

April 29, 2013

The Honorable Fred Upton  
Chairman  
House Energy & Commerce Committee  
2125 Rayburn House Office Building  
Washington, DC 20515

The Honorable Henry Waxman  
Ranking Member  
House Energy & Commerce Committee  
2125 Rayburn House Office Building  
Washington, DC 20515

Dear Chairman Upton and Ranking Member Waxman:

The livestock and poultry groups appreciate your leadership with the release of a white paper reviewing the agricultural impacts due to the renewable fuel standard (RFS). Please find below comments submitted on behalf of:

American Meat Institute  
American Sheep Industry Association  
California Dairies, Inc.  
Milk Producers Council  
National Cattleman's Beef Association  
National Pork Producers Council  
National Turkey Federation  
North American Meat Association

In addition, please find attached a study entitled "The RFS, Fuel and Food Prices, and the Need for Reform" completed by Dr. Tom Elam of FarmEcon on behalf of the listed organizations. We look forward to working with you and your staff as this issue progresses within the committee.

### **Animal Agriculture Impacts due to the RFS**

Effects of the RFS versus market forces in bringing about the rapid 2007-2012 increase in U.S. ethanol production, and the corn that it has taken off the market, is central to this discussion. If the RFS has played little or no role, then there is no need to reform the current program. If the RFS is a significant driver, is distorting markets, and the market has played a secondary role, then a debate is in order.

Iowa State's FAPRI econometric model has generated results that suggest that lowering the RFS would have little impact on corn prices of ethanol production. The implication reached was that it is market forces that are the primary driver.

However, there are two facts in evidence that strongly suggest that the role of the RFS has been the primary force in the rapid development U.S. corn-based ethanol.

First is the simple fact that nowhere in the world have we seen any significant biofuel production created without strong government support in the form of mandates and/or subsidies. Everywhere you look, markets have not been the primary drivers. China, Canada and the EU, once strong proponents of biofuels, have backed away from increasing biofuel production by mandates and subsidies. The U.S. RFS program is by far the most ambitious biofuel mandate in the world, and we have seen the most rapid increase in ethanol production on record.

If biofuels were a marketplace phenomenon, driven by business people who see market-based opportunities, we would see biofuel investments without mandates and subsidies. We do not see those free market investments happening on any significant scale. The RFS is the primary driving force behind U.S. ethanol production, and the RFS debate is of vital importance.

The second fact in evidence is the biofuel sector's strong negative reaction to this debate. If the sector had any faith in its ability to maintain and grow its market based on the merits of its products it would not object strenuously to RFS reform. The leadership of the ethanol industry is fully aware that if the support of RFS mandates is reduced or eliminated, their business will suffer. This fact further validates the RFS as the key driver behind ethanol industry growth.

### **1. What has been the impact of the RFS on corn prices in recent years? What has been the impact on soybean prices? Have other agricultural commodity prices also been affected?**

The RFS has been the major driver in increasing corn use for ethanol production, and causing corn stocks to decline to crisis levels. In a market-driven world, ethanol would be priced competitively with gasoline. That has never been true in the entire history of the industry. Once relegated to niche additive markets for octane enhancement and oxygenation, ethanol was originally worth a premium to gasoline. At current production levels, ethanol is being used for its energy content, about 67% of gasoline. At current (April 18, 2013) gasoline price levels ethanol has a market value of about \$1.80 per gallon for its energy content. The national average wholesale price was about \$2.70 today. At \$1.80 per gallon, an ethanol plant can afford to pay only \$3.80 per bushel for corn. At \$2.70 per gallon for ethanol, the affordable corn price for an ethanol producer is \$6.55 per bushel. Thus simple, one day, example of how far from true market value the RFS has taken corn prices is typical of what has been driving daily corn prices since 2008.

A secondary effect has been increased corn price volatility. Compared to 2000-2006, corn price volatility has doubled since the RFS became law. The RFS has driven corn use growth faster than production. The result is stocks chronically depleted to minimum levels, causing market prices for corn and other agricultural commodities to swing wildly on the whims of the weather.

Corn is by far the most important food ingredient in U.S. agriculture. Other farm commodity prices are correlated with corn. That list includes wheat, soybean meal, sorghum, barley, oats, and hay. In addition, by-product feed prices such as distillers' grains, wheat milling by-products, edible fats, meat and bone meal and oilseed milling are all influenced by corn prices.

**2. How much has the RFS increased agricultural output? How many jobs has it created? Have any jobs been lost? What is the net impact on the agriculture sector?**

We need to discount 2012 because of the weather disaster that reduced crop production. However, using 2012 data, since the RFS arrived in 2008, total corn, wheat and soybean production have not grown. In fact, corn production declined 10.8%, soybean production increased 1.6%, and wheat production is down 9.2%. If we go back one year, to 2011, and compare to 2008, corn production was up 2.2%, soybeans up 4.2% and wheat was down 20%. While 2012 weather has played a role, since the current RFS was created total major crop production has not materially increased.

The jobs question is difficult to answer, but if we look objectively at jobs created by various corn using industries the answer is that increased ethanol has undoubtedly destroyed more jobs than it created.

Using a recent 2013 Renewable Fuels Association study, there were 11,971 direct jobs in the nation's ethanol companies in 2012. According to a 2009 American Meat Institute study there are 524,500 direct jobs in meat and poultry processing. Both estimates are for direct employment only, and do not include indirect and induced effects.

If we include indirect and induced jobs, the Renewable Fuels Association study claims a total of 383,260 total jobs that are affected by ethanol production. This implies that every ethanol plant job supports, in a meaningful way, another 32.5 jobs in the economy. That "jobs multiplier" of 32.5 is about 10 times what is generally accepted by economists.

The similar 2009 American Meat Institute study claimed a jobs multiplier of 2.4, and total direct, indirect and induced jobs of 1,269,500. The bottom line is that just the meat and poultry portion of food production supports a much larger labor force than the entire fuel ethanol industry.

Scaling jobs to the amount of corn used also shows large differences. A million tons of corn used to produce meat and poultry supports over 3,600 direct jobs. That same volume of corn used by the ethanol sector supports only 145 jobs. Including indirect and induced employment (as claimed by the respective industry associations), a million tons of corn supports 5,117 ethanol-related jobs and 8,119 meat and poultry-related jobs. The ethanol industry claim is based on a jobs multiplier that is significantly higher than generally accepted.

To the extent that the RFS has diverted corn from food to fuel production, jobs have been lost. It is not just current jobs that were lost, but job creation opportunities that were not realized because food production was constrained.

From 2007 to 2012, over 27.9 million tons of combined corn and distillers' grains were removed from total food production, of which meat and poultry processing is only a portion. Ethanol producers' corn use, net of distillers' grain returned to food production, increased about 40.6 million tons over this same period. Given the vastly different direct job multipliers, far more direct jobs, existing and potential, were destroyed in meat and poultry processing than were created by ethanol producers.

**3. Was EPA correct to deny the 2012 waiver request? Are there any lessons that can be drawn from the waiver denial?**

The waiver petition should have been granted. Record-high corn prices, distress in the food sector, corn exports that declined by 50%, the closing of numerous ethanol plants, and skyrocketing D6 ethanol RIN values are all symptoms of severe economic distortions caused by the RFS. Market forces should have been allowed to allocate the limited corn supply.

The lesson learned is that the EPA should not have the sole power to judge waiver requests.

**4. Does the Clean Air Act provide EPA sufficient flexibility to adequately address any effects that the RFS may have on corn price spikes?**

No, it does not. The current mechanism is cumbersome, inflexible and does not fairly weigh the effects on all affected parties. The Clean Air Act should be amended, or the entire conventional fuel RFS should be removed.

**5. What has been the impact, if any, of the RFS on food prices?**

Food prices are covered extensively in the paper submitted with these comments. Since the RFS was implemented in 2008, food price inflation has gone from slightly slower than general inflation to 60% higher than general inflation. Food affordability that had been increasing steadily since 1950 suddenly reversed that trend, and food started to become less affordable. Higher food costs are damaging the economy's ability to create jobs, and holding down consumers' ability to increase discretionary spending. As stated at the beginning, much of the reversal in food affordability is the result of the RFS, and the market distortions it has caused.