

Testimony of Jim Jenkins
U.S. Senate Committee on Agriculture, Nutrition and Forestry Field Hearing
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Good Morning Chairman Harkin and Senator Nelson. I appreciate the opportunity to present comments to you regarding the impact of high energy costs on food, feed and fuel. I appear today in my capacity as chairman of the Nebraska Ethanol Board, a state agency established in 1971 to work with communities and companies to expand the production and use of ethanol. My perspective on this issue comes from my tenure on the Ethanol Board but my experience is shaped by my day to day responsibilities as a rancher and restaurant owner. As a citizen of rural America and as a provider of food and food products to consumers, I can attest to the adverse impact of rapidly increasing energy prices. And as I've watched Nebraska emerge as the second largest ethanol producing state, I have a good sense of the positive impacts generated by that industry in many sectors of the state, including the livestock industry.

The rapid growth and maturing of the American Ethanol Industry is one of the significant business and economic stories of the past several years, particularly in the country's heartland. This new biofuel industry is a 20 billion dollar industry spanning 20 states and most importantly is providing nearly five percent of the transportation fuel requirements of the United States. While this is a relatively small percentage it nonetheless represents the first real competitive product challenge to the oil industry in its 100 plus year history. Not surprisingly, oil companies are fighting back spending millions of dollars attempting to undermine the nascent ethanol industry. Recently, 20 other groups including the American Meat Institute and the Grocery Manufacturers Association launched a campaign against the ethanol industry with the theme of "food before fuel" that accuses ethanol of being one of the principle causes of higher food prices. While ethanol has certainly contributed to the increase in food prices corn prices and therefore food prices, most objective observers concur that these increases are being driven by a multitude of factors unrelated to corn ethanol including: oil prices up 900% since 1999; surging world demand in Asia and Eastern Europe, and drought in major food producing areas of the world. In addition huge amounts of speculator money has flowed into commodities as the United States stock market has stagnated since the late 1990's.

While key farm inputs such as steel, fertilizer and fuel have doubled and tripled in cost over the past four or five years, the government's Economic Research Service (ERS) projects that from 2004 through 2008 food prices will increase 15%, with the 2008 contributing 3% to 4% to that total. Furthermore, the farmer's share of the retail food dollar has declined from 32% in 1970 to 19% in 2002, so that the majority of the cost increases takes place in the food manufacturing, processing, distribution and transportation sectors, beyond the farm gate. A research paper released in April by Texas A&M's Agriculture and Food Policy Center found that "high corn prices have had very little impact on retail food prices". The truth is that food price increases have lagged well behind other key commodities impacting our nation's economy and grain ethanol is a bit player in driving food inflation.

For most of the last fifty years the challenge for United States Agriculture was too much production. When I returned to my family's ranching operation in 1996, many in the international community was accusing the United States of undermining farmers around the world by dumping cheap, subsidized agricultural products onto the market. And my urban friends were complaining about the massive government support for the food and agriculture industries. Now farmers are less subsidized and rural economies in the U.S. and around the world are surging. After decades of stagnate prices, increased farm income is driving innovation as farmers now have the resources and the price incentives to more fully implement such things as precision guidance systems, fuel efficient equipment, advanced genetics, water and energy saving irrigation equipment. Instead of undermining food production systems around the world the biofuel industry is bringing badly needed diversification and stability to agriculture.

To date ethanol, in addition to the rapidly growing wind industry, offers our nation a significant opportunity to begin the important diversification our energy portfolio away from fossil fuels. This diversification of risk in our nation's energy portfolio is creating wealth in our own country and beginning to stem, if every so slightly, the massive transfer of energy dollars to other countries, now totaling over \$700 billion dollars annually. Our dependence upon oil also undermines our national security interests and costs the taxpayer billions of dollars as we seek to protect our overseas oil supply. As former Federal Reserve Chairman Allan Greenspan wrote in his book, **The Age of Turbulence**, "...the Iraq war is largely about oil". Given these real threats to our economic well being caused by or dependency on foreign oil, it is imperative that the United States develop alternatives to oil. Even oil tycoon T. Boone Pickens has noted in his TV ads that "this is one problem we cannot drill our way out of."

The ethanol industry provides a critical foundation to begin to decentralize our energy industry enabling communities world wide to turn waste materials such as lawn clippings, wood chips and crop residues into energy. This technology is proven and available now. Brazil for example is running nearly its entire transportation fleet on ethanol produced from sugar cane. Nebraska is now a net exporter of transportation fuel, producing approximately 1.3 billion gallons of ethanol and consuming 900,000 gallons of transportation fuel. The United States through public/private partnerships is presently building six cellulosic ethanol plants that will test the capability of producing ethanol from non-corn based plant materials, providing further diversification for our rural economies. Importantly plant matter is available all over the world, whereas oil is available in a comparatively few select regions. In the end, we may in fact use most of our plant matter for food but given the present energy challenge is it not prudent to at least develop alternatives?

Change always causes some hardship. Presently the livestock industry has experienced a significant erosion in profitability as it has been forced to compete with the ethanol industry for grain. Nonetheless, there is plenty of evidence that market forces are at work providing stability to both the ethanol industry and the livestock industry. Elevated corn prices have sent a clear signal to that ethanol industry to slow expansion and, in fact, a

number of plants will go out of business over the next several years. In addition, the cattle feeding industry, which consumes over 30% of the corn crop is ratcheting down its utilization of corn and instead using less expensive forage to place weight onto cattle. Dan Loy, a beef nutritionist at Iowa State University told Successful Farming Magazine that the amount of corn used from traditional finishing programs “can be cut in half”. The cattle industry also is now beginning to more efficiently utilize distillers grains, which in effect replace approximately 40% of the bushel of corn that went into the plant initially. As a cattle producer, I am confident that we will be stronger and more efficient in the era of \$4.00 plus corn than the three decades of \$2.00 corn, which contributed to over-production and efficient feeding practices.

Throughout our history, our free enterprise system has partnered with our democratic governmental institutions to create the most dynamic economy in the world. Each of our major industries, including transportation, food and agriculture, energy, education, and our world leading technology sector has received major support from the taxpayer. A few examples include the transcontinental railroad, our interstate highways, the internet, food and agriculture research by our land grant universities, and important conservation projects implemented after the dust bowl disaster of the 1930’s. These past challenges provide wisdom and inspiration for developing a vision and plan for dealing with the present energy crisis.

With your permission, Mr. Chairman, I would like to include with my testimony two exhibits which underscore my testimony. The first is a recent publication on the topic of food, feed and fuel. This publication was issued by Ethanol Across America, a public information campaign with which Senator Nelson is affiliated. I offer my thanks to Senator Nelson on his role in supporting a factual document on the impact of the ethanol industry and the negative consequences of rapidly increasing energy prices and escalating energy imports.

The second exhibit is a letter to Senators Richard Lugar and Ben Nelson from a nationally renowned livestock nutritionist at the University of Nebraska. Dr. Terry Klopfenstein has shared with Senators Lugar and Nelson the results of an analysis that clearly documents the role of distillers feed in meeting livestock feed supply needs. The document illustrates that after ethanol has been produced from corn nearly 50% of the original corn value is still available for livestock feed. This fact underscores the point that ethanol production creates opportunities for more efficient and progressive livestock feeding. It also makes the point that ethanol production from corn is a means of more efficiently using that resource to produce food, feed, fiber and fuel.

Thank you for the opportunity to talk with you today.

