

Testimony before the Pennsylvania State Senate
Environmental Resources and Energy Committee
September 25, 2007

I am Tim Reardon, Vice President of Risk Management and Support Services at Giant Food stores. I understand that Pennsylvania energy policy is terribly complex, but I am here today to ask you to consider one aspect of a Pennsylvania ethanol mandate - the effect of rising corn prices on the cost of food.

Giant Food Stores is owned by Royal Ahold, an international company that operates approximately 800 stores in the U.S. and 4000 stores total in the United States and Europe. Giant Food Stores LLC operates 145 stores in the Mid Atlantic region with 127 in the Commonwealth of Pennsylvania. Because of our size, I believe that we can buy food as cheaply as any company anywhere. Despite our considerable negotiating and buying power we have seen significant increases in the price of certain commodities as the cost of corn has risen this year. These commodities and their respective costs closely track the price of corn.

Beef, pork and poultry are three such commodities. From May of 2006 through May of 2007 our beef wholesale prices have increased 7.13 percent, pork costs have gone up 4.8 percent and raw poultry costs have risen 27.32 percent.

And Giant is not alone in seeing higher food prices caused by the rising price of corn. The September issue of *Amber Waves*, a publication of the United States Department of Agriculture Economic Research Service states:

“The corn market is being affected directly by the increase in ethanol production.... While the ethanol boom can be expected to bring higher incomes to farmers and reduce government outlays for farm programs, it will also most likely mean higher food prices for consumers. Retail price increases for red meats, poultry and eggs are projected to exceed the general inflation rate in 2008 – 2010 as the livestock sector adjusts to higher feed costs. As a result, overall retail food prices would rise faster than the general inflation rate in those years”.

On May 17, Jay Patrick Boyle, President and CEO of the American Meat Institute said in a press release “We are reaching a tipping point and that over-reliance on corn-based ethanol to meet stringent government mandates would further drive up retail food prices, reduce domestic meat and poultry production and erode our vital meat and grain export markets.”

In a press release also issued on May 17, 2007 the National Pork Producers Council said the following, “With rising corn costs and declining corn availability already having increased retail pork prices and pork production costs over the past year, a new study issued today finds that the rapid increase in corn-based ethanol production could cause costs to rise even further.... Ethanol production since last August has boosted pork production costs by 30 percent – about \$20 million a week – with similar increases in dairy, beef, eggs and poultry... The study also projects that U.S. ethanol production could

reach 30 billion gallons by 2016, consuming more than half of U.S. corn, wheat and other coarse-grain production and triggering higher meat prices for consumers.”

On March 8, 2007, in a press release, the National Turkey Federation Chairman Ted Seger “warned the House Agricultural Committee...that the growing impact of Federal Renewable Fuels Policy on the demand for corn and soybeans could significantly harm the turkey industry and raise food prices for consumers. Corn and soybean meal account for nearly $\frac{3}{4}$ of a turkey’s daily rations. More than $\frac{1}{3}$ of the cost of a tom turkey is generated by corn and soybean meal alone,” Seger said. “The increase in corn, soybean meal and other feed ingredient prices from just 1 year ago has raised the feed cost per tom turkey by about eight cents per pound, a 35 percent increase. That equals \$576 million more in feed costs on an annual basis to the industry.” Seger said, “In the long run this will mean higher food costs for consumers.”

Wally Tyner, professor of Agricultural Economics at Purdue University recently said in the February 13, 2007 issue of *Technology Review*, “The rising food costs fueled by ethanol demand are also affecting U.S. consumers. All things that use corn are going to have higher prices and higher cost, to some extent, that will be passed onto consumers. The impact of this is being felt first in animal feed, particularly poultry and pork. Poultry feed is about $\frac{2}{3}$ corn. As a result, the cost to produce poultry, both meat and eggs, has already risen about 15 percent due to corn prices.”

The Center for Agricultural and Rural Development at Iowa State University released a study on May 17, 2007 entitled *Emerging Biofuels: Outlook of Effects on U.S grain, Oilseed and Livestock Market*. It says, “If we take the price increase that we have seen since July 2006 of approximately \$1.50 per bushel in corn and associated price increases in soybeans and wheat, the per capita increase in food costs is approximately \$47. Multiplying this cost by 300 million American consumers gives us a total cost of ethanol of about \$14 billion. In addition, taxpayers have contributed \$0.51 per gallon of ethanol.”

Hitting closer to home, even the local *Patriot News* ran a story last Saturday, September 22, titled: *Ethanol demand raises corn prices for farmers*.

I am not a farmer or an agricultural economist but my experience in the food industry makes me concerned that setting an ethanol mandate here in Pennsylvania will contribute to an increase in the cost of corn which will in turn drive up the price of food and adversely affect all Pennsylvania consumers.

So as you deliberate on Governor Rendell’s proposal I would respectfully ask that you listen not only to Giant Foods, but also to the American Meat Institute, the National Cattlemen’s Beef Association, the National Chicken Council, the National Meat Association, the National Milk Producers Federation, the National Pork Producers Council, the National Turkey Federation and United Egg Producers who have said, through their Alliance called the Coalition for Balanced Food and Fuel Policy, “Our nation’s current ethanol policy may be good news for petroleum blenders, but it’s a raw deal for animal agriculture and consumers.”

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