



Testimony

# Pennsylvania Senate Environmental Resources & Energy Committee

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Offered by

Joel Rotz

**Director**

**State Governmental Relations**

**Pennsylvania Farm Bureau**

***Pennsylvania Farm Bureau***

510 S. 31st Street • P.O. Box 8736 • Camp Hill, PA 17001-8736 • (717) 761-2740

Good morning, and thank you for the opportunity to testify before you this morning. I am Joel Rotz, Director of State Governmental Relations for the Pennsylvania Farm Bureau. Farm Bureau represents over 42,600 rural and farm family members in the state. Our members have adopted many policies supporting research, development and utilization of alternative and renewable fuels in the state. While it is no secret agriculture stands to gain from the advancement of renewable fuels, our members also support renewable fuel development as means to increase our national security by helping to reduce our dependence on foreign oil. Pennsylvania Farm Bureau supports adoption of HB 1202 to assist in leading the Commonwealth towards energy independence.

I am sure you may hear similar numbers more than once during this hearing, but they merit repeating. A study released last summer from LECG, which was completed by John Urbanchuk, points out that growing our biofuels industry in the state to replace 900 million gallons of petroleum-based transportation fuel by 2017 will add \$14.8 billion to our gross state product and support the creation of 25,775 new jobs. Increased demand for corn and soybeans could be expected to raise local prices to farmers 10 to 20 cents per bushel.

Since the time this report was released last summer, national demand for corn due largely to ethanol production initially nearly doubled the price of a bushel of corn that exceeded \$4.00. As production of corn expanded in response to higher prices, corn prices have already moderated considerably for the 2007 crop to between \$3.25-3.50 per bushel. Soybean prices are running historically strong at over \$8.00 per bushel.

Farmers who grow grain and soybeans as a cash crop are very happy with this change in market prices. Farmers who purchase grain and soybean products to feed livestock and poultry are not quite as pleased as you can probably imagine. Despite the diverging affects of the grain and soybean markets among our membership, support for advancing renewable fuels remains strong within our ranks. That may well be largely due to the fact that other market forces are also working to the favor of poultry, livestock and dairy producers.

Long before the recent increases in corn prices, red meat supplies were on the decrease due to earlier periods of strong production driving down prices. Currently, red meat production is growing despite the higher feed cost because prices remain strong. For poultry production, low prices in 2006 decreased production and have helped to strengthen markets, but again this adjustment was made long before the corn price increase. Dairy farmers are currently receiving record milk prices due to reduced production resulting from extremely low prices the past few years. At the same time, worldwide demand for dairy products has exploded driving milk prices to new highs.

News media accounts have been very inaccurate in their coverage of recent milk price and food price increases consumers are experiencing. At Farm Bureau, we have adopted the term "cornfusion" to describe the erroneous accounts of how ethanol production and corn prices are driving up food costs. While many choose to point the finger at ethanol

production as a driving force for the increases, the truth is that it is other supply and demand forces as well as increased energy costs that are raising prices.

It is unlikely that the production of meat and milk has been affected by higher corn prices to date. In fact, there is little evidence that any food category has been affected by higher corn prices in any significant manner. Certainly it is true that some food product manufacturers have claimed higher corn prices are increasing their manufacturing cost, using this as justification for raising their product prices.

A notable example might be a cereal company that makes some variety of corn flakes. The value of corn going into a box of corn flakes was previously estimated to be 2.2 cents. Even if the cost of the corn doubled, it is hard to understand how this relates to an increase of 10 to 20 times that much in the price of a box of cereal. It is far more plausible that the cost of energy is a legitimate factor in rising food prices today. From the farm and along every step of the way in the food processing chain, energy costs have skyrocketed. It is ironic that while some try to blame ethanol for high food prices, it is really energy costs that are a primary concern in raising cost to consumers, which ethanol production will help solve.

Truthfully, food prices have not risen nearly as much as portrayed. The average annual increase is two to four percent over the past decade, according to the Consumer Price Index (CPI). Estimates are that the CPI for food and beverages will increase above four percent in 2007 of which only 0.2 percent is a result of ethanol production according to the Agriculture Policy Research Institute. The reality is that to date higher corn prices have had very little impact on consumer food prices. At some future date higher corn prices will probably be more of a factor in rising food prices, but even then the increases are likely to be moderate and extended over a period of several years.

What higher grain prices do cause is greater reliance on markets to set prices rather than taxpayer funded government support programs. While farmers have had to rely on government supports to stabilize their markets many times over the years, I can assure you that all farmers would rather rely on the market to provide fair and equitable pricing related to the cost of production. Under the 2002 Federal Farm Bill, corn, soybean and wheat growers received \$14 billion per year from marketing loan and countercyclical payments. The Congressional Budget Office projects that only \$200 million will be needed for these same programs beginning in 2008 due to strong market prices.

Any increase in food prices are going to be more than offset by the diversification of our energy supplies, lower farm program payments and the improved environmental effect of utilizing ethanol. It is a win-win situation for consumers, farmers and taxpayers.

Concerns are being raised by environmental interests related to the possible environmental impact of more land including some environmentally sensitive land being utilized to grow corn. While there is no disputing the fact that corn does require higher levels of nitrogen and other inputs than many other crops, the crop can still be grown with minimal environmental impact with proper implementation of nutrient management, conservation and erosion and sedimentation plans. Farmers are constantly being held to

higher standards of compliance in these areas. Pennsylvania Farm Bureau believes it is misguided to assume more corn production translates to additionally harmful environmental impacts.

While corn based ethanol production is the reality of today, it would be extremely near sighted to not recognize that evolving technologies will advance other types of production. Pennsylvania will have much to gain when cellulosic ethanol becomes commercially viable. Many predict viable technologies will be available within the next five years. This technology will greatly diminish the perceived concern of food versus fuel debate in the future. Pennsylvania's vast forest resources and environmentally sensitive lands can be more fully utilized in providing raw materials for cellulosic ethanol production.

Much attention is given to ethanol production in meeting renewable fuel needs. However, in Pennsylvania the fact remains that no ethanol plants are in operation at this time or in the near future. What do exist are at least six biodiesel plants in the state. It is Pennsylvania Farm Bureau's understanding that many if not all of these plants are struggling to be economically viable at this point in time. These plants are faced with the same challenge as other plants across the nation with high soybean prices having a direct impact on overall production costs. Many other states provide some significant level of incentive to produce biodiesel. At least one nearby state is providing as much as a dollar per gallon subsidy. Pennsylvania does supply some capital incentives through economic development programs and a nickel per gallon subsidization.

Pennsylvania Farm Bureau supports protecting and building a future for biodiesel production in the state by providing a substantial incentive for Pennsylvania biodiesel producers to compete with other states. This incentive or direct subsidization would only be needed for a limited time until production levels reach the 30 million gallon production trigger for the biodiesel mandate identified in HB 1202.

Once the trigger is reached, the statewide mandate will provide a market in which Pennsylvania plants can compete. Currently, and until the mandated market exists, Pennsylvania plants will have great difficulty in developing markets that subsidized fuel from other states can meet at a lower out-of-pocket cost. It makes little sense to allow an existing industry that is key to meeting renewable fuel production goals identified in HB 1202 go out of business when a rather limited amount of funds over a fairly short time frame can advance and grow the industry.

In summary, Pennsylvania Farm Bureau supports the provisions of HB 1202, in advancing our renewable fuel industry and gaining energy independence in the state and nation. Don't be caught up in the "cornfusion" that undermines efforts to expand ethanol and other renewable fuel production. Cellulosic ethanol is a few years around the corner and holds even greater promise for Pennsylvania. There are environmentally sound practices that agriculture can and does use to meet the food, fiber and fuel needs of the future. Let's preserve and grow the renewable fuel industry in this state and stay focused

on the need to become more energy independent in the Commonwealth and the United States.

Thank you for your consideration of this important initiative.