



AMERICAN FEED INDUSTRY ASSOCIATION

June 24, 2008

**CORRECTED COMMENTS**

The Honorable Stephen Johnson  
Administrator  
Air and Radiation Docket  
Environmental Protection Agency  
Mail stop: 6102T  
1200 Pennsylvania Ave., N.W.  
Washington, D.C. 20460

**RE: Docket No.: EPA-HQ-OAR-2008-0380**

Dear Administrator Johnson:

I am writing to express the American Feed Industry Association's (AFIA) support of the request by the governor of Texas to reduce the federal Renewable Fuels Standard (RFS). However, the hardships warranting this request extend beyond Texas. Therefore, AFIA strongly urges the Administrator to exercise his authority under Section 211 of the federal Clean Air Act to temporarily **lower the current RFS mandate to the 2007 level (4.02 percent) through 2009** and extend it to the entire U.S. This would allow time for the marketplace to adapt to the rapid increase in commodity and feed prices, magnified by the recent floods in the Corn Belt, and will permit the market to determine the degree to which corn stocks should be divided amongst the producers and consumers of food, livestock feed, exports and ethanol.

AFIA is the national trade association for commercial, integrated and pet food manufacturers, ingredient manufacturers and suppliers, equipment manufacturers and other firms which supply goods and services to the feed industry. AFIA's nearly 500 corporate members manufacture 85 percent of the nation's primary, commercial feed. AFIA represents all aspects of the total feed industry, which is essential for the U.S. production of meat, milk, eggs and fish for U.S. consumers.

**U.S. food security is at least equally as important as energy security.** The U. S. is blessed with the most diverse, highest quality and safest food system in the world, and its food production and food delivery capabilities are the envy of most countries. Developing countries around the world consistently strive to gain independence in their food systems as they progress to further development. The recent limiting of exports by China and Argentina is an example of the importance of food security to these countries.

There is no doubt the development of the U.S. ethanol industry has benefited certain segments of this country's agricultural sector, especially farmers in the Midwest who raise corn. Nevertheless, we also must strive to maintain balance for the entire agricultural sector and consumers. Decision-makers at the federal level should not

choose energy security at the expense of food security. Rather, federal regulators should strive to strike and hold a balance in these areas.

**U. S livestock producers and the feed industry** have taken the brunt of the increase in corn, soybean and grain prices over a relatively short time frame. Figure 1 (Feedstuffs analysis, June 23, 2008) illustrates the significant, recent price increases in the corn and soybean markets, which directly affect the feed industry and livestock farms. Corn is the primary source of the essential nutrient—energy—for the feed industry, and corn is a major component of nearly all U.S. feed formulations. Soybeans are the primary source of protein in animal diets, and corn is the secondary source of protein. Simply, corn and soybeans are the basic ingredients in animal diets, and most other feed ingredients have escalated in price in concert with the corn markets.

The U.S. livestock sector is not an industry that can transition easily or quickly in times of higher costs. Cattle, hogs, poultry and other livestock must be fed, watered and provided for in a variety of ways as they mature, regardless of the state of the overall industry. The unique nature of the business means livestock producers have a difficult time reacting to sudden changes in the marketplace, and they cannot decide to reduce or close operations similar to the way a typical manufacturing business can. This explains why AFIA supports temporarily freezing the RFS mandate at the 2007 level through 2009. A temporary freeze would give livestock producers time to adjust herd sizes and find new nutrition options during this difficult time of transition.

To the degree the RFS mandates indirectly establish a set amount of corn be used for ethanol production versus feed and other potential uses, AFIA believes it is resulting in serious, economic harm to the U.S. feed and livestock industries and will be further magnified with the recent floods in the U.S. Corn Belt.

**Rising commodity prices are driving feed costs up at a dramatic rate.** Farm-level corn prices rose from \$2 a bushel in 2005 to more than \$5.80 a bushel as of June 10, according to USDA figures. This is 190-percent increase in corn prices. Soybean prices have risen from \$5.66 a bushel to \$11.75 a bushel, a more than 107-percent increase during the same period. As a result, this has driven increases in feed costs of almost \$15 billion for all livestock producers between 2005 and 2008 and tightened available supplies of corn (Food and Agricultural Policy Research Institute (FAPRI), University of Missouri, Report #03-08 2008 U.S. Baseline Briefing Book). A more specific example is that since 2005-06, per hundredweight feed costs have increased 49 percent for swine and 33 percent for dairy. (FAPRI-MU Report #03-08) For these producers, feed costs represent 70 percent and 45 percent of total production costs, respectively.

**Dramatically higher feed costs in this short period cause severe economic harm to livestock producers and the feed industry.** While consumer food prices rose 4.9 percent in 2007, the largest increase in 17 years (USDA), this did not reflect the increase in costs for the livestock producer and feed industry. There is a transition period, and the

profitability of livestock producers and the feed industry is being dramatically squeezed until the respective consumer food price allows fair margins to return to all segments of the food industry.

Recent pre-flood data from Iowa indicate that market hog and steer costs per head are at or exceeding the sales value due to high feed costs. According to Iowa State University Cooperative Extension Service monthly reports by Dr. John Lawrence, livestock specialist, returns for finishing medium No. 1 yearling steers to choice slaughter grade show a loss of \$52.31 per head for the December 2007-May 2008 period, with corn costs increasing 30 percent for the last five months of production (\$167.35 to \$217.43) (Appendix A.).

Similarly, Dr. Lawrence reports that the returns for farrowing and finishing hogs show a net profit of \$4.78 a head for the period of January 2008-May 2008, compared with losses in the \$20-a-head to \$30-a-head range the previous four months. Strong export demand and price increases of 28 percent from April to May were responsible for this unusual one-month increase. However, the recent increase in the corn market exceeding \$7 a bushel has erased this one-month positive figure, and Dr. Lawrence's projections for 50-pound feeder pig losses will increase through September (Appendix B.).

During this transition period, many livestock farmers may be forced out of business for reasons including the rapid loss of equity; conservation of equity; reduction in available capital from lending institutions; uncertainty about the future; and insufficient time to adjust to the new market dynamics. History has shown that the reduction in farms from unprecedented economic stress is not normally reversible. Thus, the consumer loses food production capacity and the feed industry loses customers, which will also result in industry consolidation.

**Severe weather and flooding in key Midwestern farm areas will magnify this economic harm.** In recent days, major portions of the Corn Belt have experienced excessive rainfall and tremendous flooding. According to Iowa Farm Bureau estimates, floodwaters have claimed nearly 1.3 million corn acres, up to 2 million soybean acres and up to 16 percent of tillable acres in that state (Iowa Farm Bureau Website, June 20, 2008). Officials in Indiana believe Hoosier farmers lost more than 9 percent of corn, soybeans and wheat to flood conditions (Agriculture Director Andy Miller, Indiana Department of Agriculture Website, June 23, 2008). In Illinois, 75,000 acres of farmland, an area about five times the size of Manhattan, is under water, according to Illinois Farm Bureau (Illinois Farm Bureau Website, June 20, 2008).

Overall, Agriculture Secretary Ed Schafer recently noted that crop flooding losses exceed four million acres in the U.S. (multiple reports, June 19, 2008). Only some of this will be replanted due to the lateness of the growing season for some crops, especially corn. Losses of production facilities and increasing corn and clean-up costs in Iowa and

surrounding states will likely have additional negative effects on hog and steer production costs.

**Corn production forecasts and an expected low, ending, stocks-to-use ratio will have a significant negative effect on feed and food prices.** The U.S. Department of Agriculture's (USDA) supply and demand figures for June forecast reduced corn acreage and yields as a result of slow planting progress, slow crop emergence and persistent heavy rainfall across the Corn Belt (USDA World Agricultural Supply and Demand Estimates-459, June 10, 2008). This forecast would result in the lowest ending stocks since 1995-96, and the 673 million bushels would be 47 percent of last year's ending stocks. As of this date, it is not reasonable to replant most weather- and flood-damaged corn acreage, so the damage is permanent for this growing season. This is in conjunction with global stocks for several major commodities being at or near historic lows, particularly on a stocks-to-use basis.

In addition to lower corn production, the USDA's WASDE-459 report of a billion-bushel reduction in feed and residual use is enormous, unprecedented and pessimistic. The forecast of reducing the feeding from 6.15 billion bushels to 5.15 billion bushels is a 16.26 percent reduction in corn feeding, as illustrated in Figure 2. At this time it looks like USDA's forecast is understated at best, and ending stocks will most likely be lower than projected, given recent weather patterns through the rest of the growing season in most corn-growing areas. This will magnify corn market price increases, as annual prices tend to have a negative correlation with ending stocks-to-use ratios, as illustrated in Figure 3. Based on this USDA forecast, the stocks-to-use ratio for 2008-09 crop year would be a very dangerously low 5.4 percent, compared to a more reasonable level of 10 percent to 15 percent (WASDE, various issues). It also will keep corn supplies dangerously tight throughout the next year until we experience possible relief from a relatively normal 2009-10 growing season and harvest.

**Under the current crop conditions, the RFS mandate will significantly add to increasing grain, feed and food prices, and risk sustained, long-term damage to the livestock industry.** The industry recognizes there are several global factors that have resulted in increased grain, oilseed, feed and food prices, including increased global energy demand; increased global demand for animal protein for a growing population above poverty level; increased global feed production to support this demand; record low global stocks-on-hand of grains and oilseeds; adverse weather; increases in ethanol industry utilization of limited corn, soybeans and wheat supplies; the significant increase of index fund speculators participating in lightly regulated commodity markets, and the low and falling value of the U.S. dollar.

While not the primary factor, ethanol does have an effect on increasing corn market prices. A study by Dr. Wally Tyner of Purdue University's Department of Agricultural Economics, compares corn prices with crude oil prices between \$40 a barrel and \$120 a barrel. Tyner's study found the increase in corn prices was caused by both increased

crude oil markets, as well as ethanol subsidies and the RFS mandate. The run-up in crude oil prices was responsible for a \$3-a-bushel increase in the corn price, while ethanol was responsible for a corn price increase of somewhere between 55 cents a bushel and \$1.07 per bushel, increasing with crude oil price increases (Purdue University News, June 5, 2008).

Most important, ethanol use is targeted to consume 30 percent of U.S. corn production, based on the RFS requirement and the June USDA forecast (WASDE-459). This would be an increase from 21 percent in 2007-08, as illustrated in Figure 4. While recent weather is also disrupting the ethanol industry in flooded areas, continued price increases in the crude oil markets will support meeting this requirement as flooding subsides.

The RFS has not been binding the last two years due to ethanol production exceeding the lower-level biofuel blending mandates. However, increasing the mandate to 7.76 percent for all gasoline in the U.S. in 2008 (up from 4.02 percent in 2007) and expected complications related to poor crop conditions, will likely require the RFS to be binding in 2008. This will result in the government mandate over-ruling normal market-driven allocations of corn for ethanol versus food, feed and exports. Temporarily holding the RFS at 2007 levels will allow the market to determine where limited corn stocks will be used.

While temporarily holding the RFS at 2007 levels for 2008 and 2009 may provide some relief from corn price increases, the more important result will be the positive assistance such a reduction will have on rebuilding the ending stocks of corn on hand. Such a step also would reduce the risk to U.S. food system security going into the 2009-10 crop year.

**The Administration should accelerate the development of alternative feedstocks for biofuels.** AFIA members believe in the importance of initiatives and incentives at the federal and state levels and in the private sector to develop new technologies such as renewable fuels. American policy-makers and business leaders, working closely with farmers and other agricultural experts, should seek to develop additional domestic energy supplies, now more than ever. We applaud the EPA's efforts to fund research into alternative feedstocks for ethanol production and urge you to increase funding for these research efforts over the coming months.

**The Administration also has the power to increase the supply of corn and other feedstocks during this extremely low stocks-to-use period.** AFIA urges USDA to permit farmers and other land owners to withdraw non-environmentally sensitive land enrolled in the Conservation Reserve Program to provide additional planting opportunities.

Given that 2008 is clearly shaping up to be a poor crop year in much of the Midwest, and stocks could be at extremely low levels by the end of this year, AFIA believes end-of-the-

year, stocks-to-use ratios should be among the factors considered by federal authorities when considering adjustments to the RFS in the future. Congress and the President should work to pass new energy legislation that is truly comprehensive. Such legislation should factor in the most recent developments, including the consideration of end-of-the-year, stocks-to-use ratios, when adjusting the RFS and allow for natural disasters, such as flooding and historic droughts. At no time should the USDA allow our critical food supplies to reach the low levels they are forecast to hit this next year. Levels below 5 percent stocks should always be viewed as extremely critical--a food crisis. Adjustments must be made well in excess of these levels to ensure that the average American citizen is not left struggling to find adequate, safe food. This imposition of an inflationary tax most affects our poorest citizens. These are the people most sensitive to rising food prices. We should remember they may not need to drive, but they always need to eat.

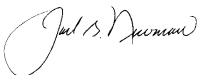
**In summary, the Act provides the Administrator the authority to take action in appropriate circumstances.** As agricultural economist Dr. Bruce Babcock of Iowa State University has said, the government doesn't have to pick winners in the competition for our corn, grain and oilseed stocks (Babcock presentation, Iowa State University Extension Webcast, "Alternative Crops and Alternative Policies for Bioenergy," March 5, 2007). And that was not the intent of the RFS.

However, combined with the low stocks on hand and forecasts of reduced yields for the current season, the government would be doing exactly that, if you do not use your authority and take steps to alleviate this temporary, government-driven competitive influence.

The Texas governor's waiver request is not unique to Texas, but rather it represents a national situation. Therefore, AFIA strongly urges the Administrator to exercise his authority under Section 211 (o) of the Act to temporarily **freeze the current RFS mandate at the 2007 level through 2009**. This will permit the market to determine how the corn stocks are directed between food, feed, exports and ethanol production.

Thank you for your consideration of this matter. If you have comments or questions regarding AFIA's views, please contact me at 703-558-3562 or [JNewman@afia.org](mailto:JNewman@afia.org) to discuss this issue further.

Sincerely,



Joel A. Newman  
President and CEO  
American Feed Industry Association

Figure 1:

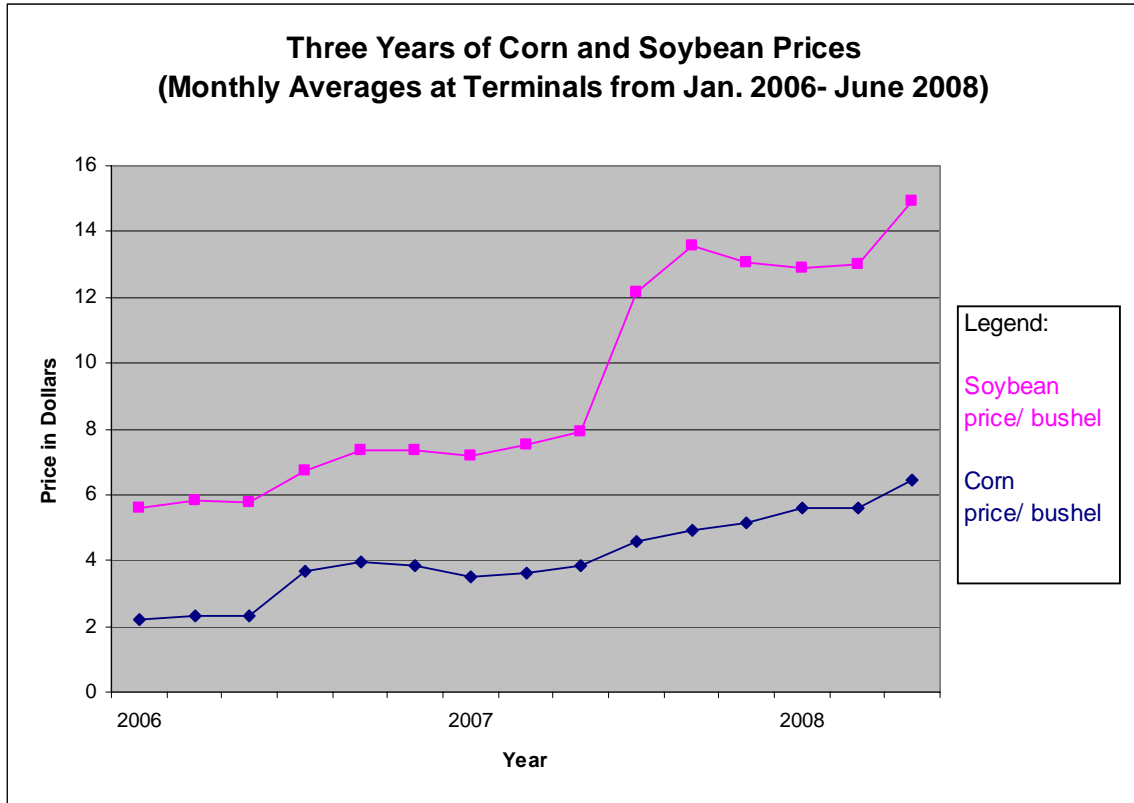


Figure 2:

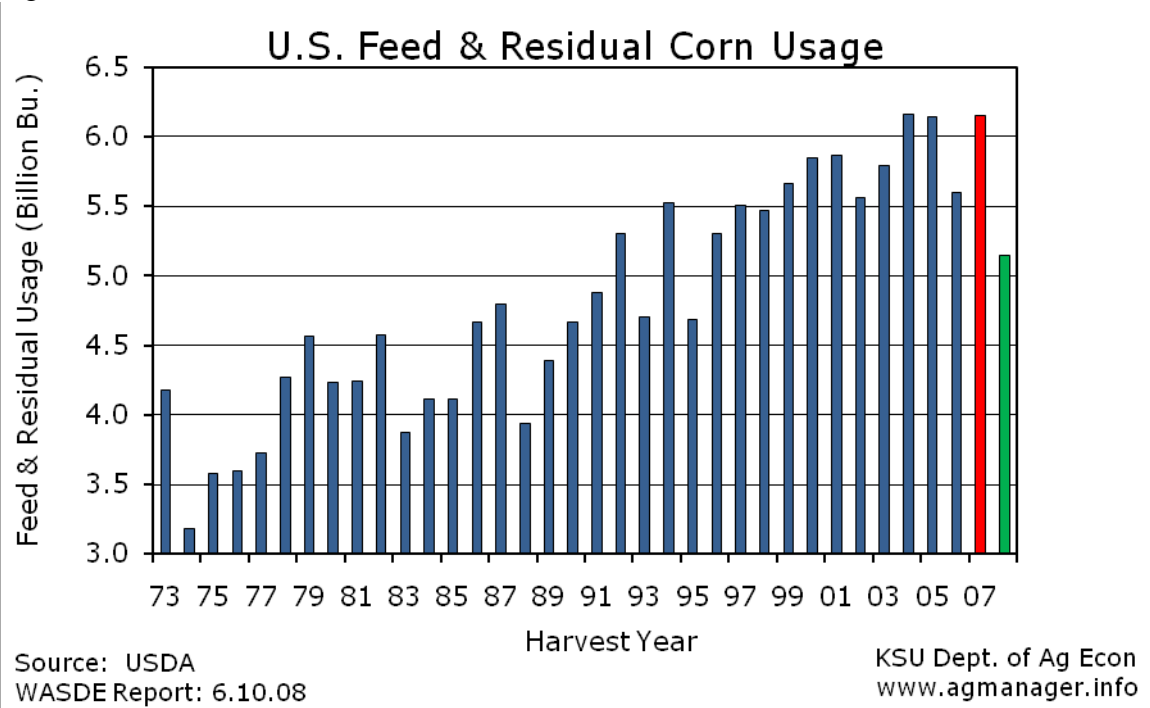


Figure 3:

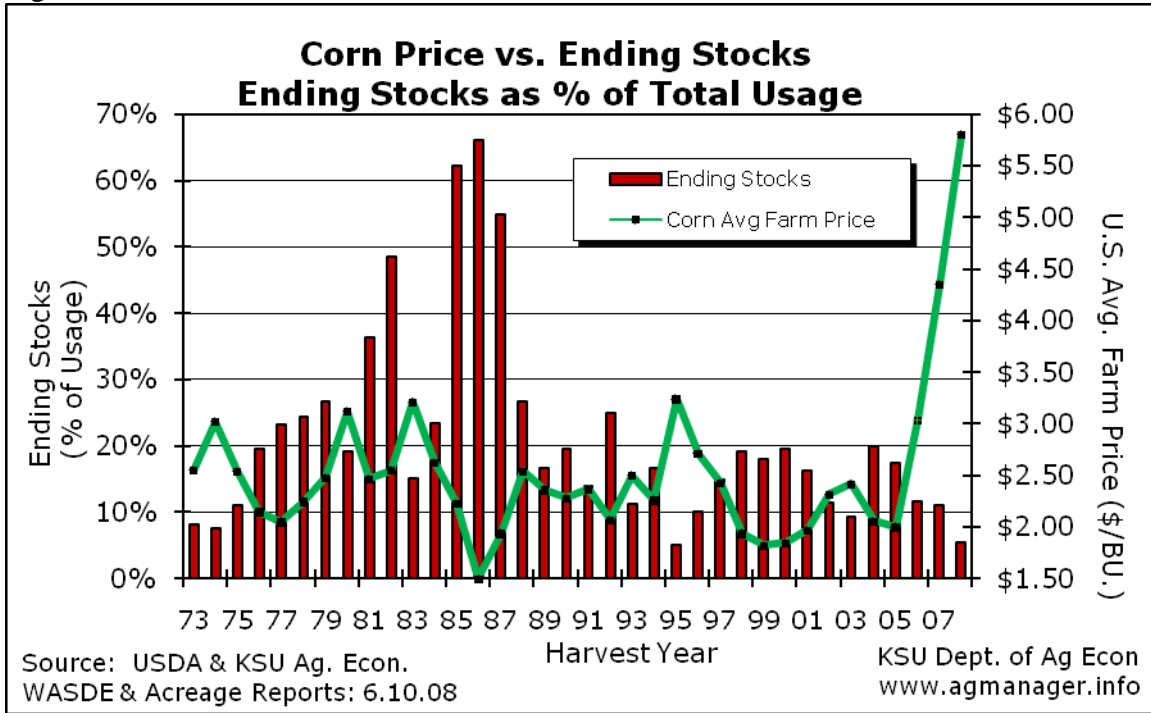
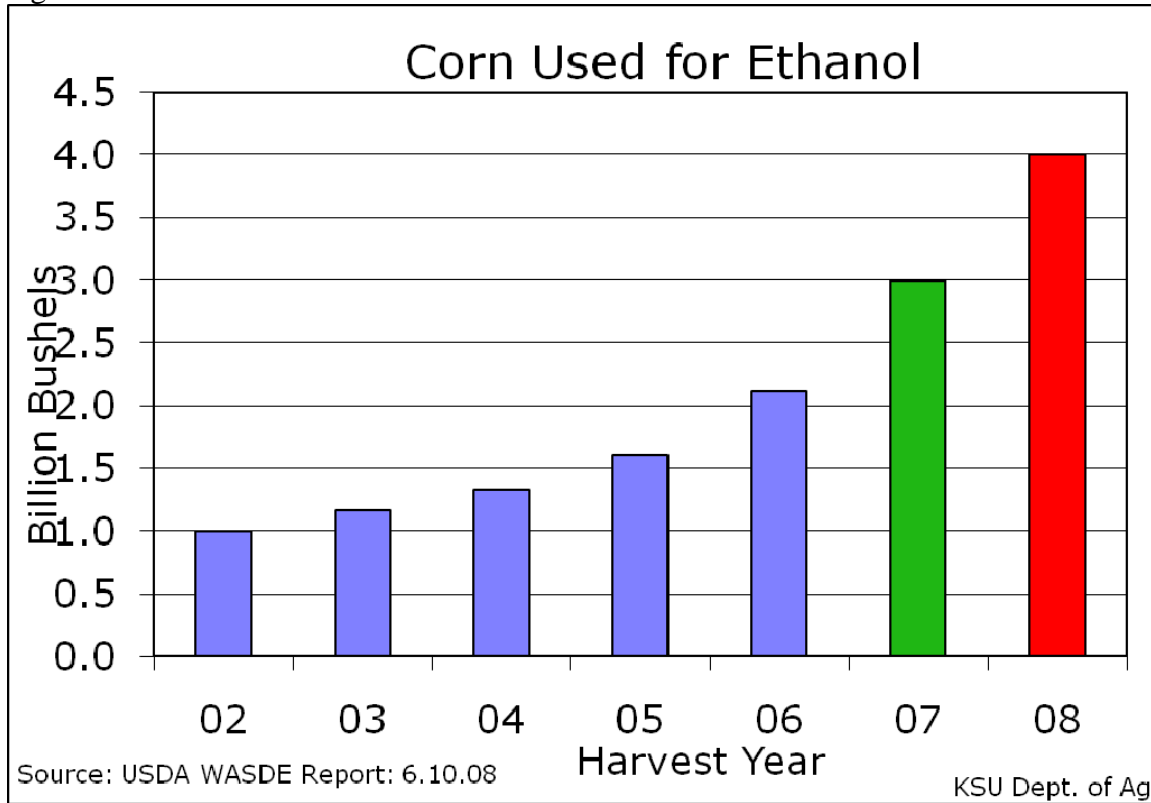


Figure 4:



## Estimated Returns for Finishing Medium No. 1 Yearling Steers to Choice Slaughter Grade, Iowa-So. Minnesota

### Feeding Periods

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Purchased:	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Sold:	<u>Jan-08</u>	<u>Feb-08</u>	<u>Mar-08</u>	<u>Apr-08</u>	<u>May-08</u>	<u>Jun-08</u>	<u>Jul-08</u>	<u>Aug-08</u>	<u>Sep-08</u>	<u>Oct-08</u>	<u>Nov-08</u>	<u>Dec-08</u>
<b>Choice 750# Feeder Steer:</b>												
Purchase Price \$/cwt.	118.29	119.25	113.50	110.06	101.95	97.01	102.41	99.38	101.63	109.37		
Purchase cost	887.18	894.38	851.25	825.45	764.63	727.58	768.08	745.35	762.23	820.28		
Feed costs:												
Corn	167.35	176.89	190.01	204.71	217.43							
Modified distiller grain	52.55	57.69	62.55	66.88	69.65							
Hay	17.14	17.46	17.78	18.38	18.95							
Supplement, salt & minerals	12.61	12.61	12.61	12.61	12.61							
<b>Total Feed Costs</b>	<b>249.65</b>	<b>264.65</b>	<b>282.94</b>	<b>302.58</b>	<b>318.64</b>							
Operating and overhead	91.72	92.41	90.55	87.06	84.37							
Labor	30.98	30.98	30.98	30.98	30.98							
Transportation	19.73	19.86	20.24	20.59	20.75							
<b>Choice 1250# Steer:</b>												
Total cost/head	1,279	1,302	1,276	1,267	1,219							
Break-even price, \$/cwt.	102.34	104.18	102.08	101.33	97.55							
Selling price, \$/cwt.	89.96	90.81	89.35	89.83	93.37							
Sales value	1,125	1,135	1,117	1,123	1,167							
<b>Profit (loss) per head</b>	<b>(154.75)</b>	<b>(167.14)</b>	<b>(159.09)</b>	<b>(143.80)</b>	<b>(52.31)</b>							

1/ Data are in \$/per head unless otherwise stated

2/ Includes fixed costs and non-variable feed costs, excluding labor. Interest costs on feeder cattle, feed and delivery are based on rates at placement.

## Estimated Returns for Farrowing and Finishing Hogs or Producing Feeder Pigs in Iowa <sup>1/</sup>

Addendum to M-1284b  
Cooperative Extension Service  
Iowa State University

### Production Period

Farrowing Month:	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
Sales Month:												
as 50# Feeder Pig	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
as Market Hogs	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
<b>Costs of Producing 50# Feeder Pigs:</b>												
Corn	78.53	78.17	79.11	80.97	83.91	90.24	96.17	101.44	108.95			
Soybean meal	60.07	63.86	69.00	73.44	79.62	85.26	88.75	89.17	88.12			
Vitamin & mineral	58.95	58.95	58.95	58.95	67.95	76.95	85.95	94.95	103.95			
Variable costs <sup>2/</sup>	194.36	194.40	194.54	194.51	194.50	194.53	194.76	194.84	195.00			
Operating Interest	6.96	6.99	7.05	7.09	7.02	7.12	7.26	7.39	7.39			
Fixed Costs	67.37	67.37	67.37	67.37	67.37	67.37	67.37	67.37	67.37			
Cost per 50# pig	51.80	52.19	52.89	53.59	55.60	57.94	60.03	61.69	63.42			
Sold as 50# feeder pig	53.57	49.06	47.69	44.71	52.72	54.02	50.11	47.58	46.66			
Profit (loss) per head	1.77	(3.13)	(5.20)	(8.88)	(2.88)	(3.92)	(9.92)	(14.11)	(16.76)			
Sow Value Change / Feeder Pig Sold	(0.99)	(2.11)	(2.17)	(2.82)	(2.67)	(1.90)	(1.54)	(2.63)	(1.32)			
Total Profit (loss) per head	0.78	(5.24)	(7.38)	(11.70)	(5.55)	(5.82)	(11.46)	(16.74)	(18.08)			
<b>Costs of finishing 50-270# pigs:</b>												
Corn	35.60	38.21	40.66	43.64	45.76							
Soybean meal	12.11	12.95	13.64	13.97	13.96							
Dried distiller grain	2.32	2.55	2.64	2.69	2.74							
Vitamin & mineral	7.80	7.80	7.80	7.80	7.80							
Variable costs <sup>3/</sup>	18.17	18.25	18.37	18.45	18.54							
Operating Interest	3.28	3.45	3.59	3.74	3.78							
Fixed Costs	6.73	6.73	6.73	6.73	6.73							
Total Finishing Costs/head:	86.02	89.95	93.43	97.00	99.31							
<b>Average Market Hog, 270#:</b>												
Total Costs/head	137.82	142.15	146.32	150.60	154.90							
Break-even price \$/cwt.	51.04	52.65	54.19	55.78	57.37							
Selling price, \$/cwt.	38.68	44.64	40.62	47.24	60.04							
Sales value	104.44	120.53	109.67	127.55	162.11							
Profit (loss) per head	(33.38)	(21.62)	(36.65)	(23.05)	7.21							
Sow Value Change / Hog Marketed	(2.61)	(2.41)	(2.84)	(3.82)	(2.43)							
Total Profit (loss) per head	(35.99)	(24.03)	(39.49)	(26.87)	4.78							

<sup>1/</sup> Numbers are in dollars per head, unless otherwise noted.

<sup>2/</sup> Variable costs per pig multiplied by 9 pigs per litter. Individual costs include: labor (\$8.59), utilities (\$2.54), vet/med (\$2.40), feed delivery (\$1.06), manure (\$1.10), administration (\$2.00), misc (\$1.50) and transportation of feeder pigs.

<sup>3/</sup> Variable finishing costs per pig include: labor (\$2.81), utilities (\$1.57), vet/med (\$2.32), feed delivery (\$3.25), manure (\$1.90), administration (\$1.50), misc (\$2.00), production cost of pigs lost, and the additional cost of transporting finished hogs instead of feeder pigs.