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# Energy Policy

**Status: Final Policy**

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**Issue and Importance:** The feed and livestock industries in the U.S. are experiencing significant financial challenges due to the dramatic increases in the costs of feed grains and oilseeds. The inability of the livestock sector to transition quickly (by reducing herds and flock sizes) is threatening the viability of this industry segment and its feed suppliers.

**Status:** It is clear that feed and food price increases in recent months are a result of several factors, including the following matters:

- Increased global crude oil demand,
- Global population expansion and subsequent animal protein demand,
- Record low grain and oilseed inventories,
- The explosive growth of the U.S. biofuels industry, which currently uses corn and soybeans as primary feedstocks for these biofuels,
- Index fund speculative effects on commodity markets, and
- The relatively low value of the U.S. dollar.

**AFIA Position and Action:** AFIA has developed the following position and action plans to address the above factors, which are not all in the industry's control:

*Global crude oil demand:* The administration and Congress must develop and implement a comprehensive U.S. energy policy that will significantly reduce U.S. dependence on foreign oil. The policy should reflect consideration of the feed industry's positions on various options for alternative fuel sources, conservation and environmental protection. The feed industry supports environmentally responsible drilling off-shore (within 50 miles of the coast) and in the Arctic National Wildlife Refuge (the ANWR 10-02 Area) to increase domestic crude oil supplies in the short term. The feed industry also supports focusing on the research and development of energy-efficient and alternative energy sources through combined corporate/government research programs (including, but not limited to, cellulosic and algae biofuels, nuclear power plant expansion, wind farms, solar, clean liquid coal, automotive natural gas, and hydrogen cell technologies).

*Record low global grain and oilseed inventories:* AFIA actively supports increased production capabilities through seed technology and farming practice enhancements and global acceptance of these advances. The administration must use its authority to re-focus the Conservation Reserve Program to accept only environmentally fragile acreage, while releasing non-environmentally sensitive acres ("early opt-outs") without penalty.

*Biofuels competition for available grain and oilseeds:* AFIA strongly supports the development and commercialization of financially viable alternative, farm-based biofuels as one part of a comprehensive U.S. energy policy. However, the government must recognize food security is at least as important as energy security, so there must be an even, fair playing field for both components of our national security. Thus, energy policy must ensure that common inputs of energy and livestock producers and the feed industry will be allocated by market demand rather than government mandates. The government should take the following actions:

- Maintain the federal Renewable Fuel Standard (which mandates the yearly minimum amount of biobased alternative fuels which gasoline refiners must blend) at the 2007 level through 2009, to relieve current price and supply pressures on corn, soybeans, other feed grains and wheat. This would allow the feed and livestock industries a realistic period to reduce herd and flock sizes and find new nutrition options during this difficult time of transition.

- Expedite mandated studies by USDA, the Department of Energy and others on the impact of the RFS and the use of feed/food crops as biofuel feedstocks on crop/feed/livestock and poultry production and consumer prices.
- Expedite expanded federal research investment into non-food crop feedstock development for biofuels.

To overcome the hurdles associated with increased DDGS in livestock feed program usage, AFIA is committed to bringing feed and ethanol industry partners together to maximize the research, education and adoption of DDGS nutrition and refinement opportunities in livestock feeding programs.

*Commodity market regulation:* The disruptive effects of speculator activity should be expeditiously corrected by Congress as follows:

- Remove the exemption from speculative position limits granted to Wall Street banks by Congress and the Commodity Futures Trading Commission in 2000. This would, in one step, return all speculative investors to the same limits and close the loopholes for swaps and electronic exchanges.
- Bring all commodity trades under CFTC authority and enforcement. This would ensure over-the-counter and foreign exchanges, which are traded on U.S. exchanges, are reporting all positions and held to the same established limits.
- Re-establish speculative position limits for all commodities and across all contracts, reversing a 1998 decision to eliminate large and liquid market position limits, with enforcement by the CFTC, not the exchanges.
- Establish a process where speculative position limits are set by the actions of physical producers and consumers of these commodities, rather than the exchanges.
- Provide CFTC with appropriate funding and staffing to fulfill its responsibilities and uniformly enforce controls over all markets.

AFIA is committed to working within or organizing coalitions of other industry segments where there is a shared viewpoint and objectives to achieve the above positions and action plans.

**Opposition Issues:** Some foreign governments and consumers are skeptical of new seed varieties developed through genetic modification, while other organizations encourage expansion of the CRP. The biofuels industry is committed to government policy support (including the RFS) to attract capital for expansion. The CFTC and some members of Congress are not in agreement that speculator position limit exemptions should be reversed.

**Outlook:** There is a united demand by U.S. citizens to develop and implement a comprehensive energy policy. The current administration and Congress generally don't support changes to the RFS, but they are aggressively supporting research for cellulosic biofuel options. Three of AFIA's five commodity market regulation recommendations are being included in the finance package, but they do not include reversing speculative limit exemptions. The November election and the ensuing new Congress and administration may provide some potential for a more positive shift toward support of AFIA's outstanding recommendations. Efforts have begun to coordinate efforts with other agriculture organizations which share similar positions, and these efforts have met with good progress.

**Bottom line:** The significant price increases affecting the feed and livestock industries are a result of many global factors. To achieve the necessary changes, returning reasonable profits to these industries and maintaining U.S. strength in our food system requires a multifaceted approach and plan, as outlined above.

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