

July 16, 2010

The Honorable Harry Reid
U.S. Senate Majority Leader
522 Hart Senate Office Building
Washington, DC 20510

The Honorable Mitch McConnell
U.S. Senate Minority Leader
361A Russell Senate Office Building
Washington, DC 20510

Dear Majority Leader Reid & Minority Leader McConnell:

The undersigned groups, representing the livestock, poultry, and meat sectors in the U.S., continue to have serious concerns over the negative economic effects of government support for corn-ethanol, specifically the Volumetric Ethanol Excise Tax Credit (VEETC) and the import tariff on foreign ethanol. We encourage you to not extend these provisions, which are scheduled to expire in December, in any legislation developed or considered in the coming months.

Although we support the need to advance renewable and alternative sources of energy, we strongly believe it is time that the mature corn-based ethanol industry operates on a level playing field with other commodities that rely on corn as their major input. Favoring one segment of agriculture at the expense of another does not benefit agriculture as a whole or the consumers that ultimately purchase our products.

The blender's tax credit, coupled with the import tariff on foreign ethanol, has distorted the corn market, increased the cost of feeding animals, and squeezed production margins -- resulting in job losses and bankruptcies in rural communities across America. The meat and poultry industry directly and indirectly employs 6.2 million people and represents nearly 6 percent of total GDP.

The U.S. Department of Agriculture estimates that corn use for ethanol production increased from 1.603 billion bushels during the 2005-2006 marketing year to 3.677 billion bushels during the 2008-2009 marketing year. Ethanol production is expected to absorb 4.3 billion bushels in the 2009-2010 marketing year. Ethanol use accounted for approximately 14 percent of total corn use in 2005-2006, and that percentage is projected to grow to more than 33 percent in 2009-2010. Over the same period, use of corn for feed has fallen from about 55 percent to about 42 percent, with exports falling from almost 19 percent to about 15 percent.

A report released in September 2008 by the Congressional Research Service (CRS) stated that the dramatic increase in livestock production costs were attributed to feed. The CRS report said that "the main driver was feed, which may account for 60%-70% of total livestock production costs in any given year." Between 2005 and 2008, corn prices quadrupled, reaching a record high of more than \$8 a bushel; a pattern that is unsustainable for our industries. There is no safety net to protect against the volatility in the commodity markets, forcing all industries to pay higher prices for input costs due to the fluctuations in the corn market.

While there has been some recent relief in corn prices, current market prices are still 50 percent higher relative to pre-RFS conditions. Because of this, the turkey industry has endured the deepest cutbacks of any in animal agriculture – a decrease in turkeys raised of more than 6 percent since 2007 levels and a near 9 percent reduction from 2008 levels – to adjust to these increased input costs. More importantly, the turkey industry eliminated nearly 3,000 jobs vital to rural America in 2008 and 2009 alone.

The U.S. pork industry endured the two most challenging years in the industry's history in 2008 and 2009. Total losses for the industry amounted to more than \$6.2 billion and average farrow-to-finish operations lost nearly \$23 for each animal marketed from October 2007 through January 2010. This financial disaster occurred despite near-record hog prices in 2008. The cause of the losses was higher production costs driven primarily by higher corn and soybean prices. Even now, projected production costs for 2010 are 25 percent higher than the costs that prevailed from 2000 through 2006.

From December 2007 to February 2010 the cattle feeding sector of the beef industry lost a record \$7 billion in equity due to high feed costs and economic factors that have negatively affected beef demand.

The cumulative additional cost on the broiler industry since corn prices began their rise in the fall of 2006 has been almost \$15 billion, as of April 2010. This additional cost does not include the higher cost of other feed ingredients, such as soybean meal, whose prices tend to move in tandem with corn. Accordingly, broiler companies have suffered reduced profitability.

A system based on an open and free market is the best driver of competition and innovation in all industries. According to an August 2009 U.S. Government Accountability Office report titled: "Biofuels – Potential Effects and Challenges of Required Increases in Production and Use," the VEETC may no longer be needed to stimulate conventional corn ethanol production because the domestic industry has matured. The report also stated that the VEETC's annual cost to the Treasury in forgone revenues could grow from \$4 billion in 2008 to \$6.75 billion in 2015 for conventional corn starch ethanol.

This week the Congressional Budget Office (CBO) released a report titled, "Using Biofuel Tax Credits to Achieve Energy and Environmental Policy Goals." The report found that after adjustments for the different energy contents of the various biofuels and the petroleum fuel used to produce them, producers of ethanol made from corn or other similar feedstocks receive 73 cents to provide an amount of biofuel with the energy equivalent to that in one gallon of gasoline. The report also stated that the cost to taxpayers of using ethanol to reduce gasoline consumption by one gallon was \$1.78.

We support energy independence and the development of the renewable fuels industry. However, 30 years of support has created a mature corn ethanol industry that now needs to compete fairly in the marketplace and allow for the next generation of renewable fuels to grow. We strongly encourage you to oppose an extension of the VEETC and the import tariff on foreign ethanol that are set to expire this December.

Sincerely,

American Meat Institute
National Cattlemen's Beef Association
National Chicken Council
National Meat Association
National Pork Producers Council
National Turkey Federation