



October 21, 2008

The Honorable Ed Schafer
Secretary of Agriculture
Room 200-A
Jamie L. Whitten Federal Building
12th & Jefferson Drive, SW
Washington, DC 20250

Dear Mr. Secretary:

The news media recently reported your remarks in Des Moines regarding plans for USDA to extend rural development loans to ethanol plants that bought corn at the higher prices that prevailed earlier this year. According to news reports, you also stated that the ethanol industry is too important to be allowed “to fall into more financial difficulty” and must be supported by the U.S. government. Such a program would be a startling new development that discriminates in favor of one segment of American agriculture.

While we applaud your interest in rural development, we must question whether the ethanol industry is in a uniquely difficult position. Many of our producer and processor members also took long positions on corn and soybeans and are paying above-market rates right now. It will be some months before all the high-priced corn passes through the system. That is simply the way the commodity markets work, and every participant has to decide whether to go long or pay the current price. It seems to be the opposite of free enterprise to insure companies – and only some companies – against the possibility that their speculative commodity bets might go wrong.

We in animal agriculture are particularly concerned that you would consider adding one more level of support for the corn-based ethanol industry. The federal government already supports ethanol producers through the Renewable Fuel Standard mandate; the blender’s credit for fuel companies that utilize ethanol; and a tariff on imported ethanol. The three legs of support for domestic ethanol have already had a serious impact on animal agriculture.

You should also be aware that the high price of corn has already caused real pain in animal agriculture. For example, poultry companies have already been forced to close several plants, and more than 3,000 jobs have been lost. These industries are relatively labor-intensive, so that

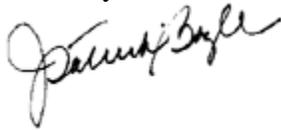
closing a meatpacking or poultry processing plant involves much higher job losses in a community than closing an ethanol plant.

High commodity prices have been wreaking havoc in animal agriculture for almost two years. Yet no one at USDA has suggested that the government could provide loan funds to cover our members' losses in the corn market.

Finally, it should be noted that there is little question that the ethanol industry has overbuilt itself. The industry has 13.7 billion gallons of annual capacity existing, in expansion, or under construction. However, the mandated demand under the Renewable Fuel Standard is only nine billion gallons in 2008 and 10.5 billion gallons in 2009. It will be some time before demand – even a mandated demand – catches up to production. Expansion beyond demand is the industry's own doing. It is not the responsibility of the U.S. government to shield investors from the consequences of overbuilding.

We urge you to rethink your intention of selectively lending taxpayer funds to private facilities that are having difficulty with the price of commodities. As stated before, USDA told the livestock industry to "ride" the high commodity prices for a few years. Despite numerous requests to create a task force to address the negative consequences of ethanol mandates in feed prices, USDA did nothing. It is not clear to us why now USDA would be so inclined to provide assistance to one particular segment of the industry in dealing with a problem that affects us all.

Sincerely,



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