Written Testimony of

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INTRODUCTION

I am Joy Philippi, a pork producer from Bruning, Nebraska, and the immediate past president of the National Pork Producers Council. I want to thank the Chairman and the Members of the Committee for inviting me to speak today regarding the impact of corn-based ethanol on my industry.

The pork industry is of immense importance to the United States. Drs. Dan Otto and John Lawrence at Iowa State University just completed a major study of the value added by the U.S. pork sector. They estimate that the U.S. pork industry is directly responsible for the creation of 34,720 full-time equivalent jobs. They calculated that my industry generates 127,492 jobs in the rest of agriculture. We are responsible for 110,665 jobs in the manufacturing sector, mostly in the packing industry, and 65,224 jobs in professional services such as veterinarians, real estate agents and bankers. All told, we are responsible for 550,221 mostly rural jobs in the U.S. Nationwide, more than 67,000 pork producers marketed more than 103 million hogs in 2005, and those animals provided total gross receipts of $15 billion. Overall, an estimated $20.7 billion of personal income and $34.5 billion of gross national product are supported by the U.S. hog industry.

Pork producers operate on very tight margins, and they have an enormous respect for market forces. Producers have not asked for any form of government subsidies in previous farm bills, and the industry is among the most vocal advocates of free trade and free trade agreements. New technologies have been adopted and productivity has been increased to maintain the U.S. pork industry's international competitiveness. As a result, pork exports have hit new records for the past 15 years. In 2006, exports represented 15 percent of production.

PORK PRODUCERS HAVE CONCERNS ABOUT ETHANOL

Until recently, the pork industry was optimistic about its future. Continued worldwide demand for pork and pending free trade agreements with Peru, Colombia and South Korea, as well as the possibility of a successful WTO Doha Round agreement that would increase access to the European and Japanese markets, painted a rosy economic outlook for pork producers.

Last summer, however, the optimism began to fade in large part because the principal source of the industry's competitiveness – reasonably priced and abundant feed grains – started being diverted in very large quantities to bio-fuel production, particularly corn-based ethanol.

Pork producers support efforts to reduce the country's dependence on foreign oil. Most even supported the government subsidy that was being given to the ethanol industry because they supported energy security and saw the economic activity that ethanol plants were generating. Additionally, many pork producers also are corn producers, and they viewed ethanol as a way to get corn market prices up to the loan rate, a price where corn production was profitable without direct government support.

Since world crude oil prices hit $60 a barrel, the ethanol industry has not needed financial support. However, the government continues to support the industry, and this has proved to be a boon for those who own ethanol plants. These plants were buying corn at $2 per bushel and turning it into $6 or $8 worth of ethanol. They also were benefiting from a host of state and federal tax credits and outright construction subsidies from the USDA and individual states.

Ethanol prices also have been high because ethanol is being used as an oxygenate for gasoline and because the United States uses import tariffs to restrict ethanol imports from Brazil. The result has been an explosion in ethanol production that has not yet reached its peak.

FEED AVAILABILITY CRITICAL TO PORK PRODUCERS

Pork production has always tended to locate in counties and countries that have a surplus of feed. This is true because feed surplus areas have always had lower feed prices than feed deficit areas and because feed is such an important component of the total cost of livestock production. Having access to abundant feed supplies is what has allowed the U.S. pork industry to grow and to export. Any policy that reduces our access to feed will obviously have a negative impact on our competitiveness both domestically and internationally.

Let me put the growth of the corn-based ethanol industry in perspective. Last year the U.S. produced approximately 10.75 billion bushels of corn. The entire livestock industry consumes

more than 6 billion bushels of corn annually, with the U.S. pork industry using about 1.1 billion bushels. More than 1.3 billion bushels are processed for food and industrial uses and about 2 billion bushels are exported. In calendar year 2007, the ethanol industry will use 2.72 billion bushels of corn, and when the plants that are currently under construction are completed, the ethanol industry will need 4.9 billion bushels per year. With average yields of 157 bushels per acre, the growth in the ethanol industry in just one crop year will either require an additional 12.5 million acres of corn or cutbacks in livestock production or exports.

Industry expert and former USDA agriculture economist Dr. Bill Tierney keeps track of ethanol plants that are being planned but that have not yet started construction. He estimates that the eventual size of the ethanol industry could double again by 2010 so that total annual corn usage for ethanol would reach 10 billion bushels. The industry would need to expand to 12.7 billion bushels if President Bush's proposed 35 billion gallon ethanol mandate were all supplied from corn-based ethanol.

CORN AVAILABILITY CONCERNS IN SUMMER 2007, 2008

Pork producers are worried about the availability of corn in the summers of 2007 and 2008. Dr. Bob Wisner at Iowa State keeps a very close watch on corn supply and use. (His current balance sheet is attached.) He projects an end-of-year corn carryover of only 685 million bushels in 2007. This is less than three weeks' worth of utilization. The last time there was this small a level of carryover was in the fall of 1996 when supplies got down to 2.6 weeks' worth. Corn was so scarce in Iowa that it had to be shipped in from Texas.

Dr. Wisner also points out that his forecast assumes that corn exports this year will increase by the 2.5 percent projected by the USDA. However, corn export sales to date are running 15 percent above the same period last year. If this pace of export sales continues, parts of the country could simply run out of corn. It may be that the recent surge in export sales is an aberration, but it also may be true that corn importers have begun to stockpile because they realize that the United States may not have enough corn and because other exporters such as China and Argentina have begun to restrict their corn exports.

Projections are that about 26 million acres of corn will be needed to supply the ethanol industry by 2008, about half of which will be for new plants that come on line in 2007. Prices of corn futures contracts for delivery in 2008 are providing strong incentives for farmers to plant more acres to corn, but there simply may not be enough corn to meet the country's food, fuel *and* feed needs – and any shortfall would be exacerbated by a short crop.

Indeed, right now is some parts of the country, including in my home state of Nebraska, you cannot buy corn at any price – there is no corn to purchase.

HIGHER CORN DEMAND MEANS HIGHER PRODUCTION COSTS

Markets have already responded to the current and expected surge in corn demand, with corn prices rising from about $2 per bushel last summer to about $4 per bushel now. As these higher corn prices have begun to attract acres from soybean production to corn production, the price of soybeans has also increased to reflect the imminent scarcity of soybeans. The price of soybean meal has increased from about $175 per ton to about $220 per ton.

Recently updated estimates by Iowa State University indicate that finished pigs require 12.3 bushels of corn, 120 pounds of soybean meal and, where it is readily available, 32.5 pounds of DDGS, an ethanol production process by-product. For most of 2005, pork producers could purchase corn for about $2 per bushel and soybean meal for $175 per ton. The total cost of corn and soybean meal per animal was $35.38, and total production costs averaged $100 per animal. Pigs born in March 2007 will consume 12.8 bushels of corn valued near $4 per bushel ($51.20) and 123.3 pounds of soybean meal valued at about $220 per ton. So, instead of the $35.38 per head cost for pigs sold before the recent run-up in prices, pigs sold in September 2007 will have corn and soybean feed costs closer to $65 per head. Total costs will have increased from $100 to $130, a 30 percent increase in our total costs. In an industry that has seen average margins of $2 to $3 per hog since 1992, a $30 per head cost increase is a disaster. Spread over the entire industry for a full year, the impact of this cost is $3.12 billion. This ethanol boom is costing us $60 million per week.

ETHANOL IS DRIVEN BY SUBSIDY AND NOT BY MARKETS

Why is the ethanol industry in the middle of such an enormous expansion? First, it is selling an energy product that ultimately competes with crude oil. U.S. ethanol production is not going to drive down world crude oil prices, and as long as OPEC is successful at maintaining crude at the current $60 per barrel target, ethanol will have a price floor. The ethanol industry receives a blender's tax credit of $0.51 per gallon, which is equivalent to $1.40 per bushel of corn that it uses. This blender's credit was put in place when crude oil prices were much lower, and it has remained unchanged as crude oil prices have doubled.

The combination of high oil prices and generous subsidies gives the ethanol industry incentive to grow. It will be difficult for producers to compete against ethanol for corn as long as the ethanol industry receives the subsidies it does. In addition to the blender's credit, the ethanol industry benefits from a 10-cent per gallon income tax credit and a host of additional state and federal programs. We estimate that the total value of these subsidies is approximately $2 per bushel of corn that is used. Had ethanol not caused the price of corn to surge, the effect of these subsidies would have been to provide the ethanol industry with free corn. There is not a single industry in the world that can compete against a competitor who is this heavily subsidized.

HIGHER PRODUCTION COSTS MEAN HIGHER FOOD COSTS

The pork industry will adjust to changing costs as it always has. High production costs will reduce profitability and, initially, many producers will try to ride it out, hoping that other producers will reduce output first. Eventually bankers will be forced to foreclose on some operations, and some producers will simply decide to retire early. Production will eventually fall by enough to bring the hog market to a new equilibrium. According to Iowa State University's Center for Agricultural and Rural Development (CARD), pork production would need to decline by 10 to 15 percent from levels they otherwise would be to allow the industry to recoup the higher production costs. This adjustment could take years. CARD has estimated that a 30 percent production cost increase at the farm level will translate into a 7.5 percent price increase at the retail level. This surge will occur simultaneously in beef, dairy and broiler prices. We will end up with a smaller livestock industry in the U.S. and with higher retail prices and food price inflation.

And the question remains as to who ultimately will benefit from subsidized ethanol production. Ethanol plant owners have benefited greatly to date. Corn growers will certainly benefit from higher corn prices this year and possibly in 2008, and soybean growers will benefit as well during that period. Eventually, though, higher corn and soybean profits will be bid into higher cash rents for crop acres thus driving up production costs for corn and soybeans and reducing profits. Higher rents will drive up land prices, and the eventual beneficiaries will be landowners.

It seems certain that rural America will NOT benefit from the surge in ethanol. John Lawrence at Iowa State has calculated that a 100 million gallon ethanol plant creates about 80 jobs. But if the bushels of corn required to produce that much ethanol are diverted from use in pork production, rural America will lose 800 direct on-farm jobs[1]. Given the multiplier calculated for the pork industry, that would mean an estimated 12,000 lost jobs economy wide.

DISTILLERS GRAINS AND SWINE DIETS

The ethanol industry has suggested that all of the feed problems created by using a substantial portion of the nation's corn supply for ethanol production are irrelevant because of distillers grains, a major co-product of the ethanol production process. As we told the Senate Agriculture Committee in testimony Jan. 10 of this year, distillers dried grains with solubles, or DDGS, do little to allay the concerns of pork producers regarding the future cost and availability of feedstuffs and consequently, the well-being of our animals and the cost of pork to U.S. consumers. Pork producers have several issues with regard to feeding DDGS to pigs.

First, DDGS are quite inconsistent from ethanol plant to ethanol plant and even within a plant. There is variability in their nutrient content – protein, fat, phosphorus. If the fermentation or drying process for DDGS is changed or varies from batch to batch, it can have an impact on the digestibility of nutrients.

Additionally, corn can contain mycotoxins that are, in some instances, detrimental to pig performance. (Ethanol plants are required to check only for the presence of aflatoxin.) The presence of mycotoxins varies by growing season, location and environmental factors. Since the

[1] http://www.extension.iastate.edu/ag/LawrencePowerPoint.pdf

ethanol production process removes the starch (two-thirds of the volume) from corn, DDGS produced from mycotoxin-contaminated corn will have three times the level of mycotoxin that was present in the corn itself. Based on the percentage of DDGS fed and which toxins are present, pigs can experience multiple problems, including immune challenges, abortion and feed refusal. The mycotoxin issue is a limit on the widespread use of DDGS in gestation and lactation diets.

As pigs are fed increasing levels of DDGS, the corn oil present (also at three times the concentration as in corn grain) can increase the iodine value (soft fat) of the carcass. This can result in belly slicing problems and possible rancidity or shelf-life issues. A higher percentage of DDGS in the diet also can have a negative effect on carcass weights, most likely due to the increased fiber content of the DDGS.

Other concerns with DDGS include:

- Flowabililty – As plants try to extract more ethanol from every bushel of corn, some plants grind the corn into a finer material, creating flowability problems of the DDGS at the feedmill as well as in the complete feed in the feed bin.
- Pelleting – DDGS have been shown to decrease the pelleting efficiency at feedmills. As increased efficiency is needed from the pig due to higher feed costs, more feed will be pelleted. This will increase processing costs.
- Phosphorus levels – In late finishing, the pigs' phosphorus requirements can be fairly low. Higher percentages of DDGS fed to pigs could increase phosphorus levels and increase excretions, which must be factored into nutrient management plans and may restrict DDGS use at higher levels in late finishing rations.

Finally, DDGS are so much more useful in ruminant – beef and dairy – rations than in hog rations that the ruminant market will always bid it away from hogs. It will typically sell at a small discount to corn so that hog producers chose corn and ruminants chose DDGS.

CONCLUSION

Mr. Chairman and Members of the Committee, the U.S. pork industry supports the development and use of alternative and renewable fuels, but it believes – as this testimony lays out – that the industry faces significant challenges because of the rapid rise in ethanol demand. Given those challenges, pork producer delegates participating in NPPC's just-concluded National Pork Industry Forum approved the following resolutions:

- NPPC supports allowing the 51-cent per gallon ethanol blender's tax credit and the 54-cent tariff on imported ethanol to expire. The blender's credit is set to expire Dec. 31, 2010; the import tariff Dec. 31, 2008.
- NPPC supports – should the blender's credit be extended – development of a countercyclical blender's credit system based on the price of oil.
- NPPC supports the increased use of bio-diesel as a renewable fuel source.
- NPPC will seek and support incentives for capturing and digesting methane from swine farms as an alternative energy source.
- NPPC urges the federal government to appropriate funds for research on the use of bio-fuels co-products for swine feed rations and for research on swine utilization of distillers dried grains with solubles (DDGS) and their impact on meat quality and animal health.
- NPPC supports the findings of a Center for Agricultural and Rural Development study on the impact of corn-based ethanol production on the livestock industry and asks that they be considered during formulation of the 2007 Farm Bill.
- NPPC supports the incremental early release – without penalty – by USDA of Conservation Reserve Program acres back into crop production.

Mr. Chairman and Members of the Committee, NPPC stands ready to work with Congress to craft a market-based bio-fuels policy that will ensure the fuel, food *and* feed security of our country and that will help maintain a $15 billion industry that provides hundreds of thousands of jobs and that helps feed the world.

11/28/06 Corn Balance Sheet (Mil. Bu.)

	2004-05	2005-06	Nov. '06 for.	Projected 2007-08			Projected 2008-09		
Supplies:			2006-07	A	B	C	A	B	C
Plant. A(mil.)	80.9	81.8	78.6	84.5	84.5	84.5	86.5	86.5	86.5
Harv.A.(mil)	73.6	75.1	71.0	77.0	77.1	77.3	79.0	79.2	79.4
Bu./A.	160.4	147.9	151.2	146.0	156.5	161	146.0	158	163
Production	11,807	11,112	10,745	11,235	12,064	12,444	11,534	12,514	12,946
Carryover	958	2,114	1,871	685	685	685	623	623	623
Total Supply	12,776	13,236	12,625	11,932	12,763	13,143	12,169	13,151	13,584
Feed & resid.	6,162	6,080	6,125	5,400	5,950	6,000	4,850	5,775	5,900
Food, ind. & seed	2,686	2,985	3,540	4,165	4,190	4,265	4,850	4,875	4,900
Corn for fuel ethanol	1,323	1,600	2,150	2,775	2,800	2,875	3,450	3,475	3,500
Exports	1,814	2,125	2,275	1,800	2,000	2,025	1,750	1,875	1,950
Total Utilization	10,662	11,190	11,940	11,365	12,140	12,290	11,450	12,525	12,750
Carryover	2,114	2,046	685	567	623	853	719	626	834
U.S. FARM PRICE	$2.06	$2.00	$3.20	$3.50	3.15	2.85	$4.10	3.25	2.90
IOWA AVE. PRICE, $/Bu.	1.96	1.95	$3.15	3.45	3.10	2.80	4.05	3.20	2.85
Counter-Cyclical Pmt.	0.30	0.35	$0.00	0	0	0	0	0	0
HARV. PRICE, C.IA	1.60	1.40	$2.80	3.40	2.90	2.60	3.80	2.90	2.75
DEC. FUT. @ HARV.	$1.98	$2.00	$3.15	$3.80	$3.30	$3.00	$4.20	$3.30	$3.20
Historical Probability				18%	65%	17%	18%	65%	17%
Weeks carryover supply	10.3	9.5	3.0	2.6	2.7	3.6	3.3	2.6	3.4
Feed use % chg. Drought years vs. current				-11.8%			-20.8%		
Corn replaced by increased DDGS			97		115			119	
Decline in corn feeding vs. prev. year			45		-175			-175	
Percent Decline in corn feeding vs. prev. year:				-11.2%			-18.5%		

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: Joy M. Philippi

Address: 2334 Hwy 81 Bruning, NE 68322

Telephone: 402-353-6365

Organization you represent (if any): National Pork Producers Council

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:_____ **Amount:**_____

Source:_____ **Amount:**_____

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:_____ **Amount:**_____

Source:_____ **Amount:**_____

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

Signature: Joy M. Philippi

* 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.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

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:** Joy M. Philippi
2. **BusinessAddress:** _____
3. **Business Phone Number:** _____
4. **Organization you represent:** National Pork Producers Council
5. **Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:**
   Row Crop Farmer & Pork Producer
   Former Employee of Grain Elevator in Bruning Nebraska working in areas of marketing of grains
6. **Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:**
   _____
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:**
   Immediate Past President of NPPC
   Co-Chair NPPC Farm Bill Task Force,
   Chair Working group on Fuels & Ethanol & Livestock.

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.