BEEF USA
NATIONAL CATTLEMEN'S BEEF ASSOCIATION
1301 Pennsylvania Ave., NW, Suite #300 • Washington, DC 20004 • 202-347-0228 • Fax 202-638-0607

April 19, 2007

The Honorable Max Baucus
Chairman
U.S. Senate Committee on Finance
219 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Baucus:

The National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our thoughts on tax incentives for alternative and renewable fuels production. Producer-directed and consumer-focused, NCBA is the largest and oldest organization representing America's cattle industry, and it is dedicated to preserving the beef industry's heritage and future profitability through leadership in education, marketing and public policy.

Today, cattle producers are facing an increasing number of challenges to their livelihood ranging from environmental issues to international trade and animal health concerns. Even with these issues weighing on their minds, producers have been particularly concerned about the impact of renewable fuels on the prices of feed grains and livestock. Given the incredible expansion that has recently taken place within the corn-based ethanol industry, these concerns carry with them the potential for a significant financial shock to U.S. cow-calf producers.

While elimination of the oxygenate methyl tertiary butyl ether (MTBE) has played a significant role in this rapid development, a number of other factors have accelerated the investment, including: the Volumetric Ethanol Excise Tax Credit (VEETC) of $0.51/gal. provided to blenders of ethanol, a $0.54/gal. tariff on imported ethanol, high crude oil and gasoline prices, and the Energy Policy Act of 2005 (EPAct) with its mandate for 7.5 billion gallons of renewable fuels production per year by 2012.

The VEETC has achieved its objective of stimulating growth in the renewable fuels sector. As of April 16th the Renewable Fuels Association (RFA), the national trade association for the U.S. ethanol industry, stated that the U.S. had 115 operational ethanol plants with the capacity to produce 5.75 billion gallons of ethanol per year. Additionally, RFA reported 79 new plants under construction, bringing total expected ethanol production capacity to nearly 12.1 billion gallons of ethanol per year. Nearly 4.3 billion bushels of corn will be needed in order to meet the demands of this level of ethanol production.

Corn is the primary feed stock utilized by cattle feeders in the U.S., accounting for approximately 85 of every 100 pounds of cattle feed in feedlots. As corn is being diverted to supply the increasing demand of the renewable fuels industry, many producers are utilizing a co-product of the ethanol process, dried distillers grains with soluables or DDGS, in their rations at rates of up to 40 percent. Producers are responding to structural changes in the marketplace by expanding their use of alternative feedstuffs, such as DDGS, but corn remains an essential input for their business and the impact of ethanol production on the price of corn has been significant. On March 31st of this year, the Omaha cash corn price was $3.69/bushel. One year earlier, on April 1, 2006, the price was only $2.00/bushel. That is an increase of over 84 percent in just one year. The most pronounced effect of increasing corn prices was seen last fall when the price for 600 pound feeder steers between September and the end of 2006 fell 20 percent from $1.22/cwt to $1.02/cwt.

It should be made clear that NCBA supports the nation's commitment to reducing dependence on foreign energy by developing forms of renewable energy such as ethanol. Cattle producers recognize that federal support of the ethanol industry has been necessary to encourage development of basic production technology, but they also believe in a market-based economy. With the cost of their biggest feed input skyrocketing, and overall profitability of their business threatened, it is understandable that many cattle producers have become skeptical of government intervention in the ethanol market.

With annual production levels projected to reach between 12 and 15 billion gallons, it is clear that this is no longer a 'fledgling industry' in need of government assistance. As such, NCBA supports a transition to a market-based approach for the production and usage of ethanol produced from corn. NCBA urges Congress to allow the existing VEETC and the current ethanol import tariff to sunset as scheduled in 2010 and 2009, respectively.

Government intervention in the market can determine artificial winners and losers, and decrease overall efficiency. The marketplace is most efficient when supply and demand signals are clearly communicated, and NCBA feels that the ethanol industry should be subjected to market forces equivalent to those faced by the U.S. beef industry. As long as cattle producers have the ability to compete on a level playing field with the ethanol industry for each bushel of corn, the U.S. beef industry can and will remain competitive. Cattle producers have always depended on the free market to drive their business, and they are committed to enduring the good and the bad associated with it.

While producers continue to manage the costs associated with increased ethanol production, NCBA would urge policymakers to support a diverse array of fuels, technologies and feedstocks. NCBA believes that the use of cellulosic feedstocks for ethanol holds great promise. In addition, other means of producing biofuels could open the door to utilizing waste products (i.e. manure, animal fats, greases, etc.) as an energy source. This would alleviate many of the environmental concerns faced by the cattle industry. For example, NCBA continues to support the use of animal fats and oils in the production of bio and renewable-diesel. Production of this biofuel offers a significant, new opportunity for U.S. animal agriculture to participate in the renewable energy business. It is especially important to note that renewable diesel is the first biofuel in which the *preferred* feedstock is surplus animal fat.

NCBA appreciates the Finance Committee holding a hearing to address tax incentives for alternative and renewable fuels production. It is in the best interest of our nation to pursue strategies that will begin to dissolve our dependence upon foreign energy sources while benefiting farmers and ranchers and revitalizing the rural communities they support. However, as you evaluate future tax incentives for feed grain based ethanol, NCBA asks that market forces be given the opportunity to function, and that you carefully consider the negative implications that can be brought upon cattle producers as a result of continued government interference in the marketplace.

Sincerely,

Jay H. Truitt
Vice President – Government Affairs