# National Farmers Union
# Testimony of Tom Buis

## Before the
## U.S. Congressional Joint Economic Committee

## How Are High Food Prices Impacting American Families?

**Thursday, May 1, 2008**
**Washington, D.C.**

**STATEMENT OF TOM BUIS, PRESIDENT**
**NATIONAL FARMERS UNION**
**BEFORE THE CONGRESSIONAL JOINT ECONOMIC COMMITTEE**
**CONCERNING: HOW ARE HIGH FOOD PRICES IMPACTING AMERICAN FAMILIES?**
**MAY 1, 2008**

Good morning, Mr. Chairman and members of the committee. I appreciate the opportunity to testify on behalf of the farm, ranch and rural members of National Farmers Union (NFU). NFU was founded in 1902 in Point, Texas, to help the family farmer address profitability issues and monopolistic practices while America was courting the Industrial Revolution. Today, with a membership of 250,000 farm and ranch families, NFU continues its original mission to protect and enhance the economic well-being and quality of life for family farmers and ranchers and their rural communities. We believe that consumers and producers can work together to promote a quality domestic supply of safe food.

I commend the committee for holding this hearing to gather information about the impact of food price increases, and also to explore the real reasons behind these increases. I hope the hearing will also serve to gather input on what steps can be taken to address the problem for the nation's citizens most in need. Yes, American families are impacted by higher food prices, some more than others. There is no doubt that higher food prices are having a tremendous impact on low-income families. Families without the resources to absorb food price increases are struggling to put dinner on the table; those below the poverty level and who do not make a livable wage are most impacted.

Food is not an optional commodity for anyone, regardless of income demographics. As a farmer from Indiana and a national farm leader, I find it appalling that anyone in America or the world goes to bed hungry. America's farmers and ranchers have almost always produced a surplus of food commodities year in and year out. For the most part, food price increases are not about the lack of production, but other macro-economic factors including trade distortion, distribution and political decisions.

## The Causes of Higher Food Prices

Today's food price increases can be attributed to many factors; I will highlight a few within my testimony. While many like to blame the increases on biofuels, specifically corn ethanol, a closer examination will reveal that other factors beyond ethanol have played a greater role in higher food prices. While there is no doubt that corn ethanol has increased demand for corn, and thus boosted prices for corn and some other commodities, it is not the biggest reason for the retail food price increases. The more significant reasons are $120 per barrel of oil, the declining value of the U.S. dollar, increased demand from developing economies around the world, and world-wide weather related production shortages, especially in wheat.

<u>Cause #1 – Energy Prices</u>

Studies have shown that energy costs have twice the impact on retail food prices as the price of corn. A recent report by John Urbanchuk of LECG reports that a one dollar increase in corn results in a 0.3 percent increase in the consumer price index for food, whereas a one dollar increase in gasoline results in a 0.6 percent increase for food. With the average food item traveling more than 1500 miles before reaching the final consumer, it is no wonder that food costs are increasing when looking back the last seven years; gasoline prices have increased 198 percent per gallon, diesel fuel prices have increased almost 250 percent per gallon and crude oil has increased 453 percent according to the Department of Energy's Energy Information Agency. In response to the distance food travels, NFU has prioritized the Buy-Local/Eat-Fresh food movement to encourage consumers to eat food from their back yard. That said, increased ethanol production is actually keeping gasoline prices from going even higher. A Merrill Lynch analyst estimates the biofuels industry is reducing gasoline price by 15 percent per gallon today. The U.S. average price per gallon would increase $0.50, from $3.39 to $3.89 today without biofuels.

Cause #2 - Weather Related Production Shortfalls
In 2007, most major wheat growing regions experienced weather related production problems. The United States, Canada, Australia and Europe all experienced weather related production shortfalls at the same time. In response, wheat prices reached record levels and export demand skyrocketed, as world wheat stocks reached new lows. While some have blamed U.S. farmers for shifting wheat acreage to corn, it should be noted that very little U.S. wheat acreage is suitable for corn production. It takes more water to grow corn than wheat and most of the wheat acreage that could be converted to higher value commodities, such as corn or soybeans, long ago made the conversion. USDA's 2008 planting intentions indicate an increase in wheat acreage, as the higher prices are more economically favorable than other commodities.

Cause #3 - Weak Dollar and Export Demand by Emerging Economies
Today, the U.S. dollar's value has fallen to a 30-year low, according to USDA, as compared with other major currencies, which in turn makes the price of U.S. commodities increasingly competitive abroad. Since the value of the dollar was delinked from gold, we have witnessed the linkage between a weak dollar and higher commodity prices. Last year we saw record agricultural exports in terms of volume and value despite record high market prices. Total agriculture exports in 2007 amounted to a record of nearly $90 billion, an increase of $20 billion over 2006. At the same time, the value of agricultural imports is rising, on average 10 percent growth per year since 2001 according to USDA. With rapidly growing economies across the globe, a new demand has been created for food commodities. The new middle class populations in Asia, Latin America and Africa have demanded an improved diet including meat and dairy products.

Cause #4 - Speculators in the Commodity Markets
As opportunities to make profits have waned on Wall Street, with stocks and bonds in turmoil as a result of the mortgage crisis, investment firms seized opportunities in the commodity futures markets. Billions of dollars from pension and other investment houses poured into the hot commodity markets. As a result, many commercial entities of farm commodities have faced skyrocketing margin calls on hedge contracts which have for a long-time been a financial risk tool for farmers and grain elevators. As margin calls increase, local cooperatives and private grain elevators have hit credit limits, resulting in the elimination of this important marketing tool. The result, farmers cannot forward price their commodities and protect their risk. If farmers cannot capture higher commodity prices, while facing skyrocketing input expenses, we are facing a potential train wreck for rural America

**Food vs. Fuel**
Yellow corn is the single biggest crop in the United States, and contrary to popular belief it is primary used for animal feed, not human food. No doubt, biofuels have increased farm commodity prices for corn as a result of increased demand. The increased demand for corn in 2007 resulted in, finally, profitable prices for farmers, after nearly two decades of below cost-of-production price levels. America's farmers responded to the increased demand by producing the biggest corn crop in history. In 2007, corn production in the United States increased by 2.6 billion bushels (from 10.7 billion in 2006 to 13.3 billion in 2007). Of this 2.6 billion bushel increase, new ethanol demand only accounted for 600 million bushels (4%). The total corn used for ethanol in 2007 amounted to 2.5 billion bushels. The remaining 2 billion new bushels of corn was used for feed, food and exports above and beyond 2006 levels, with record high corn exports of 2.9 billion bushels. The increased corn acreage primarily came at the expense of soybean acreage and to a smaller degree from cotton, rice and wheat. Simply put, America's farmers responded to the marketplace.

Recently, there seems to be a litany of corn ethanol criticism. In the past year, ethanol production was blamed for the Mexican tortilla shortage, despite the fact that tortillas are made from white corn, and trade agreements limit the United States from providing Mexico with no more than two percent of their white corn needs. Corn ethanol was even blamed for the rising price of beer. Last year, right before the biggest American beer drinking holiday, the breweries announced they were raising beer prices because of increased ethanol production. That announcement made great headlines, but rice and barley make beer, not corn. Last week, when Costco and Sam's Club announced they were rationing bulk rice sales, the media was quick to blame corn ethanol, despite the fact that there is plenty of rice in the supply chain. The true cause for the run on rice turns out to be the shut off exports of two types of specialty rice from Thailand and India. There is ample rice, just limited amounts of these two specialty varieties.

Many in the media have mischaracterized the creation of a national mandate on renewable fuels as the cause of rising food costs. I was very disappointed to hear former President Clinton blaming the production of ethanol on pasta riots in Italy – two totally unrelated issues. I was also shocked to read Texas Governor Rick Perry's statement last Friday that called for a 50 percent waiver from the renewable fuels standard (RFS), with the expectation that consumers would find immediate relief from their grocery bills.
Not only would reducing ethanol consumption by 50 percent result in higher gasoline prices for consumers, it would have no impact on lowering corn prices. According to an April 10, 2008 report issued by the Agricultural and Food Policy Center at Texas A&M University, "relaxing the RFS does not result in significantly lower corn prices." The report goes on to state the current ethanol production infrastructure has grown in excess of the RFS and relaxing the standard would not cause a contraction in the industry. The A&M study also reiterated the point that corn prices have had little to do with rising food costs. Staple food items such as bread, milk and eggs have higher prices "largely unrelated to ethanol or corn prices, but correspond to fundamental supply/demand relationships in the world".

While corn ethanol it is not the singular solution to our nation's energy problems, it undoubtedly has reduced our dependence on foreign oil. For every barrel of ethanol produced (1 barrel = 42 gallons), 1.2 barrels of petroleum are displaced at a refinery. According to an LECG study, more than 228 million barrels of oil were displaced by the 6.5 billion gallons of ethanol produced in 2007. While critics will say our government is subsidizing and mandating the use of ethanol, the subsidies pale in comparison to the amount we spend subsidizing the oil companies and protecting the shipping lanes to import oil from the most unstable region of the world. According to a 2005 Government Accountability Office (GAO) report, the United States has spent more than $130 billion subsidizing the oil industry over the past 32 years; this does not account for the billions spent to protect our military interests in the Middle East.

Because of the advanced renewable energy production, we have witnessed the plywood boards coming off Main Street businesses, instead of going up. The annual local economic impact of a 40 million gallon ethanol plant is without a doubt significant. The economic base is expanded by $110.2 million; household income increases $19.6 million; 694 permanent new jobs are created; and an additional $1.2 million is created in new tax revenues. USDA estimates government payments will decrease to 4 percent of gross cash income for farmers, compared to 7 percent in 2000-2005 as a result of expanded ethanol production. The future of renewable fuel production rests in the advancement of cellulosic ethanol, wind energy, solar energy, biodiesel and many others to be created.

**Biofuel Production vs. Livestock Production**
The primary use of U.S. corn production is for livestock feed, yet livestock prices have declined over the past year. Those who argue corn ethanol is the major contributing factor in food price inflation, have little to stand on in their argument linkin corn prices and livestock prices. Also lost in today's discussion is the fact that ethanol byproduct distillers grains actually reduce cattle feed costs. The U.S. ethanol industry is projected to produce 31 million tons of distiller's grains in 2008; these distillers' grains are not only a better protein feed for livestock but also is more economical. With corn at $5.56 per bushel, cattle feeders would pay $268 per ton of total digestible nitrogen (TDN) for corn while only paying $201 per ton of TDN for distiller's grains.

I was stunned to see comments by the President/CEO of Tyson Foods, Inc., the world's largest processor and marketer of chicken, beef and pork, suggesting the U.S. ethanol policy is nothing more than a regressive tax on the poor.  This is the same company that reported gross profits of $1.433 billion; $928 million; and $1.72 billion in 2007, 2006 and 2005 respectively.  This is also the same company that was one of the industrial livestock beneficiaries of below cost-of-production feedstock's by the tune of $35 billion according to a February 2007 Tufts University report *(Industrial Livestock Companies' Gains from Low Feed Prices" by Timothy A. Wise and Elanor Starmer).*

The study undertook an econometric analysis, which documented that the broiler chicken and pork production industries have benefited significantly from low feedstock prices.  From 1997 to 2005, soybeans were priced 15 percent below the average cost of production, while corn was priced 23 percent below.  This equates to feed prices at 21 percent below cost of production for poultry and 26 percent below cost of production for the hog industry.  To put it in more concrete terms, the Tufts study estimates that due to the low cost of production, the broiler chicken industry saved $11.25 billion and the industrial hog industry saved approximately $8.5 billion over the nine year period.

**Farmers Share of Retail Food Dollar**

According to USDA, our farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home.  Off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

The farmer's share of a $2.69 loaf of bread is $0.22; for a $5.05 box of corn flakes, the farmer receives $0.16; out of a $3.99 gallon of fat free milk, the farmer receives $1.54 and a one pound top sirloin steak that costs $7.99 at the grocery store provides $0.88 to the farmer.   Attached to my testimony is NFU's latest Farmer's Share document highlighting the price consumers pay for a number of food products and the correlating price received by the farmer for that retail food item.

**Solutions**

<u>Farm Bill Nutrition Programs</u>

The 2008 Farm Bill currently in conference between the U.S. House and U.S. Senate will contain $10.3 billion in new funding, in total over $400 billion for domestic and international nutrition programs.  The nutrition title of the bill accounts for two-thirds of the overall farm bill budget and is the single biggest increase for any title in the new bill.  According to USDA's Economic Research Service, approximately one in five Americans participates in at least one food assistance program at some point during a given year.

<u>International Food Aid</u>

NFU supports the recent calls by members of Congress to expand the United States' international food aid. The President's budget for FY2008 requests $350 million for food aid programs; while some have recently called for an additional $200 million to help respond to today's situation.  Unfortunately, increased energy costs are having a profoundly negative impact on our food aid donations.

According to a 2007 Government Accountability Office, 65 percent of expenditures of the largest U.S. food aid program are for "transportation to the U.S. port for export, ocean transportation, in-country delivery, associated cargo handling costs, and administration."  According to Dr. Christopher Barrett, a professor of development economics at Cornell University and editor of the American Journal of Agricultural Economics, it costs more than $2 of U.S. taxpayers' money to deliver $1 worth of food procured as in-kind food aid. Despite the negative impact of increased oil, gasoline and diesel expenses on our food programs, we should continue to do all that we can to ensure no one goes to bed hungry.

<u>Strategic Oil Reserve</u>

National Farmers Union has urged the president to halt deposits to the Strategic Petroleum Reserve (SPR), which currently holds more than $80 billion worth of oil.  There is precedence for this response, with President Bush's decision two years ago to temporarily halt deposits in order to help alleviate consumer gasoline prices.  Not only would we like to see deposits halted, but with the price of oil reaching $120 per barrel on Monday morning, we urge the president to open the SPR to help alleviate gas prices.  SPR oil entering the marketplace within thirteen days after a presidential directive would result in a much more profound positive economic impact for consumers than waiving the RFS or discouraging the production of biofuels.

<u>Excessive Oil Profits Tax</u>
As I mentioned above, the price of fuel has twice the impact on retail food costs as the price of corn.  While ethanol production is being characterized as the root of all evil, the oil and gas industry continue to receive billions of dollars in tax breaks from the federal government while major oil companies make record profits. Exxon Mobile reported its 2007 profits were the highest ever recorded; earning more than $1,287 of profit for every second of 2007, for a total of $40.6 billion.  Instead of cutting the ethanol mandate, maybe Congress should cut the big oil and gas subsidies.  Some have suggested imposing an excessive profits tax on oil companies and direct those revenues to help offset any increased consumer expenses or increased livestock inputs as a result of oil prices.  Farmers Union would fully support that effort.

**Summary**
In summary, rising food prices do affect American families but not as a result of our renewable energy policies or at the benefit of American farmers.  The challenge of higher food prices needs to be evaluated in its full context and the multiple causes be studied including increasing energy prices, reduced production, weakened currency, international trade, speculators in commodity markets and increased world demand.

Two short years ago, agriculture critics blamed the United States for low commodity prices that prevented developing nations from producing their own food and cheap commodities for enhancing the obesity epidemic.  Today, the same critics are blaming higher commodity prices for causing hunger across the world. We cannot win.  What do they want?  It seems as though all other sectors of our economy are encouraged to achieve the American Dream, except for farmers.  I have repeatedly stated that profits should not be a dirty word for agricultural producers.

Thank you for the opportunity to testify and provide the American farmer and rancher's perspective to this debate.  I would be happy to answer any questions committee members may have.