

**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**

**MATTHEW HERMAN
TYSON FOODS
MONROE, NORTH CAROLINA**

**ON BEHALF OF
NATIONAL CHICKEN COUNCIL
AND
NORTH CAROLINA POULTRY FEDERATION**

**MARCH 8, 2007
WASHINGTON, DC**

Good morning, Chairman Boswell, Congressman Hayes, and members of the Subcommittee. Thank you, Chairman Boswell, for the opportunity to participate in this very important and very timely hearing regarding the issue of using corn for food and for fuel. On behalf of the National Chicken Council and the North Carolina Poultry Federation, I appreciate your invitation to provide the chicken industry's comments on the impact of the new cost environment for feedgrains and oilseeds. U.S. animal agriculture will need the Subcommittee's help so that producers can better meet the increasing demands and difficult challenges.

My name is Matthew Herman, Complex Manager for Tyson Foods in Monroe, North Carolina. As manager for the Tyson Foods' complex in Monroe, North Carolina, I am responsible for a slaughter plant, a hatchery, and two other facilities. More than 1,500 employees help operate the Monroe complex. My complex contracts with 190 family farmers to grow our broilers and 42 family farmers to produce hatching eggs. Each week, Tyson Foods at my complex processes more than 1.3 million pounds of poultry on a liveweight basis. Tyson Foods, like the other companies in the chicken industry, provides good, steady income for family farmers across the United States. Further, the chicken industry's growth over the years has offered increased opportunities for growers to expand their operations. That track record of growth may be over as corn going for fuel is squeezing-out corn available for feed.

Tyson Foods is a member of the National Chicken Council and the North Carolina Poultry Federation. I am pleased to present this statement on behalf of these two organizations. The National Chicken Council (NCC) represents companies that produce, process, and market about 95 percent of the young meat chickens (broilers) in the United States.

The North Carolina Poultry Federation has been the voice of the North Carolina poultry industry since 1968. Serving producers and processors of chicken, turkey and egg products, the Federation provides a united voice for the industry with government, media, and the general public to help create a favorable climate for business success for everyone involved in the poultry industry in North Carolina.

Increasing Feed Costs

In 2006 almost 48.5 billion pounds, liveweight, of chickens were produced using more than 53.5 million tons of feed for the young meat chickens (broilers) and the breeder flocks that provide the fertile eggs for hatching. Of the 53.5 million tons of feed, about 1.3 billion bushels of corn were purchased. The average cost of chicken feed before the corn price began to rapidly escalate in mid-October, 2006 was \$139.20 per ton. Last month the same ton of feed cost \$186.38 ton, a 34 percent increase. The vast majority of the run-up in feed costs was the result of corn more than doubling in price.

Last year the chicken industry's feed bill was \$7.5 billion and this year total feed costs to the chicken industry will very likely be over \$10.5 billion, a 40 percent increase.

Many years ago then Secretary of Agriculture Earl Butz fondly referred to chickens as "condensed corn." When Secretary Butz was in office in the early '70s it took more than 2.25 pounds of feed to produce a pound of liveweight chicken. Today the feed conversion is better than 2.0 to 1.0, with many companies having conversion ratios of better than 1.9 to 1.0. Except for farm-raised catfish, no farm-raised animal is a better converter of feed to food. Nonetheless, even very efficient feed conversion cannot mitigate the high corn prices and the significant impact on the cost of producing chicken. Since October 21, 2006 the cumulative cost increases through the end of February 2007 for the chicken industry have totaled more than \$610 million. Based on commodity futures prices, it appears there will be further escalation in the corn price and, therefore, even higher feed costs are most likely for this year and beyond. Further, not only will corn prices most likely be higher, the volatility in corn prices will be much greater.

Current and Future Situation

Certain analysts have suggested that "we have been here before." That is, animal agriculture has weathered high prices for feedgrains/oilseeds in years past and, for the most part, have survived. It is true that there have been high feed costs before now and, at certain times, the quick run-up in prices have come upon the market unexpectedly. In the past, the problem has been a one year or so supply problem. But now, however, the situation is not supply-driven but rather demand driven. U.S. animal agriculture has not been here before. For example, certain university

econometric models that analyze the animal agriculture sector and forecast how the sector interrelates with the feed complex have been reworked and significantly adjusted because the models cannot handle the new dynamics of current and future scenarios.

Corn used for ethanol for the 2005/06-crop year was 1.6 billion bushels or 14 percent of total usage. For 2006/07 USDA is estimating 2.15 billion bushels or over 18 percent of total corn usage. Corn for ethanol during 2007/08 will total 3.5 billion bushels according to the American Farm Bureau Federation. This quantity compares with USDA's estimate of 3.2 billion bushels. The National Chicken Council and the North Carolina Poultry Federation agree with the Farm Bureau that USDA is underestimating the likely quantity of corn for ethanol and the impact it is having and will have on the traditional uses of corn both domestically and in the international market.

In response to an inquiry from the National Chicken Council this week, Dr. Bruce Babcock, Director of the Center for Agricultural and Rural Development at Iowa State University, concluded the following about the future of the U.S. broiler industry over the next few years. Dr. Babcock explained "the large run up in feed costs due to growth in ethanol is having and will continue to have a major impact on the poultry industry. Higher feed costs have already reduced the number of flocks placed. Instead of 2 or 3 percent annual production growth rates, we anticipate a year or two of flat to low poultry growth. This adjustment in production will allow wholesale prices to rise to cover the increase in feed costs. The increase in wholesale prices will eventually show up as higher retail prices. During this adjustment period, most growers will refrain from investing in new houses and related facilities. After the adjustment period we anticipate a return to slow growth, albeit with higher production costs and market prices".

Dr. Babcock's conclusion assumes a near-adequate supply of corn. But, will there be a near-adequate supply of corn in the years ahead?

Assuming average trend-line yields for the corn harvests in 2007 and in 2008, 14 million more acres must be shifted to corn this year and an additional 7 million acres next year if all users of corn are to have their needs adequately met. The largest shift predicted so far by a private

analytical group is 12.4 million more acres of corn. If the corn crop is adequate this year because enough acres were shifted from soybeans to corn and the average yield was significantly above the trend-line, the question is where will the additional 7 million acres be found in 2008? A shortfall this harvest means even more than 7 million more corn acres will be needed next year. Soybean acres will probably be reduced as much as possible this year with little additional ability to reduce more in 2008.

USDA is predicting ending corn stocks for 2007/08 at 637 million bushels, which is less than minimum pipeline requirements. There is no room for a misstep in corn production for 2007 through at least 2010. To assume favorable weather for crops over the next four years is an assumption the U.S. chicken industry is not prepared to make.

National Debate/Plan-of-Action Needed

We, as a nation, need to decide the proper balance between grain for feed/food and grain for bio-energy. That discussion has not taken place and it is over-due. Greater energy independence is a very worthy goal for the United States, but the negative and unintended consequences of moving too far too fast have not been adequately addressed. The debate does not need to be a black and white food-versus-fuel argument if enough lead-time and resources are permitted. For the chicken industry like other animal agriculture producers, there will be in the foreseeable years ahead fewer pounds of animal protein produced, not just in this country but on a global basis. Consumers who have sufficient income to devote to cover the higher costs of food will reach deeper into their pocketbooks and pay the higher food prices. For consumers in this country and around the world who cannot continue to afford animal protein in their diets, they will have to shift to other foods. However, with land being a limiting factor in the production of food, it is most likely all foods will be higher in price, whether of animal-origin or not.

Foremost in a national discussion on the issue is the need for a credible plan-of-action in the event of a significant shortfall in the corn crop. Animal agriculture is most vulnerable over the next two years. What happens if there are not enough acres shifted to corn and /or yields are measurably below trend line? We have not seen a contingency plan that will help prevent a crisis for animal agriculture or food shortages for consumers.

The National Chicken Council and the North Carolina Poultry Federation encourage the Subcommittee to help launch an active, productive national debate on the issue. We stand ready to engage in that worthwhile discussion.

Renewable Energy

Before concluding my comments, it is important to note the role of renewable energy. Although corn-for-ethanol is placing a heavy burden on the back of animal agriculture, there is one aspect of the bioenergy situation that may prove to provide a benefit to animal agriculture.

Animal agriculture in the United States produces approximately 1.5 billion gallons of pure animal fats on an annual basis. While the technologies exist to produce biodiesel from both vegetable oils and animal fats, biodiesel produced from vegetable oils is preferred due to its cold weather properties. As a result, to date most biodiesel produced in the United States is derived from vegetable oils. Moreover, nearly all biodiesel production facilities lack the added equipment necessary to process animal fats.

In contrast, animal fats are an excellent feedstock for the growing range of renewable diesel processes. Outside the United States, significant research and development has been directed toward next generation renewable diesel technologies. Multiple technologies using a thermal depolymerization process produce renewable diesel from animal fats. Not only do these manufacturing processes perform better with animal fats, they actually produce superior products. These processes are commercially viable right now. Currently, renewable diesel is in various stages of commercialization in Europe, South America, Asia and Australia by leading companies.

While animal agriculture is prepared to participate in the growth of renewable fuels in the United States, a level playing field is needed with oilseed-based diesel alternatives. Similar to biodiesel, in the current volatile oil price environment, the economics are not viable for renewable diesel to spur the investment needed. It is vital that developing technologies be supported so that agricultural capabilities are more fully utilized. It is good not just for poultry but all animal agriculture that have byproducts that can be converted to renewable biodiesels.

Recommended Actions

In addition to initiating a national discussion about the proper balance and pathway for the United States to move toward more energy independence, the National Chicken Council and the North Carolina Poultry Federation have certain other recommendations. There are a number of actions and measures that can be taken to help alleviate to some degree the impact of over-using subsidized corn for ethanol. We recommend the following:

- permit non-environmentally sensitive cropland in USDA's Conservation Reserve Program to be released without penalty and loss of program benefits;
- permit non-environmentally sensitive cropland in the Conservation Reserve Program to produce grain and oilseed crops if the harvest is designated for use to produce bio-energy;
- provide that any new mandates for renewable fuel standard should be sourced from bio-based materials (such as cellulosic, methane) that do not adversely impact the availability of animal feed;
- USDA should prepare and have-ready an effective plan-of-action in the event of a shortfall in a corn crop for the next few years;
- Provide for counter cyclical subsidies for ethanol so that as the price of crude oil goes up, the subsidy for ethanol goes down;
- provide an effective waiver to reduce or eliminate the renewable fuel standard when economic conditions, especially for animal agriculture so warrant;
- allow the U.S. import duty on ethanol to expire as scheduled on December 31, 2008; and
- increase funding and support for projects that will result in methods that permit greater use of dried distiller grains with soluble (DDGs) for feeding single-stomach animals, such as poultry.

Conclusion

Achieving greater energy independence is a very worthy national goal that we all can support. Achieving that goal must be pursued in a reasonable, rational way. Moving forward at a measured pace that allows agricultural producers to adequately react to market signals and at a pace that minimizes disruptions to food production and consumption should be a priority. The current approach and pace is full of risks to traditional users of feedgrains. Without adequate

safeguards for the unintended consequences, the future of U.S. animal agriculture is put in great jeopardy.

U.S. chicken producers look forward to working more closely with the Subcommittee and others in Congress so that poultry companies have a better opportunity to meet the new challenges and consumers of poultry products can continue to enjoy an ongoing, adequate supply of animal protein at reasonable prices.

Thank you, Chairman Boswell, Congress Hayes, and Members of the Subcommittee, for the opportunity to share our thoughts, comments, and recommendations.

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: Matthew Herman / Tyson Foods, Inc.
2. BusinessAddress: 232 Seacrest St. Monroe, NC 28110
3. Business Phone Number: 704-283-7571
4. Organization you represent: National Chicken Council, N.C. Poultry Federation
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
Currently employed with Tyson Foods, Inc. as the Monroe, N.C.
Complex Manager
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
B.S. Degree North Carolina State University, Raleigh, N.C.
Employed 17 years with Tyson Foods, Inc.
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:
Invited witness on behalf of National Chicken Council and
N.C. Poultry Federation

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

Matthew Herman

3146 Beaver Dam Dr.
Monroe, NC 28110
704-283-0981 work

Work Experience:

Tyson Foods, Inc.

Complex Manager – Monroe N.C. Complex

2007-present

Current responsibilities include a Complex, consisting of a processing plant, feedmill, hatchery, truck shop/service center, and Complex office. I have a staff of 8 team members and a total Complex staff of approximately 1500 team members. Also, we have approximately 230 contract live poultry growers in the Monroe Complex. We slaughter approximately 1,300,000 birds per week and process over 5.5 million pounds of finished production each week for various customers.

Tyson Foods, Inc.

Complex Manager – Albertville / Blountsville / Gadsden Processing

2004-2007

Current responsibilities include 3 processing plants totaling approximately 2,236 team members. I have a direct support staff of 8 team members that also support our complex in various roles. These plants slaughter approximately 3.1 million head per week, debone, cut-up, and produce over 14 million pounds of finished product per week.

Tyson Foods, Inc.

Complex Manager – Snead, AL Complex

2003-2004

Responsibilities included Blountsville Processing plant, Gadsden Processing plant, Iva Lee Feedmill, Sand Mtn. Hatchery, Empire Hatchery, Gadsden truck shop, Cullman truck shop, all live production associated and approximately 2400 team members, with over 400 poultry growers to support both plants. We slaughter approximately 2.4 million head per week, combined in both plants.

Tyson Foods, Inc.

Complex Manager – Carthage, Texas

2001-2003

Responsibilities included Carthage Processing plant, Tenaha Hatchery, Center Hatchery, Tenaha Feedmill, all live production associated, and approximately 1200 team members. We slaughter approximately 1,000,000 head per week and produce approximately 5 million pounds of finished product each week.

Education:

North Carolina State University Raleigh, N.C.
B.S. Animal Science 1990

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: Matthew Herman / Tyson Foods, Inc.

Address: 232 Seacrest St.

Telephone: Monroe, NC 28110

Organization you represent (if any): National Chicken Council, N.C. Poultry 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: _____

Source: N/A 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: N/A Amount: _____

Source: N/A Amount: _____

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

Signature: Matthew Herman

* 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.