



May 4, 2007

The Honorable Nydia M. Velázquez
Chairwoman
U.S. House Small Business Committee
2361 Rayburn House Office Building
Washington, DC 20510

Dear Chairwoman Velázquez:

The National Cattlemen's Beef Association (NCBA) appreciates the opportunity to present our thoughts on the 'Impact of Renewable Energy Production in Rural America'. 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.

The entrepreneurial spirit is no where more evident than in rural America, and cattle producers are an important contributor to the economic diversity of small towns and communities throughout the United States. However, today's 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 the rapid development of ethanol production, 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 Renewable Fuels Standard (RFS) mandating 7.5 billion gallons of renewable fuels production per year by 2012.

Congressional actions taken to stimulate growth in the renewable fuels sector have certainly achieved their objective. As of April 30th the Renewable Fuels Association (RFA), the national trade association for the U.S. ethanol industry, states that the United States has 116 operational ethanol plants with the capacity to produce 5.9 billion gallons of ethanol per year. Additionally, RFA reported 81 new plants under construction, bringing total expected ethanol production capacity to nearly 12.5 billion gallons of

ethanol per year. Once operational, these 197 ethanol facilities will require 4.5 billion bushels of corn. Based upon current expectations for corn plantings and yield, that will be roughly 35 percent of the domestic corn supply in 2007 - compared to the 13 percent of the domestic corn supply that was devoted to fuel ethanol production in 2005.

Corn is the primary feed stock utilized by cattle feeders in the United States, 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 solubles 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. For the week of May 5th, 2007, the Omaha cash corn price was \$3.67/bushel. One year earlier, the price was only \$2.04/bushel. That is an increase of nearly 80 percent in just one year.

For all segments of the cattle industry, these price movements have a very real impact on the bottom line. From a cattle feeder's perspective, every \$1 per bushel increase in the price of corn means they must pay approximately \$22 per hundredweight less for a 550-pound calf in order to maintain their current income level. For the cow-calf producer, that's roughly a \$121 per head reduction in price. These numbers clearly illustrate the broad impact of market shifts – cattle feeders absorb a share of higher corn prices in the form of increased operating costs, and cow/calf producers absorb a significant portion in the form of reduced prices for their calves. 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 is important to recognize that this is not a cost that the cattle producer can pass along to the consumer, because consumer demand for beef is rather inelastic. Although U.S. beef producers have successfully built demand, and maintained it through increased retail beef prices over the past several years, there is only so much that a consumer is willing to pay before they begin to choose other protein sources. Therefore, in the short run, the majority of these higher feed costs are borne by cattle feeders and cow/calf producers. Retailers and packers will not pay any more for the cattle they purchase.

With the cost of their biggest feed input skyrocketing, and the overall profitability of their business threatened, it is understandable that many cattle producers have become skeptical of government intervention in the ethanol market. **Cattle producers simply want to compete with the ethanol industry on a level playing field for each bushel of corn.**

It should be made clear that NCBA supports the nation's commitment to reducing dependence on foreign energy by developing forms of renewable energy like 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 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. Furthermore, NCBA would support input segmentation of the RFS while opposing any increase in the feed grains based portion of the mandate.**

Government mandated demand for corn via an RFS and tax credits intervenes in the market, determining artificial winners and losers, thus decreasing the market’s ability to allow supply and demand to drive the ethanol 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 House Small Business Committee holding a hearing regarding the ‘Impact of Renewable Energy Production in Rural America’. 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 Congress contemplates further 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,

A handwritten signature in black ink, appearing to read "Jay H. Truitt". The signature is fluid and cursive, with the first name "Jay" being the most prominent.

Jay H. Truitt
Vice President, Government Affairs