Written Testimony of Joel Brandenberger

President, National Turkey Federation

June 5, 2013

Chairman Lankford and Ranking Member Speier, my name is Joel Brandenberger, and I am president of the National Turkey Federation (NTF). NTF represents 98 percent of the commercial turkey industry, and I am testifying today on behalf of more than 148,000 growers, more than two dozen processors and more than 300 allied companies that comprise the $29.5 billion U.S. turkey industry.

Our members and I want to thank you for the opportunity to discuss the impacts of the Renewable Fuel Standard (RFS) and to examine the role the Environmental Protection Agency (EPA) plays in managing this exceedingly rigid government mandate. Our focus today will be on the way the RFS has distorted feed costs for turkey producers – as well as the rest of livestock and poultry producers – and ultimately how that distortion has unnecessarily increased the prices consumers pay for food at restaurants and grocery stores. We also will show how EPA has ignored the significant power it was given by Congress to prevent this very situation from occurring.

Everyone involved in the ethanol debate likes to trot out facts and figures to support their case about what the RFS has and has not done. I'm going to keep it exceedingly simple here at the start:

- When the first RFS was created in the 2005 Energy Bill, livestock and poultry were consuming more than 6.1 billion bushels of corn, or about 55.2 percent of the crop. Back then, ethanol used 1.6 billion bushels and that amounted to 14.4 percent of the corn crop.

- Today, livestock and poultry consume about 4.4 million bushels, or 40.8 percent of the crop. Ethanol today consumes 4.6 billion bushels of corn: that's 42.7 percent of all the corn produced in the country. On top of that, corn stocks are at near-record lows and corn prices at near-record highs.

- Turkey production, which was on the rise in 2006, began plummeting by 2008 and still remains almost 10 percent below its 10-year high. Most others in livestock and poultry would tell similar stories.

Those are pretty sobering statistics, and nothing but the RFS is to blame. Energy costs are higher than in 2006, but the increase in energy prices are only a fraction of the increase in corn prices. Corn is the major ingredient in turkey feed and almost all livestock and poultry. Corn is the primary reason why one turkey company went bankrupt in 2012 and why the industry already has lost 750 jobs in the last 12 months. You would have to build 10 to 15 ethanol plants to replace the jobs that were lost in rural America last year alone.

Almost everyone involved in meat and poultry production predicted this outcome when the first RFS was being debated. The only ray of hope we had at the time was that Congress allowed EPA to waive all or part of the RFS, if economic circumstances permitted. Twice now, states have petitioned the EPA for such a waiver, once in 2008 and again last year. Both times, EPA has denied the request. Though it was not apparent at the time EPA denied the 2008 waiver, the market corrected relatively quickly. In last year's case, though, it is unclear whether EPA's decision is not going to have long-lasting consequences. Six months have passed since the waiver was denied, and the consequences are still being felt in the turkey industry. The lack of flexibility on the part of EPA to waive a part or this entire mandate also is having real consequences on Americans from their dinner table to their paycheck.

The failed waiver process is only a symptom of what is a flawed, rigid government policy that is the RFS. While I am sure the decision makers at the time had good intentions to develop a policy that did not pick winners and losers or adversely hurt other industries unintentionally, the fact is it has done all these things. Current U.S. biofuels policy contains escalating corn-based ethanol blending requirements (RFS) that do not automatically adjust to energy and corn market realities. That same policy contains cellulosic ethanol requirements that do not reflect the fact that the biofuels industry, despite decades of effort and large subsides, has failed to develop a commercially viable process for converting cellulosic biomass to ethanol.

Corn-based ethanol blending requirements have pushed corn prices, and thus ethanol production costs, so high that the market for ethanol blends higher than 10 percent are essentially non-existent. That same policy has also destabilized corn and ethanol prices by offering an almost risk-free demand volume guarantee to the corn-based ethanol industry. Domestic and export corn users other than ethanol producers have been forced to bear a disproportionate share of market and price risk.

Additionally, consumers have seen food prices increase faster than general inflation since the current RFS was enacted in 2007. Food affordability, which had been improving for decades, now is deteriorating.

Job creation in the food sector has been substantially reduced by the diversion of corn to ethanol production. Almost 1 million potential food sector jobs that could have been created from 2007 to 2011 were not. Diversion of corn to ethanol production is one contributing factor to the prolonged recession in the U.S. labor market.

It can also be proven that increases in ethanol production since 2007 have made little, or no, contribution to U.S. energy supplies, or dependence on foreign crude oil. Domestic gasoline production and crude oil use have not been reduced. If the RFS is made more flexible, and ethanol production shrinks because of market forces, we can easily replace ethanol with gasoline currently being exported.

Corn users, such as the turkey industry, need assurance of market access in the event of a natural disaster like the one we experienced last year that lead to a significant reduction in corn production. Ethanol producers should fully share the burden of market adjustments, along with domestic food producers and corn export customers. Ethanol prices should reflect the fuel's energy value relative to gasoline, not a corn price that is both inflated and destabilized by the inflexible RFS.

Finally, the RFS schedule should be revised to reflect the ethanol industry's inability to produce commercially viable cellulosic fuels. Policy should reflect reality when undeniable barriers to achieving policy goals exist.

Despite the inflexible nature of the RFS, Congress did give the meat and poultry industry an out. When Congress enacted the expanded RFS in the Energy Independence and Security Act of 2007 (EISA), the structure was complex. Given the 15-year statutory schedule imposed by the law – including the specification of four different fuel mandates, each with a separate schedule – Congress wanted to ensure that certain "safety valves" for the RFS would be available. Thus, EISA retained and expanded Clean Air Act (CAA) section 211(o) (7). Among other provisions, CAA section 211(o)(7) allows the Administrator of the EPA to reduce the required volume of renewable fuel in any year based on severe harm to the economy or environment of a state, a region or the United States, or in the event of inadequate domestic supply of renewable fuel. This is the waiver I mentioned at the outset of this testimony.

We were assured back in 2007 that the waiver provisions in CAA section 211(o) (7) were an important part of Congress' intended implementation of the RFS. This waiver authority would help guarantee the domestic economy and environment were protected as production of conventional renewable fuels increased and we moved to broader use of advanced biofuels. Clearly, in 2007 Congress anticipated that unforeseen circumstances would require the EPA to exercise flexibility with the RFS.

Now, five year later, U.S. corn prices have consistently risen, and the corn market is increasingly volatile since the expansion of the RFS in 2007. This reflects the reality that more than 40 percent of the corn crop now goes into ethanol production. As noted, ethanol now consumes more corn than animal agriculture, a fact directly attributable to the federal mandate. While the government cannot control the weather or almost any other facture that can come to bear on the U.S. corn supply, it fortunately has one tool still available that has the potential to directly impact corn demand. By adjusting the normally rigid RFS mandate down to align with current market conditions, the federal government can help avoid dangerous economic situations caused by prolonged record high cost of corn.

This year, as we sit here today, the U.S. corn supply is facing dangerously low carryover stocks again and regardless of what ultimately will happen with the weather situation (currently the largest corn producing state is underwater during planting season) later this summer – if there is a hiccup in planting we will see another significant increase in corn prices and we will truly be faced with shortages of corn or a drastic increase of corn imported from other countries to meet the demand for livestock and poultry production.

On November 16, 2012 the EPA rejected requests from the Governors of Arkansas, North Carolina, New Mexico, Georgia, Texas, Virginia, Maryland, Delaware, Utah and Wyoming who asked for waivers from the RFS. They were joined by members of Congress and a coalition representing farm groups, other industries and interest groups that oppose increased mandated corn ethanol production.

EPA turned down the request, stating "the body of information shows that it is very likely that the RFS volume requirements will have no impact on ethanol production volumes in the relevant time frame, and therefore will have no impact on corn, food or fuel prices." They went on to say that their, "extensive analysis makes clear that Congressional requirements for a waiver have not been met and that waiving the RFS will have little, if any, impact."

The troubling part of this statement is that to date, even after Congressional inquiries were made, the EPA has not made available to the public the "extensive analysis" so that Congress and the American public could review EPA's findings and if the facts do bear out their claims. Despite what we believed was a strong case for severe economic harm, EPA did not allow the waiver and corn contracts for the month of May closed around $7.60 a bushel which is over two and a half times the price of corn pre RFS.

One analysis of what the waiver might have done suggests that a waiver of the RFS in 2013 could have been a $52 per capita decrease in food and fuel cost for everyone man women and child if they would have granted the 100% reduction of the RFS for one year – that is $208 back in the pocket for a family of four. For U.S. consumers that's about a $16 billion dollar hit with a total economic impact of about $31 billion that will not go back to hard-working families.

In the turkey business alone, extrapolate that scenario out and we would expect about a $1.31 increase per bushel with soybean meal adjusting proportionate to corn. So, the impacts of the waiver being rejected to our industry would likely to be in the ballpark of a $435 million tax on turkey farmers this year. To put this in perspective, the turkey industry used approximately $2.4 billion in grain and oilseed meal in 2011. If last year did not have enough conditions present to prove "severe economic harm" then what catastrophic event has to happen in order to get EPA to grant this needed relief?

Contrast the facts surrounding the 2012 waiver request with the first time a state asked EPA for relief from the RFS back in 2008. The EPA Administrator Stephen Johnson, at that time, said "the government agency denied the waiver request because it did not find that the RFS caused "severe economic harm," continuing "the EPA's professional staff conducted a detailed analysis and found that the RFS mandate is not causing severe economic harm, but rather strengthening the nation's energy security and farm communities." A similar response and again very little of the EPA analysis ever reached the American people. The following year we saw how price spikes caused by this government mandate impacts turkey growers when corn prices reached almost $8 per bushel, U.S. turkey production declined by 9 percent, resulting in loss of rural jobs.

What followed was a nationwide reduction in protein production that had a negative impact on all companies and all segments of the turkey industry. Regardless of plant location, an average 9 percent cut in pay to the growers impacted not just the growers themselves but also their local communities and rural economies. Additionally, it is important to remember that 9 percent represents a national average; in some areas, the impact was more severe. Because of the increased 2008 corn prices, two companies, representing more than 50 individual growers made the difficult decision to close their doors for good. While some of those growers found new processors for whom they could work, others were forced out of the turkey business for good. That year, another western-state turkey operation stopped production for three months in an effort to wait out high prices. Finally, another company, a grower-owned cooperative, was forced to cut its production during that time by 50 percent.

Now, because of the structure of the turkey industry, a large portion of the economic harm incurred by the exponential rise in corn and soybean prices is absorbed by our companies or cooperatives. However, the harm to the turkey grower is often overlooked. The typical turkey grower relies on an average of 3-4 flocks of turkeys a year and in most cases is paid on the weight of those flocks at the time of processing. When corn prices rise and feed prices escalate beyond a certain point, most turkey companies will reduce production. On October 9, 2012 Zacky Farms, a California turkey processor, announced it had filed for Chapter 11 protection and cited increased feed costs as a key factor in the company's financial struggles. This year, a North Carolina based turkey company closed its doors to turkey production. If feed costs do not decline, other companies could find themselves at risk. While we have all heard the sound bites about how the RFS has put money back into farm families' pockets – just as many or more rural communities that rely on meat and poultry production have been negatively impacted with job loss or decreased profits due to the arcane and inflexible government mandate. We are paying the price now; ultimately everyone will end up paying more for this ill-conceived government policy.

Thank you Mr. Chairman for the opportunity to testify today, I will be happy to answer any questions at this time.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: Joel Brandenberger

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2010. Include the source and amount of each grant or contract.

None

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

National Turkey Federation, President

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2010, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.

Signature: Joel Brandenberger

Date: 5/31/13

Joel Brandenberger, NTF President

Joel Brandenberger is president of the National Turkey Federation (NTF). Brandenberger joined NTF in 1991 as the Federation's Director of Public Affairs and served in a variety of positions – most recently as Senior Vice President for Legislative Affairs – before being appointed to his current post in December 2006. For most of his tenure at NTF, he represented the turkey industry before Congress on a wide range of issues, including food safety, farm policy, the environment, energy policy and animal health and welfare.

Immediately before joining NTF, he was Legislative Director and Press Secretary for then-U.S. Rep. Bill Sarpalius. Brandenberger also was Sarpalius' Press Secretary and Chief of Staff in the Texas Senate and Press Secretary for Sarpalius' successful 1988 congressional campaign. Prior to that, he spent almost three years as a reporter and editor at the Amarillo Globe-News.

Brandenberger is a graduate of Texas Tech University.