, they did affect the corn price perhaps, but I guess I would ask you to put that into the—or, excuse me, the milk prices were affected to some degree by grain prices because you had people get out of the industry, but that is the part I didn't hear you say. Is that really the substance of it, there is less production now because of low prices 3 years ago, and that is why we have prices that are up?

Dr. ERBA. Milk production is kind of a funny thing, Congressman. It moves up and down. Milk production this year, 2011, has been some of the best we have had on record, particularly in California. We are back to where we were a couple years ago in terms of record milk production, and at the same time we have record high feed prices, particularly for corn.

So back in 2009, the year you talked about, corn prices, I wouldn't say they were low, but they were a heck of a lot lower than they are right now. There is an equation here that we have become very familiar with in the dairy industry, and that is margin. It is not necessarily the price of milk, it is not necessarily the price of feed, it is the difference between the two, the margin.

Even though milk prices are very high right now, the margin is very small. Even when our milk prices were at tremendous levels, as people have already pointed out, we still have producers that simply can't make it and are going out of business this year.

Mr. KING. Did I hear you in your testimony, though, say that almost half of the corn crop goes to ethanol?

Dr. ERBA. That is out of USDA's report. I don't know if it is this year or next year, I am not sure which one, but the report is that over half the corn crop will go toward ethanol, not toward livestock. More of it will go toward ethanol than livestock.

Mr. KING. I could calculate that this 2.5 billion bushel crop here, there is only going to be 6.25 billion bushels available for domestic consumption as opposed to the 9.1 billion that was available in 2009?

Dr. ERBA. I will take your word for it. I am not that familiar with those numbers.

Mr. KING. Let me state that I couldn't calculate that, and you know that, but you just have to add back in, again, whether it is transportation or not, as Mr. Welch said, half the value of that going back in more to Dr. Meyer's feedstock than it is to poultry or to pork. But I just thought we should clarify that.

And then I am going to pose this question to Dr. Meyer since he is an Iowan, and he knows that I am fair game anyway, and I feel him leaning forward here, an opportunity to respond to that, and then also asking this question: we saw $2 corn here not that long ago, and now we saw corn that was $6.75 this morning in Dennison, Iowa, which is the closest market to where I live. Was that lower corn price from the decade or a little more ago, 2001 and 2002, for example, was that price subsidized, and was that part of the reason why it was so low, Dr. Meyer?

Dr. MEYER. In my opinion, absolutely it was. I mean, we were paying loan deficiency payments. We had a whole system of payments that were going to corn farmers at the time and other grain farmers as well, not just corn, and users of corn benefited from those subsidies.

I would point out that producers of corn were not damaged by those subsidies, though, and in that case those subsidies were offered to make them whole, or we wouldn't have had $2 corn because they wouldn't have produced as much corn. So in that case a subsidy did not damage someone else. It did help livestock producers. In the case we are talking about now, subsidies are damaging one group while they are helping another, Congressman.

I would also challenge your assertion that half of this comes back in as feed. Fifty-six pounds of corn goes into a distillery; 17 at best comes out of the distillery as DDGs. That is about ⅓. The data that I see from clients and I hear from Dr. Wisner at Iowa State is really it is closer to 15 pounds that comes out. So it is not that big.

I would challenge your numbers on feed availability. I have calculated them, they are in my testimony. I can provide you the numbers that are behind those charts if you would like. I think your number is a little high on that.

So no question about it, it did help the livestock industry. I would argue that it did not hurt the corn farmer in that case.

Mr. KING. And I would come back to you and rebut the statement on—in Iowa, if it is 17 pounds of feed value coming back in afterwards, you have 56 pounds to start with, but when you put that feed into livestock, you have the ⅓ that is CO_2. Does that get converted to anything that has value, or does it go into the atmosphere whether you turn it into ethanol or whether you feed it to cattle?

Dr. MEYER. I don't know. The CO_2 goes into the atmosphere as far as I know, but that doesn't help us at all.

Mr. KING. Right, but it distorts the equation that you have delivered to me, because if you start with 56 pounds of corn, and if you split it ⅓, ⅓, ⅓, I will go to your 17 and say that is just a little less than ⅓ of the 56 pounds. If ⅓ of it is CO_2, you lose it anyway, and if you have ⅔ that is left, ½ of ⅓ is a number just very close

to 17. So I will say ½ that by weight, ½ that by energy, it is a good round number to work with, but it is not off by ⅓.

Dr. MEYER. Well, we only end up with 17 pounds of feed. I don't care what thirds you are talking about.

Mr. KING. Well, I want this record to understand, to know that corn is ⅓, ⅓, ⅓. It is ⅓ starch, ⅓ protein, ⅓ CO_2, and whether the corn is fed to livestock, turned into ethanol, the CO_2 escapes into the atmosphere, and it is not a measurable quantity. When I add back in ½ the value of that feed, that discounts the CO_2, whether it is used as feed or whether it is used as ethanol.

I thank all the witnesses here, and I would yield back the balance of my time.

The CHAIRMAN [presiding.] I would like to thank Mr. King for bridging the gap there and the witnesses for putting up with the vote called in the middle. Hopefully you will appreciate that we didn't have to recess and come back, which will be better in the end.

I would like to now yield to Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman, for the privilege of sitting in with the Subcommittee. This is an issue that I think all of us feel has—that we have an opportunity to revisit the policy that was implemented a number of years ago.

I am one who believes that ethanol in some fashion ought to be a part of our future, but I am not so sure that corn-based ethanol is our future after looking at the impacts that have taken place on a whole list of our feed-based industries which are represented here today; whether some forms of cellulosic fuel down in a second- or third-generation development of ethanol could well be applicable and be a part of our long-term energy plans.

I, first of all, want to thank the Chairman for having a number of California witnesses, Dr. Erba from Visalia, but especially my friend and one of the leading agriculturalists in California Mr. Greene, who I have known for many years, and who I think has done a terrific job on this panel this afternoon.

Let me begin by following up on Mr. King's comments just a moment ago. Do any of you there disagree—he talked about ⅓, ⅓, ⅓—that whether the corn that is used for ethanol is actually close to 25 percent, and when that is factored in, do you include the DDGs? I mean, is there a consensus among you?

Dr. MEYER. I will address that. The corn used for ethanol in this crop year is going to be about 42 percent of the total, used for feed and residuals is going to be about 40. Ethanol usage is larger, it is not quite ½, but it is 42 and 40 I believe are the percentages. I can get those exactly for you, Mr. Costa.

Mr. COSTA. Please get those to the Committee.

I don't know if anyone else cares to comment.

I would also like to get a sense, do you expect grain exports to increase in the next 5 years, and if so, by how much? I am not asking you to put your speculator's hat on, but you know about the poultry industry, the beef industry, the pork industry, and the other demands on corn.

Mr. GREENE. I believe that the numbers last year in 2011, the 2011 crop year, about 5 billion bushels went to ethanol, and 5 billion went to livestock feeding, and that was as of the last USDA

report. This next year the USDA has kept ethanol at about 5 billion and has now moved livestock feeding down to 4.7 billion. So 3 million bushels has to go away from feeding livestock, and you have to recognize that means—and part of the reason why this problem is so severe—that means that amount of business has to go away. That amount of feeding of animals needs to go away. That amount of jobs needs to be lost. That amount of foreclosures need to happen. So you have that.

The second thing that you have, you also have exports reducing. So one of the other challenges that this Committee and the Congress now has is do you start to—how aggressively do you take on exports? Because if you continue down this path where you are taking more and more of the corn towards fuel and another piece of it towards—you try to preserve what you can for feeding of livestock, then the only other option is to start freezing exports, something that I know this Administration is not keen on, but it is—fundamentally you only have so much to work with.

Mr. COSTA. Well, and then there is—I mean, I understand, and the flip side of that, of course, is to try to incentivize this industry. We have created three incentives. I mean, it is just not the subsidy, but it is the tariff on the Brazilian imports, and of course it is also the requirement. And it seems to me that I think incentives can work in a number of instances, especially in new industry. But, I mean, it is one of the reasons my position is part of that effort to look at repealing that effort in terms of the subsidy.

Mr. Erba, the LGM-Dairy is a set program that looks at feed prices as a way to protect margins on new programs that are being discussed, and to focus on the margins instead of the price of milk alone. What is your sense of this? Do you think this is a way in which the dairy industry can protect itself?

Dr. ERBA. I think the focus probably does need to be on margins. I am not so sure that there is actually a program out that can do that very effectively. I have heard about the discussion draft that was released earlier this year by Representative Peterson. There are some elements of that that contain that same logic of a margin protection, a margin focus. I believe that is probably the right way to go from now on, because we do have the issue of costs which are not as stable as they used to be and prices which are not as stable as they used to be.

Mr. COSTA. Okay, I have another quick question. My time is running out. Mr. Greene, what part of this volatility do you think is associated in the increased prices of corn to speculation?

Mr. GREENE. We have looked at that quite a bit, and we really estimate that about 30 percent of this is speculative driven. And, one of the things that is important for people to think about when they think about speculative interests and how that is impacting the price, that speculative money, the money that is gained as a speculator tries to move in front of the end-users and extract profits: I believe that many of those profits do not come back into the United States, that many of those profits are being kept overseas, and it is money that is being lost here. So not only is it damaging and causing inflation and inflationary pressures, it is causing volatility in a way that we have a very difficult time dealing with it. You see volatility in a week that we used to see in a year.

Mr. COSTA. Right.

Mr. GREENE. So if you make the wrong call, you make a wrong judgment there, you can really be negatively impacted.

Then, like I said, this speculative interest in these ag commodities where these index funds are being treated as hedgers rather than being treated as the speculators and thereby getting around these speculative requirements that the CFTC has, this is very disruptive to the marketplace.

Mr. COSTA. Well, and I appreciate that, and although my time has expired, I think the volatility and the speculation also takes place in gas prices, where we see oil prices dropping, yet we see the price of gas per gallon not following the same track on per-barrel prices.

And I have a number of other questions, Mr. Chairman, I would like to submit to the witnesses. I will do that in writing.

I guess, with the Chairman's consideration, do you think there is any protection on that speculation on the Dodd-Frank regulations that they are going to impact and what impact it might have? This gentleman here does a great deal of purchasing in the markets, both for the poultry—they are diversified—and for their dairy feeds needs, so Mr. Greene has a lot of experience in this area.

Mr. GREENE. Yes. I think the Dodd-Frank regulations, if they are followed, do provide some security for agricultural markets in speculation. We made comments of that in the AFIA's documents that I have submitted, and you can follow up on those. They do help to enforce.

I think an important thing to think about there is up until recently the Chicago Mercantile Exchange was not a publicly traded company. It was privately held. And now that it is publicly traded, its objective is to bring forth maximum volume of business; and by bringing forth maximum volume of business, there has been a new proposal just recently introduced to allow even larger speculative interests into the final month of a contract, and this is very disruptive to the market. This won't bring about what we are supposed to see, which is convergence in the marketplace in that final month. This will actually bring about additional volatility, additional risks, and higher potential for certain people to take very large positions that could be very disruptive to the marketplace.

Mr. COSTA. Thank you very much, Mr. Chairman, for your time and allowing me to sit in on the Subcommittee, and I want to thank all the witnesses. I am sorry I didn't get a chance to ask all of you questions. I have a lot of them. But I will submit them for the record and look forward to continuing to work with all of you.

The CHAIRMAN. Thank you, Mr. Costa.

Before we adjourn, I would like to thank all the Members of the Subcommittee and especially the Ranking Member, Mr. Cardoza, and Mr. Costa for joining us today, all the witnesses for taking the time to address this very important issue, as well as all the staff for all your hard work in getting us ready for this hearing.

We are going to keep doing these hearings to try to continue to educate our Members, and with that, under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary writ-

ten responses from the witnesses to any question posed by a Member.

This hearing of the Subcommittee on Livestock, Dairy, and Poultry is adjourned.

[Whereupon, at 3:14 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED ARTICLE BY HON. DAVID SCOTT, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

THE ATLANTA JOURNAL-CONSTITUTION

Higher corn prices pluck Georgia poultry farmers

September 7, 2011

David Markiewicz

Two numbers stick in Georgia poultry executive Tom Hensley's head: the price of feed corn in 2010 and the price today.

"Last year it was $4 a bushel," he said. "Now, it's $8 a bushel." During that time, he said, the price of chicken "hasn't gone up commensurately."

But don't be surprised if it does. Producers say it's the only way they can make money.

The whopping increase in the cost of feed corn, on top of higher prices for fuel and lower prices for chicken, is making the poultry business a money-losing venture, they said.

"The current financial picture for poultry is as serious as any the industry has faced in recent memory," said Mike Giles, President of the Georgia Poultry Federation.

Industry representatives said they are not aware of any related layoffs, farm closings or bankruptcies in the state.

But there are signs of distress. Sanderson Farms, one of the nation's largest poultry producers, said it lost $56 million in its most recent 3 month period, despite higher sales. The company cited ". . . significantly higher costs for corn and soybean meal, our primary feed ingredients, compared with the same period a year ago."

Tyson Foods remained profitable even with "extremely volatile input costs and market prices at or near historical lows." The company said its chicken segment likely will lose money in the fourth quarter.

The poultry business is critical to Georgia, employing 100,000 people, directly or indirectly, and contributing an estimated $13 billion to the economy each year. The state has 3,800 poultry farms and is the largest poultry producer in the U.S.

The only solution to the problem, poultry industry executives suggest, is to cut supply by putting less chicken on the market. That will cause prices to rise, restoring profitability.

"Production has got to go down. They can't continue to operate at a loss, and right now their costs of production are significantly greater than what they can get for the product at the grocery store," said Mike Lacy, head of the poultry science department at the University of Georgia.

Hensley, President of Baldwin-based Fieldale Farms, expects that U.S. production of chicken, now about 160 million head processed each week, will be trimmed to less than 150 million. When that happens, he said, the wholesale price of chicken will jump from the current $1.55 per pound. Last year, the price topped $2. Overall, food prices have increased during the same period.

If poultry prices don't rise, Hensley said, "every chicken company will go broke."

Even if that does happen, it will take time to affect the retail market. One reason is that consumer demand for chicken drops off in cool weather months, so the lower supply won't quickly prompt prices to rise.

Brenda Reid, a spokeswoman for Publix Super Markets, said, "We anticipate that our cost of chicken will go up slightly. However, our retail price for customers will remain the same through the end of the year. We will not be able to forecast our pricing into 2012 until we get closer to the end of this year."

Lacy said he is reluctant to label the current problem facing the poultry industry a crisis, but he is concerned.

"These things do go in cycles," he said. "But this one has been extremely difficult because of the perfect storm of the downturn in the economy, the unprecedented feed costs, the rising fuel prices and problems with some of the export markets (for poultry)."

Poultry industry representatives said corn prices are up because of demand for use in ethanol. Drought conditions in growing regions also cuts crop production and boosts prices.

Several other factors contribute to poultry producers' pain. Higher diesel fuel prices boost costs producers who may use thousands of gallons a day.

Also, demand for chicken, while still strong in general, is uncertain in some export markets such as China and Russia, although it has picked up in other markets including Mexico and the Middle East.

Still, the cost of corn, by far the main feed stock for poultry, remains the biggest problem.

"There's no good substitute for corn," Hensley noted.

Georgia Poultry Facts:

- Georgia is the number one poultry producing state in the nation.
- If Georgia were a country, it would be the sixth-largest poultry producing nation in the world.
- Georgia produces approximately 1.4 billion chickens annually.
- On an average day, Georgia produces about 26 million pounds of chicken.

Source: Georgia Poultry Federation.

SUBMITTED STATEMENT BY NATIONAL CORN GROWERS ASSOCIATION

The National Corn Growers Association (NCGA) appreciates the opportunity to provide testimony as part of the Subcommittee's hearing to examine feed availability and its effect on the livestock and poultry industries. NCGA represents 35,000 corn farmers from 48 states, as well as the interests of more than 300,000 growers who contribute through corn checkoff programs in their states. Corn fuels nations around the world, as a food ingredient, a feedstock, a fuel, a fiber, an ingredient in building materials and beyond. It is possibly the most versatile crop in the world, and demand is at an all-time high.

Historically corn farmers have understood that they have the ability to supply growing ethanol and livestock producers simultaneously without negatively impacting either as a valued customer. With advances in both seed and farming technologies, U.S. corn producers have increased average yield substantially in the past few decades.

On September 12, 2011, the United States Department of Agriculture (USDA) released a report confirming that the United States is still on track to produce the third-largest corn crop on record, estimated to total 12.5 billion bushels of corn. Despite U.S. corn farmers facing several major weather events that negatively impacted much of the production acreage, causing national average yield estimates to drop to 148.1 bushels per acre, the world corn stocks projection has increased, more than offsetting the reduction projected for the country.

This spring, rain and flooding delayed planting in much of the Corn Belt, while flooding and blown levies along the Mississippi and Missouri rivers caused growers to lose planted acres. In Texas and much of the South, scorching heat and drought devastated the crop while abnormally high temperatures in July and August impacted a large area of the Corn Belt to a lesser extent. As harvest approached, many farms along the Atlantic Seaboard were devastated as Hurricane Irene pounded the operations with strong winds and heavy rain. On top of all this, hail and high winds impacted thousands of acres in the Midwest during the growing season.

Even in light of these events, it is important to keep the final production estimates in perspective, realizing that a 12.5 billion bushel harvest would still be the third-largest on record. Only 10 years ago, the average yield nationally was 138 bushels per acre and production totaled only 9.5 billion bushels. The decade before that, the average yield reached only 107 bushels per acre nationally and production totaled only 7.5 billion bushels. Even as estimates are revised down to account for the damage done to the 2011 crop by weather, the strides made through innovative technology and techniques continually allow growers to excel even under difficult circumstances.

World corn ending stocks are projected up 2.9 million tons from August, with increases in South America and Europe more than offsetting the reduction projected for the United States. Further, distillers grains from ethanol production provides a high-quality, high-value feed product for livestock producers, displacing almost 1.2 billion bushels of corn in livestock rations this marketing year in the United States and abroad.

Improved Economic Conditions Since RFS Expansion

On August 5, 2011, NCGA released a study conducted by Texas A&M University and Doane Advisory Services to compare input price changes on representative livestock operations before and after the Energy Independence and Security Act of 2007. Researchers demonstrated that economic conditions have improved for beef and dairy farmers since the implementation of the expanded Renewable Fuel Standard (RFS) in 2007.

The study, which utilized Texas A&M University's Agricultural & Food Policy Center's premier farm-level modeling system and data from the University of Missouri's Food & Agricultural Policy Research Institute, determined that net cash farm incomes for representative beef-cow/calf and dairy operations had increased since provisions of the biofuels mandate went into effect. This conclusion verifies NCGA's position that increased ethanol production has not negatively impacted the profitability of key livestock markets.

The study was written in response to ongoing allegations that increased ethanol production resulting from the expanded RFS had caused financial insecurity in livestock and dairy operations by spurring an increase in feed prices. Researchers looked at changes in input and output prices in January 2007 and January 2011 for beef-cow/calf and dairy operations in 12 states, with consideration given to overall market changes. The final analysis concluded that while higher feed costs do exist, the profitability of all operations examined had increased over the 4 year period as a result of increased output prices.

While it is easy to reiterate artificial arguments against the use of ethanol, NCGA believes this study clearly illustrates the fallacies on which they are often based. In reality, we do not have to choose between using corn for food or fuel.

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