

**IMPACT OF FEED COSTS ON  
THE LIVESTOCK INDUSTRY**

**HEARING OF THE LIVESTOCK, DAIRY,  
AND POULTRY SUBCOMMITTEE  
HOUSE COMMITTEE ON AGRICULTURE**

**THE HONORABLE LEONARD L. BOSWELL  
SUBCOMMITTEE CHAIRMAN**

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FARBEST FOODS, INC.  
HUNTINGBURG, INDIANA**

**ON BEHALF OF  
THE  
NATIONAL TURKEY FEDERATION**

**MARCH 8, 2007  
WASHINGTON, DC**

Good morning, Chairman Boswell, Ranking Member Hayes; thank you for the opportunity to testify today. My name is Ted Seger, and I am President and part owner of Farbest Foods, Inc., in Huntingburg, Indiana. For 25 years I have served in various capacities at Farbest, from Sales Manager to President. Farbest is an integrated turkey company involved in grain procurement, feed manufacturing, growing, processing and marketing of turkey meat around the world. Farbest soon will become the country's fourth-largest producer with nine million turkeys grown by more than 150 contract producers and approximately 320 million pounds of turkey meat processed by more than 700 employees.

I was recently elected Chairman of the National Turkey Federation (NTF), which represents all segments of the U.S. turkey industry, including producers, processors, breeders, hatchery owners and allied companies. Our industry raises approximately 270 million turkeys annually, which equals approximately 7.2 billion pounds live weight per year. The wholesale value of turkey production will be over \$6 billion in 2007.

From the turkey industry's perspective, this hearing could not have come at a better time for we have significant concerns about the growing impact of the federal renewable fuels policies are having on the demand for corn and soybeans. These two commodities account for nearly three quarters of a turkey's daily feed rations. To this point, the most visible impact of expanded ethanol production has been on the price of corn, which has increased more than \$2 per bushel in the last 12 months. But, we all know the reason prices are going up. Corn supplies are tightening. Those high prices will induce farmers to plant more corn acres in 2007 but most experts believe that will be primarily at the expense of existing soybean acres. We are not in a feed availability crisis – yet – but there are several very realistic scenarios in which we could have a serious crisis within the next two years. It is my hope that these comments can paint a more complete picture of the direct impact renewable fuels programs can have on turkey production and the livelihoods of thousands of farm families, processing employees, and the rural communities that are supported by the turkey industry.

I want to make one thing clear at the outset. NTF and its members understand the need to reduce our dependence on foreign energy, especially oil imported from unstable regions of the world. We know renewable, alternative fuels are one part of the solution, and we do not want to see a "food vs. fuel" fight. NTF does not expect Congress or the Administration to base its policy on outlandish, doomsday crop scenarios. No reasonable person would blame the federal government if there were a severe drought or flood for which there is no historical precedent. However, we don't think renewable fuels policy should be a "faith-based initiative," relying on unrealistically rosy forecasts of ever increasing crop yields.

In the Farm Bill this Agriculture Committee will write, and in any Energy Bill Congress may also consider, renewable fuels policy should be based on historic norms for corn yields and overall production, and there should be programs that promote increased production as well as contingencies for deviations for which there is historical precedent.

### **Likely Impact of Ethanol Production on the Turkey Industry**

There have been many forecasts by economists, analysts and industry people on what the affects may be. I can tell you that in almost all cases the findings are clear that, in the short term, over the next two to three years, the availability of feed grains will be limited tremendously. In fact, USDA's own forecasts indicate the corn stocks-to-use ratio will fall below 6 percent for the 2007/2008-crop year, as reported by USDA Chief Economist Keith Collins on March 1. This is the lowest stocks-to-use ratio since 1995/1996, when corn prices hit record highs of over \$5 per bushel. This is an alarming fact, given that the United States has just recorded three years of record corn production. We have been fortunate that we have not witnessed a bad crop since the higher fuel standards have been put in place.

During the ensuing three years after 1996, turkey production fell by more than 10 percent as growers and processors were forced to go out of business or consolidate. In 1993, the top four turkey producers accounted for approximately 33 percent of the market share; today, they account for nearly 60 percent. If margins continue to slide or go negative, this consolidation will increase even further.

Here are some of the basic economics of feeding turkeys:

Industry Turkey Live Weight Slaughter for 2006 is approximately 7.2 billion pounds. At average feed conversion of 2.5 pounds of feed per pound live weight; industry consumption of feed is approximately nine million tons annually.

Corn is approximately 52% of the ration, or 4.68 million tons, or 167 million bushels of corn, or \$668 million at \$4.00 per bushel. Soybean meal is approximately 20% of the ration, or 1.8 million tons, or \$414 million at \$230 per ton.

For one tom turkey at 40 lbs, feed equals 104 pounds, at 2.6 feed conversion (toms are slightly less efficient at feed conversion than hens). Total feed cost of the tom is approximately \$17.20 at 43 cents per pound. Corn, at 52 percent of the feed ration, equals 54 pounds at seven cents per pound. That's \$3.85 per tom, or 23 percent of the total cost of the bird. Soybean meal at 20 percent equals 21 pounds at 11.5 cents per pound equals \$2.42 per tom, or 14% of the cost of the bird.

Therefore, 37% of the cost of the tom turkey is generated by corn and soybean meal alone. The other feed ingredients combine to bring the total cost of the feed to nearly 70% of the total cost to grow the tom turkey. As you may already be aware, the other ingredient prices have risen along with corn and soybean meal as the total protein and energy sector is in demand.

The increase in corn, soybean meal and other feed ingredient prices from just one year ago has lead to an increase in feed cost per tom turkey of approximately eight cents

per pound which is an increase of 35% and equates to approximately \$576 million increased cost for the industry on an annual basis. The vertically integrated operations would have to cover this increased cost through higher values for export commodities, domestic retail and foodservice channels. Export volumes have decreased slightly for 2006 in volume while value stayed approximately the same for a net of a small amount of offset.

## ALTERNATIVE

The economics of feeding turkeys is pretty basic. Feed accounts for about 70 percent of the cost of producing turkeys. Corn represents about 52 percent of the feed ration and soybean meal another 20 percent. Overall, it takes about 2.5 pounds of feed to produce a pound of turkey and, as noted earlier, the industry will produce about 7.2 billion pounds of turkey (live weight) in 2007. That means we will use about 18 billion pounds of feed in 2007.

Based on those numbers, every one-cent increase in the price of feed costs the turkey industry about \$180 million. Not only have we seen a significant increase in corn prices, as well as more modest increases in other feed ingredients, has increased the overall cost of turkey production by about \$575 million on an annualized basis. Of that, about \$540 million is attributable to the increase in corn prices.

### **Impact on the Consumer**

In the long run, of course, this all will mean higher costs to the food consumer. It is my understanding the industry to this point has not been able to raise domestic foodservice and retail values to cover the entire cost increase. Existing sales contract commitments have held prices down, shrinking turkey company profits to near zero, and it is likely the industry will absorb losses in the short run. Eventually, high feed prices will result in a decrease in poultry and meat production and the cost burden will be shifted to the foodservice and retail contracts sector. Over time, this means higher prices for the consumer.

There are indications the process is beginning to take shape even now. We have seen inflationary prices in the consumer price index for food. In January the index showed a 2.3% increase in 2006 versus 2005 and more alarming, a 0.9% increase in one month alone from December 2006 to January 2007 for all food.

### **Can We Produce Enough Corn?**

The commodity grain market futures are trading today on the assumption that we will have the largest corn crop in history. Our industry's concern is with the scenario of what happens if we do not produce the largest crop in history, and produce only 90% of the largest crop in history or about 11 billion bushels instead of 12.2 billion bushels that

would be needed if the 2012 mandate of 7.5 billion gallon were implemented this crop year. It should also be noted that last year's crop (which was a good year) was 10.7 billion bushels. Producing 11 billion bushels would still be the second-largest crop ever and would leave the balance sheet with a negative carryover of more than 200 million bushels. Grain prices would settle at levels never seen before and would take billions from the livestock, dairy and poultry sectors.

The current situation for corn is unlike any other in the history of this commodity. Usually high prices are a result of poor weather that limits production for just one year and the next year usually brings relief. However, the current dilemma is that the demand side of the equation is far outstripping the supply side and the demand side is continuing to grow at a rapid pace, when reality says that continued growth in supply is limited and constrained by Mother Nature. The gains made with genetically modified corn are real; however, the yield curve is predicted to be about 2-3 bushels per acre more per year. Even with this sustained growth, the next two years will see stocks depleted due to the rush of new ethanol plants coming on line.

The Renewable Fuels Association reports today's capacity at 5.6 billion gallons per year at 114 plants with another 78 new plants and 7 expansions soon to boost capacity to 11.8 billion gallons per year in 2008. These plants are verified under construction and will consume at least 3.9 to 4.2 billion bushels of corn for the 2009 year. This is one billion bushels more than the 2008 USDA projection of 3.2 billion bushels used for ethanol. Again, even with the best-case scenario of a record crop two years in a row, the United States will still likely be in a deficit carryover situation.

### **Alternative Feeds are Not Practical**

The reality for my company and many other turkey companies is that there is no economically feasible substitute for a grain-based diet. Feeding more wheat, barley, sorghum, milo or soybean meal is no advantage because wheat and soybeans trade at energy equivalent values similar to corn. All commodities eventually find their economic value based on the strongest commodity, which is corn. In fact, because of high feed costs, feed conversions become increasingly important and with animal byproducts such as animal fat increasing in price, we have begun to introduce enzymes into the formula to gain more energy out of the soybean meal therefore using less animal fats. By implementing this practice, we actually will be buying more corn for the diet, which is the replacement for animal fat.

We also have heard a lot about Dried Distiller's Grains (DDGs), which are a byproduct of ethanol production. Yes, DDGs can be used in turkey feed rations, but only on a limited basis. At this time, 10 percent substitution is about the maximum in the industry, and the average is probably closer to 5 percent because there are such variances in the quality of DDGs being produced. I do not pretend to have the expertise that some of the other witnesses here today have on this subject, but I want to stress that DDGs cannot replace corn on anything approaching a one-to-one basis.

## Recommendations

As noted earlier, Farbest and the NTF strongly support reducing dependence on foreign oil. However, we believe the goal of achieving less reliance on foreign sources through increased corn yields may prove short sighted. I have always been a proponent of using the most efficient system available to solve a problem. I do believe, and studies have shown, that corn-based ethanol is not the most efficient process for production of ethanol.

That is why NTF's first recommendation is to support the highest level of funding possible for all forms of cellulose-based research and full funding of already approved cellulose-based demonstration projects. Much like the government did with the Manhattan Project and sending a man to the moon in just under a decade, this country is capable of great technology advances in a short period of time if we set our mind and resources to it. We can speed up the technology curve on cellulosic ethanol.

Of course, ethanol, as you all well know, alone will not itself cure our dependence on foreign oil. Even with all the new bio-fuel mandates in place the Energy Information Administration (EIA) still projects that oil and gas will continue to supply two-thirds of the consumption in the year 2030. So, a multi-pronged attack is encouraged that includes multiple types of renewable fuels, both domestic and imported, reducing gasoline consumption through increasing vehicle efficiency and stepping up domestic oil production wherever practical. Obviously, some of these things are beyond the scope of this committee.

However, you will write the Farm Bill, and many of you are in a position to have a significant impact on any Energy Bill that Congress may write as well. With that in mind, NTF has several other recommendations that we believe would help speed energy independence and minimize the impact a renewable fuels policy has on poultry and meat producers. In addition to speeding development of cellulosic ethanol, our recommendations include:

- Providing maximum funding for research into ways corn yields can be increased;
- Allowing farmers whose Conservation Reserve Program (CRP) contracts are close to expiring to opt out early with no penalty if desired. This would be similar to the program implemented in 1996/97.
- Eliminating the 51-cent per gallon blenders credit for ethanol, or at least indexing it to the price of oil.
- Eliminating the 54-cent per gallon duty on ethanol imported from the Caribbean, Central America and South America.

- Promoting the production of a more consistent, higher-quality DDG by ethanol plants. Whether through incentives, or as a condition for receiving federal support, a consistent supply of high quality DDGs would provide more benefit to producers. Thus, allowing producers the ability to utilize them at higher levels, which is not the case now.

Finally, NTF and the National Chicken Council during the 2005 Energy Bill urged Congress to keep in mind the impact a crop disaster could have on the poultry and livestock industry when determining when waivers to the Renewable Fuels Standard could be granted. Should that standard be altered in any future legislation, the waiver process should be examined again.

While no one item is a silver bullet, this approach would help to alleviate the reliance upon corn-based ethanol. Furthermore it would figure in some cushion and provide a contingency plan should we have a bad crop year for one reason or another. If, however, we continue with the existing policies the inevitable will happen and that is more food inflation, loss of export markets, huge losses for growers and processors and eventually contraction of entire industries. Ultimately, consumers will be forced to pay higher prices.

In closing I would like to thank the committee for allowing me to testify today on this most important issue to the NTF, and I hope my statement today has enumerated the impact on feed prices and food prices for you. I look forward to answering any questions.

Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: TED J. SEGER  
Address: 4689 S. 400 WEST, HUNTINGBURG, IN 47546  
Telephone: 812-683-4200  
Organization you represent (if any): FARBEST FOODS, INC AND  
NATIONAL TURKEY FEDERATION

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: N/A Amount: N/A

Source: N/A Amount: N/A

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) **the organization** has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: N/A Amount: N/A

Source: N/A Amount: N/A

Please check here if this form is NOT applicable to you:

Signature: Ted J. Seger

\* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

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Committee on Agriculture  
U.S. House of Representatives  
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: TED J SEGER
2. Business Address: FARBEST FOODS, INC.  
4689 S. 400 WEST  
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3. Business Phone Number: 812-683-4200 EX. 111
4. Organization you represent: FARBEST FOODS, INC. & NATIONAL TURKEY FED.
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:  
- FARBEST FOODS, INC. - 25 YEARS AS SALES MANAGER  
AND/OR PRESIDENT, BOARD OF DIRECTOR, PARTOWNER  
- BOARD MEMBER INDIANA POULTRY ASSOCIATION
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:  
FINANCE DEGREE - INDIANA UNIVERSITY - 1982  
OVERSEE ALL GRAIN PURCHASING AND COMMODITY  
HEDGING AS WELL AS ALL PRODUCT SALES
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:  
NATIONAL TURKEY FEDERATION - ELECTED CHAIRMAN  
2007, EXECUTIVE COMMITTEE MEMBER  
SINCE 2001, BOARD MEMBER 20-YEARS

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