



Testimony of

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**Submitted to the
Senate Energy and Natural Resources Committee**

**Regarding
Energy Market Effects of the Recently-passed Renewable Fuels Standard
February 7, 2008**

Mr. Chairman, Ranking Member, and Members of the Committee, thank you for allowing us the opportunity to submit testimony. AMI has provided service to the nation's meat and poultry industry -- an industry that employs more than 500,000 individuals and contributes more than \$100 billion in sales to the nation's economy -- for more than 100 years.

AMI members include 250 of the nation's most well-known meat and poultry food manufacturers. Collectively, they produce 90 percent of the beef, pork, veal and lamb food products and 75 percent of the turkey food products in the U.S. Among AMI's member companies, 60 percent are small, family-owned businesses employing fewer than 100 individuals and some are publicly traded and employ tens of thousands.

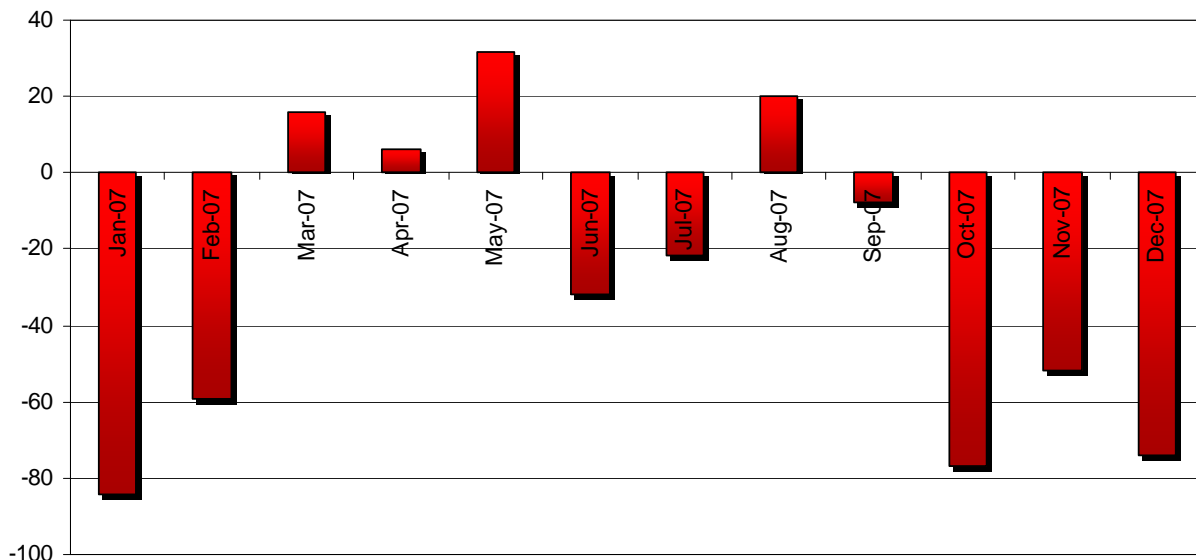
AMI commends the committee for holding the hearing. It is very valuable to call attention to the need for greater diversity in biofuels and energy. AMI is very supportive of efforts to develop energy from many bio-based sources including animal fats and byproducts. While this hearing specifically focuses on the effects on the energy markets, it is clear that any development in the energy market for food-based biofuels has profound impacts on our member companies as significant consumers of feed.

AMI member companies are concerned about the short-term and long-term economic consequences of burning more feed and food as fuel on the meat and poultry community. The goal of energy security is commendable and should be considered in relative context to risk posed to domestic and international food security. By utilizing a key food ingredient as the dominant input for biofuels, the program has coupled food prices to fuel prices.

The Energy Independence and Security Act of 2007 (EISA), its predecessor the Energy Policy Act of 2005 (EPAC), and existing biofuel subsidies and trade protections have concentrated the adverse impacts on animal agriculture producers and consumers' food budgets. When the EPAC was signed, food inflation was coincidentally at its ten-year average of 2.3 percent. In January 2008, the CPI food index was **4.9 percent**, which is more than twice the ten-year average. Food inflation creates a drag on the economy and reduces the purchasing power of consumers. The consequences of this added inflation contributes to an increased food bill of nearly \$200 for a household of four. This increase carefully matches the projections of an August 2007 Iowa State University study, which indicated that per capita impact at \$47 per person¹.

In 2007, livestock and poultry producers saw their feed prices rise by more than 65 percent and are expecting an equally difficult environment for 2008. Food-based biofuels production has had an influence on food prices and substantial influence on the prices farmers pay for feed. For many years, the economic well-being of the meat and poultry industry closely tracks that of our most immediate supplier, the animal agriculture producer. The recent red ink in the animal sector may be most pronounced in the cattle sector. As illustrated in the graph below, cattle producers suffered significant losses through 2007, largely from increased feed costs.² On Feb 1, 2008, USDA released figures indicating the beef calf herd for 2007 was the smallest since 1951, an indication of market adjustments due to substantially higher feed costs.

Cattle Profit & Loss 2007 (\$ per head)



¹ Iowa State Univ; Tokgoz, Elobeid, Fabiosa, Babcock, Hayes, Yu, Dong, Hart, & Beghin. "Emerging Biofuels: Outlook of Effects on U.S. Grain, Oilseed, and Livestock Markets," (2007).

² Ibid. Lawrence. (2008).

Food-Based Biofuels Impact on Feed and Food

The rise in demand for corn has pressed market forces to demand higher corn, soybeans, and all feed prices. Consequently and among other impacts, the change in price and availability has led animal agriculture producers to consider alternatives to their feeding, nutrition, and dietary regimen. These changes can and do impact meat and poultry quality, consumer offerings, livestock and poultry farm efficiency, and the management of livestock and poultry operations.

It is for these reasons articulated in the following testimony that AMI is asking Congress and the Administration through tax, other legislative and regulatory vehicles to consider policies that account for impacts on animal agriculture and food, and ultimately places the U.S. in a more competitive position in terms of energy security, diversity, and availability as well as food security.

Corn is one of the largest components in the diets of livestock and poultry. Swine rations often contain about 60-85 percent corn, poultry rations contain about 65-75 percent, and beef animals often have diets averaging 35 to 65 percent shell corn – although some producers will feed 100 percent corn to beef animals as either shell corn, flaked, or silage. As a result of a significant increase in ethanol production, animal nutritionists are being confronted with a new challenge in attempting to incorporate a significant amount of ethanol's byproduct or distillers grains into existing feed rations and maintain meat and poultry quality and the economic well-being of livestock and poultry producers.

Initial research has demonstrated that animal performance measured by weight-gained/day, meat yield, leanness, environmental impact (manure production), and other factors have provided initial indicators that livestock and poultry on distiller grain rations have underperformed their corn-rationed peers. The very high fiber content, nutrient variability, limited digestibility, and different mineral profile of distiller grains are the key limiting factors of its ability to be used as a substitute for corn.

As domestic feed and food prices have increased, other major grain producing regions have responded to the added inflationary pressures. USDA identifies three main grain production areas in the world, the United States, Argentina, and China.³ Unfortunately, since mid-2007 Argentina has taxed and limited exports licenses for grains. In November, Argentine Economy Minister Miguel Peirano stated that “increasing the cost of exports also is designed to reduce domestic inflation.”⁴ On January 1, 2008, China “imposed a 5 percent tax on exports of corn, rice and soybeans and a 20 percent levy on wheat exports. Food prices in China gained 18.2 percent in November. The [Chinese] government has also sought to slow price increases by selling grain from stockpiles and

³ USDA. Hoffman, Baker, Foreman, & Young. “*Feed Grains Background*,” (Mar. 2007).

⁴ Bloomberg.com. Craze & Raszewski. “*Argentina Raises Taxes on Exports of Corn, Soybeans*,” (2007).

canceling tax rebates.”⁵ These trade restrictions contribute to added pressure from a food-based biofuels program on domestic animal agriculture producers and food supplies.

As the Environmental Protection Agency (EPA) begins the rule-making process for EISA, we look forward to working with them to develop a rule that provides for meaningful consideration of the consequences of a food-based biofuels program. In EISA, EPAC, and the Clean Air Act and subsequent amendments, Congress provides the Administration and EPA authority and discretion. It will be very critical for EPA to thoroughly examine the issues, utilize their technical expertise, and exercise their discretionary authority to account for unintended domestic and international consequences of food-based biofuels and develop a rule to enhance energy security.

Policy Recommendations

- 1) Congressional and Administration leaders should develop and implement a plan to decouple the increasing price correlation of food from fuel. They can begin by eliminating the mandate for corn-based ethanol and reducing or eliminating the tax credit for ethanol. As stated by Dr. Thomas Elam, “in light of current gasoline prices the Federal subsidy program is no longer needed to promote ethanol production. The existence of the subsidy is, today, severely distorting crop prices while adding little, if anything, to the stated goals of the renewable energy program.”⁶
- 2) To aid consumer confidence in renewable energy and expand the market, it would be beneficial for Congress to allow the ethanol tariff on imported biofuels to expire in 2008. This would potentially expose consumers to more renewable energy and broaden the diversity of our energy sources.
- 3) In light of studies concerning ethanol by-products, usability, nutrition, and safety⁷, Congress should provide federal research funding into renewable energy byproduct safety, quality, and usability (i.e. storage and transportation). Directing research on these topics will ideally provide animal agriculture producers with nutrition guidance for producing safe and high quality meat and poultry products.
- 4) Should benefits remain, Congress and the Administration should not discriminate on the basis of feedstocks and bio-based energy. Consumers and businesses can benefit from many new energy sources from such raw materials as animal fats, tallow, and animal byproducts as their feed stocks as long as the law does not prejudice or unduly favor one feed stock or bio-based energy over another.

⁵ Bloomberg.com. Hur. “*Corn Rises to an Eleven-Year High as China Sets Export Taxes on Grains*,” (2008).

⁶ FarmEcon.com. Elam. “*Fuel Ethanol Subsidies: An Economic Perspective*,” (2007).

⁷ University of Minnesota. Shurson. “*Testimony before the House Agriculture Subcommittee on Livestock, Dairy, & Poultry*,” (March 8, 2007); Kansas State Univ. Jacob, Fox, Droulliard, Renter and Nagaraja. “*Effects of Dried Distillers Grain on Cattle Fecal Prevalence and Growth of Escherichia coli O157 in Batch Culture Fermentations*,” (2008).

- 5) Congress and the Administration should support a working lands environmental program, which would reduce the regulatory and legislative burdens on farmers that elect to grow crops on land currently locked in the Conservation Reserve Program (CRP), but still maintain environmental benefits to the land. Should cellulosic biofuel commercialize, a feedstock will still be needed from an acre of land. Some cellulosic models utilize crop byproducts, but others may need a crop-based feedstock. To minimize consumer inflationary impacts and to preserve the economic well-being of animal agriculture, acres of land that are tied up by regulatory limitations should be made available to farmers to respond to market signals for existing and future biofuels such as cellulosic.
- 6) Congress should consider expanding the waiver authority from EPAC and EISA requirements to ease the burdens of competing input industries and food consumers. While the waiver authority in the acts is a good start, it should provide greater consideration for domestic or international consumers, the impact on competing input industries, an on-ramp evaluation for new mandates, as well as expedited timelines. While food-based biofuels policies are very costly for our sector of the economy and all food consumers, these costs can be compounded and escalate rapidly by bad crop years, weather events, and other natural disasters. Thereby, making a meaningful waiver policy essential to good food and energy security policy.

The American Meat Institute is committed to working Congressional and Administration leaders to develop policy that balances our energy security and food security objectives. Thank you for the opportunity to submit this testimony. We appreciate the committee's interest in holding this hearing following the passage EISA.