

Moderator:

-- fueled debate as it were. Its been gaining a lot of attention and so we have four experts sort of in the field of agriculture and fuel to discuss the topic with you today.

I will ask that you wait till the end of the presentations to ask your questions. Let them get through their speaking. Then I'll come back up and we'll go through the questions. The order will be Secretary John Block; Secretary Block was the Secretary of Agriculture under President Reagan during his first term.

Following him will be Rick Tolman. Rick Tolman is the CEO of the National Corn Growers. After him is Tom Buis, the President of the National Farmers' Union and then finally Bob Dinneen is the President and CEO of the Renewable Fuels Association.

Mr. Secretary? Please.

Secretary Block:

Thank you very much, Matt. Let me say that I think I come to this podium today from a fairly unique position having spent a lot of years working in food and agriculture, running a food trade association and U.S. Department of Agriculture and also have a farm in Illinois. My son runs a farm.

We raise 5,000 acres of corn and 10,000 head of pigs. So we've got hogs and corn both so we're part of this whole equation and we live it every day. So that's my perspective.

Now the first point I would make is yes, bio-fuels have had some impact on the price of food. I think we can't deny that, but it's pretty small. It's pretty small. It's hard to figure out exactly what it is; ten percent, 15 percent in the total change in the price of food.

But there are other factors. This is a very complicated issue and if you just look at the world, the price of food is up.

And you pick up the paper and every day there's a story about hungry people and food's expensive in a lot of countries. Well, a lot of countries, they're spending about 50 percent of their household income on food. Whereas we're fortunate here. We spend than less than ten percent.

So you look at the world and what's going on over there and the demand for food is escalating. China and India and other countries are developing and they want animal protein. They're not satisfied just eating rice or wheat. So, that's a big demand right there.

I dare say we would not even be standing up here now if the price of oil was \$20 a barrel, but it's not. It's 120 and it's likely to stay up in that range or come down some or go up. I don't know. But it's going to stay high and it puts us into a position we had not been in before and we're trying to find the future from this point of view.

The next point I would make is the weather problems around the world and you read about all of them and the drought in Australia and other countries. These are big, important considerations.

Then the next point I make is a speculation. The stock market goes down so money flows into commodities. Commodities go up. Are they higher than they're really worth? I don't know. But certainly there's a lot of money been poured into commodities.

Then the next point I would make is the weakness of the dollar. I was looking at the Wall Street Journal just this week and you could see on a graph that they had there that the dollar's relationship to the Euro.

If the dollar was as strong as the Euro, we could buy oil as cheap as they can buy it with the Euro. With the Euro they buy oil for \$70 a barrel, or 70 Euros a barrel, but we're spending \$120 a barrel.

The point is that the dollar situation has impacted things, too. Now we have countries in other parts of the world that had not before, but they're starting to restrict the sale of commodities that they think are important, whether it's rice or wheat, they're restricting those sales and that disrupts the flow of product around the world.

There's a whole bunch of things happening out there and they're a lot more complicated and making a lot more difference in bio-fuels.

So I guess I would say it's unreasonable to blame bio-fuels for a big part of this. I would say that especially internationally because we are not shorting the market on grain. We are exporting more grain than we ever have in history; \$100 billion worth of U.S. farm products going overseas. A record.

If we're sending it all over there, there's something else at play here that's caused the food prices to go up here in these other countries.

There is a positive side to this and the positive side is that higher prices equal investment in the industry and that equals more food. I will assure you, it won't happen overnight, but in a year or two or three, whatever, over time with good prices for farm products, the world is going to produce more farm products.

I would just mention an article that was in the Post day before yesterday I think. Anyway, part of it was about Mauritania, poor country in Africa. Fifteen years ago they were going to use irrigation on a large chunk of land in the southern part of the country and with the irrigation they'd raise more food.

Well it all fell through over those 15 years. It didn't work. Now they're going to do it and countries will be doing that all over the world. Things like that increase food production.

Genetic engineering – that is going to be accepted in places where it wouldn't have been accepted before because there's becoming a realization that we need to use the technology at hand, whether it's bio-technology, hybrid seed corn or irrigation in places. These are all positive things that deal with the challenges that we face today.

We depend – I believe that given the situation that bio-fuels have a place, an important place at this point in time and right now we're talking about corn and other products to make bio-fuels.

But it's not too long off, two, three, four, five years we'll be using cellulosic material to make bio-fuels. All of this is home grown. It makes jobs for us right here in the United States and it's a clean fuel. Those are good, positive things.

So that's only a part of our effort to deal with the energy challenges that we face today, but an important part of it. That's not to deny that we should not look to wind and sun and coal. I don't care.

We need to look to about everything we can find to deal with this problem of trying to get the energy that we need and that the world needs today.

That concludes my remarks. I just want you to understand that my remarks or my position as a farmer and as someone that's dealt with agriculture all my life, I'm not owned by anybody and I'm not up here representing anybody. I'm representing Block Farms and John Block. Thank you.

Rick Tolman: Good afternoon. Rick Tolman with the National Corn Growers. You know last week there was a very entertaining event, the NFL draft. Something I enjoy watching where you get a lot of disinformation and misinformation on purpose in order to confuse who's going to draft who.

It's the old classic PR strategy of turning Little Bo-Peep into the axe murderer. We have a lot of that going on in the national media with corn and corn prices and ethanol.

In fact this article in the Washington Post today is the latest classic example of that where there's a lot of misinformation, slanted information that's just inaccurate.

What I'm going to do is just share a few basic facts about corn and corn supply. There's some real misuse. People that think they're experts about corn. I think while we do have some role in higher food prices in the corn industry, we're certainly closer to Little Bo-Peep than we are the axe murderer.

Corn is our largest crop. We've been producing corn on this continent for 400 years. It was our first major export back to Mother England. We typically supply about 65 to 75 percent of world trade in corn out of the United States.

We have a comparative advantage in corn production. We continue to produce more on few acres with fewer inputs.

The kind of corn that we produce that we're talking about that goes into ethanol is not the corn that you eat. A lot of people miss this. It's not corn on the cob. It's not the creamed corn. Those are two different supply channels.

Last year we had 85 million harvested acres of field corn and we had products 13.1 billion bushels, or 366 million tons valued at about \$52 billion.

On the sweet corn side, it was 631,000 acres valued at about a billion dollars. Those are very separate chains, very separate varieties and people get those mixed up.

So again, we produced a record crop last year by a wide margin. Here's how it was used. We had available a little over 14 billion bushels 'cause of our carry in. Again, a bushel is equivalent to about a large bag of dog food, if you want to get a visual image.

Forty-two percent of that that we had available went for livestock feed, nine percent went for direct human consumption, 22 percent went for ethanol, 17 percent was exported and we had a ten percent carry over.

So those simple numbers I think should address a little bit of the misinformation, the axe murderer concept. The value of ethanol that we use is not 30 or 40 or 50 percent of our production as I hear. It is under 25 percent. It was 22 percent last year.

We projected out to 2015 when the cap hits on the renewable fuel standard at 15 billion gallons and we can see no more than 27 percent of our corn crop ever going for ethanol use. So those numbers are greatly inflated.

Another one is that we're taking corn away from the food supply to go into ethanol. The reality is that we will have record exports this year of corn. More than we've ever exported before this year. We are putting more corn in the food supply than we've ever done before and also adding 1.3 billion bushels for ethanol export.

Now how do we do that? That's because we have growing yields. We have growing productivity. Let me give you a few numbers here. 1967 we had a national average yield of 80 bushels to the acre. 1977, ten years later it was 91. 1987, ten years later, 120. 1997, 127. Last year 151.

So our corn yields have doubled in the last 40 years using less inputs. We expect them to double again in the next 20 years.

Why is that happening? Because of bio-technology, because of improvements in corn breeding, because of the sequencing of the corn genome. We have much more technology to put the traits in that give us yield enhancement. Again, we're doing that with fewer inputs.

In the Washington Post they had a couple significant errors. One saying that the acres that we had last year was a record. It was not a record. We have exceeded that number many times in the past.

They also had a nice graphic in there about if you fill up your SUV, it requires enough corn to feed somebody for a year. That one's been out there for a long time. I don't know if any of you have ever bothered to calculate that, but that's about five bushels of corn coming out of the food supply.

When that statistic first came out corn was selling for two dollars a bushel so that at a ten dollar equivalent. Today corn's selling for around five dollar a bushel. So that's five times five, \$25. It seems not very much reality to me that somebody could live for \$25 a year.

The reality is again those are not competing with each other. Ten percent of our corn supply goes for food use. We put more into food use, more than export. It's not as if you didn't put it into ethanol somebody would get it to eat. They're not competing. They are different channels. Different ways to use things.

Now what about those comments about corn driving up the price of food. Certainly higher corn prices have had an impact on retail food prices. Most studies indicate that somewhere in the range of a quarter to a third of what we've seen prices go up.

Well where's the other three-quarters of the other two-thirds coming from? Is corn Bo-Peep or the axe murderer? We've seen the headlines. The reality – some of you have the studies. USDA said corn prices passed through to the retail rate at less than ten percent of the corn price change.

Another study says that every dollar increase in a bushel of corn, dollar increase in the gallon of gas, the increase in gas has twice the impact on retail food prices that the increase in a bushel of corn.

Texas A&M in a report released this month said higher corn prices have had very little impact on consumer food prices. Well how can this be?

It's interesting to look at how much corn is in food, the reality of it. The USDA estimates that our average corn price this year will be somewhere over four dollars a bushel.

Again you're seeing five or six now, but farmers – what the farmer gets is somewhere on the average of about four dollars a bushel because of forward contracting. Last year it was just a little over three dollars a bushel.

There's 56 pounds of corn in a bushel and at three dollars a bushel, that's 5.3 cents a pound. At four dollars at 7.1 cents. If you want to go to five dollars that's 8.9 cents a pound and at six dollars, that's 10.7 cents.

So if you looked at common items that use corn, a pound of beef takes 2.8 pounds to produce of corn, 2.8 pounds of corn to produce a pound of beef. So at three dollars a bushel, there's 15 cents worth of corn in a pound of beef. At four dollars a bushel, there's 19 cents. It went up four cents.

For milk it takes 1.8 pounds to make a gallon of milk. At three dollars a bushel there's nine cents worth of corn in the gallon of milk. And at four dollars there's 13 cents.

Corn flakes – it takes ten ounces of corn to produce a box of corn flakes that sells for over three dollars. There's 3.3 cents in that box of corn flakes of corn at three dollars. When it goes up to four dollars, it's seven-tenths of a cent up; it goes to four cents worth of corn.

So at the retail level, higher corn prices at the farm gate have very little impact on retail food prices. Nineteen cents of the food dollar today goes back to the farmer. In 1959, it was 41 percent. Today 80 percent of the food dollar is driven by labor cost and rising energy cost. It does not go to the farmer.

In 2003, the price of corn was \$2.50 a bushel and the price of oil a barrel was ten dollars. Today the price of corn for a bushel is just over five dollars, and you know what oil has done. It peaked at 120 last week. So there's been a very significant increase in oil. That's where the impact is coming.

Corn prices do have a marginal impact on the retail price of food while only by a small amount.

What do corn prices have to do with food riots in China and Pakistan and India over rice? Absolutely nothing. There is no connection to rice production around the world with bio-fuels or corn in the United States. No connection at all. Absolutely none.

Bottom line: there's been a very clever marketing disinformation campaign directed at bio-fuels by those with deep pockets.

If you want to know who the real axe murderer is – and that's slashing our grocery food budget, look at four dollar a gallon gasoline, look at \$120 a barrel oil.

Thirty-eight of the 47 poorest countries in the nation are net oil importers; 25 import all their oil. The Energy Information Agency estimated that OPEC has increased by a factor of five their revenue

since 2003. Where has that money come from? Its come from poor people who need to pay for food. Thank you.

Tom Buis:

I'm Tom Buis, President of the National Farmers' Union and a farmer from Putnam County in Indiana. It's great to be here. I echo the comments by Secretary Block. I think he laid out very accurately what's really causing food price increases.

I get a little disturbed when I read in the media some of the things that ethanol and American farmers have been blamed for.

I don't mind having a legitimate debate about the policy direction that we go in this country on renewable energy because I think it's a positive. We should have done that 30 years ago. We would be much further down the road than we are today.

But I do want to straighten out some of the facts. In the past year we've been blamed for tortilla protests in Mexico and the facts are tortillas are made out of white corn; not yellow field corn that we produce here in the United States.

Our trade agreements actually prevent us from providing more than two percent of Mexico's white corn needs.

Their problem was a result of weather related production problems in their own country and from their other suppliers around the world. Not corn ethanol in the United States.

Second thing: right before the biggest beer drinking holiday in the United States last fourth of July, the beer breweries came out and they were blaming raising beer prices on corn.

Well, as I told you I'm an Indiana farmer and I do know that in some parts of the state they turn corn into drinking spirits, but it's not beer. Beer is made out of rice and barley; not corn.

Third one was protests in Italy over pasta. They were blaming American farmers shifting production into corn.

Well pasta is made out of durham wheat and durham wheat is a specialty wheat that's only grown in the micro-climates of the northern tier of states; North Dakota, Montana, Canada. That's not corn country. It's not soy bean country and durham wheat is usually a higher value product that they could make more money off of in the second place.

Rice – recently we were blamed for this run on rice at these wholesale clubs, Costco and Sam’s Club. According to the facts we’ve had plenty of rice.

These were two specialty rices. One from Thailand and one from India where their own countries restricted their exports of rice to help stop the tremendous price increases of food, which are actually, as Secretary Block pointed out, the function of oil in energy prices, if you stop and you look at how far food travels from the farm, to the grocery store or to the restaurant, it’s over 1,000 miles.

You do the math with \$4.50 a gallon diesel fuel trucking these products around the country and you’ll find out just where the culprit is.

The other factors that no one wants to talk about is the weakness of the dollar. If you go back to when we went off the gold standard under President Nixon’s Administration many years ago, whenever you have a weak dollar you have high commodity prices, whether it’s oil, gasoline, gold, silver, corn, rice, you name it.

That’s because investors put their money in there to hedge against inflation. So the big macro-economic issue of the weakness of the dollar for a variety of reasons, combined with the people who own our dollars who are taking those cheap dollars and purchasing our commodities to export back to their countries has had a tremendous impact.

The other thing I wanted to touch on briefly is the tremendous investment by Wall Street into the futures market. Recently there was a hearing at the Commodity Futures Trading Commission.

There’s a lot of concern about the speculative nature of the futures markets and while some will say, “Well aren’t you in favor of higher prices for farmers that’s driven by this speculation?”

Well, we’re always in favor of a farmer making a profit from the marketplace, but what has happened the speculation has been so tremendous that it has taken away the one marketing tool that U.S. farmers have used forever to be able to forward price their commodities after they’ve harvested it.

That means a lot and I know it’s a little technical, but farmers today are paying these record input costs to plant their crop and they’re not having the tool that they’ve always used to be able to

offset and protect their financial risk by being able to sell that commodity at these higher prices. So we're rolling the dice basically that these prices will be there after harvest.

Crops just going in the field and it's many months before that happened and if the nuvo investment of the day suddenly becomes something other than commodity futures, you're going to see a bubble burst, not unlike the credit bubble and the mortgage crisis bubble, but this bubble will be on the production of food, fiber and put many farmers at risk.

The last thing I'd want to point out and I think it's in your package; we do a monthly thing called the farmer's share of the retail dollar.

As was pointed out about less than 20 cents of that food dollar goes to farmers. Eighty percent goes to other people for processing, transportation, distribution, storage, retailing. The share that the farmer receives is miniscule.

There was a story this past week that was lamenting about the price of bagels might be going over a dollar each in Bethesda, Maryland. Bethesda, Maryland is a highly fair income area in this part of town. So I checked.

How much of that hard red winter wheat, I think it's red winter wheat, in North Dakota 'cause they talked about North Dakota wheat prices. How much of that is in a bagel? That one dollar bagel is seven cents worth of wheat; seven cents worth of wheat.

So if you want to point the finger at why we have high food prices, it's not the raw commodity prices on the farm that are the biggest culprit in the game. Thank you very much.

Bob Dinneen:

Good afternoon. My name is Bob Dinneen. I'm President and CEO of the Renewable Fuels Association.

As you've already heard a list of factors influencing the price of food is long and it includes the sky rocketing price of oil, gasoline and diesel fuel, surging demand and changes in dietary habits in nations like India and China, the weak dollar, drought in wheat producing areas like Australia and Europe, speculation in commodity markets by investors concerned about the plaguing economy and policies around the world that have halted the adoption of agricultural technologies that would boost production and efficiency.

Of the list of factors, ethanol and bio-fuels are nowhere near the top. Yet many have chosen convenience over facts in blaming ethanol for rising food prices. They ignore for example, that ethanol producers are both feed and fuel producers.

Let me give you a little explanation of the ethanol production process. We utilize only the starch of the corn that we take into the plant.

What we leave behind and we sell to cattle markets, dairy markets, poultry markets is a very high value, high protein feed product. So much of the feed value of the corn that we utilize is still used in the feed complex.

I want to focus specifically though on the role of oil in driving up food prices because I think this has been woefully under reported because oil has an impact not only on the price of the food, but on the world food agencies' ability to provide assistance to those who need it.

Last June economist John **Urbanchuk** calculated that rising oil prices have twice the impact on food prices as a similar increase in the price of corn. Since then in former economics have calculated that rising corn prices were responsible for just four percent of the rise in food prices.

Likewise the Federal Reserve Bank of Kansas City calculated that a ten percent rise in energy prices results in a 5.2 percent rise in the price of food. I should note that just since the beginning of this year oil prices are up more than 30 percent.

Most recently Texas A&M concluded that record oil prices are the driving factor behind higher farm and food costs. In fact, the Texas A&M report went on to note that tampering and removing the federal ethanol policy would have little impact on food or the price of corn.

The impact of the price of oil on the price of food is clear. Higher oil prices equal higher food prices. This isn't a hard concept to grasp when you stop to consider all of the oil used to bring food from the farm to the supermarket shelf, the dominant role that oil prices play quickly becomes clear.

Farmers rely on oil based diesel and fertilizer to grow a crop and transport it to market. Food processors must use petroleum products to power the plants, process the food, package the food in

plastic and often transport the food to the store in refrigerated trucks.

The reliance on oil based fuels is also crippling the budgets of food aid organizations. A 2007 GAO report estimates that 65 percent of the budgets of these organizations is spent on transportation. That report was done before diesel prices sky rocketed and we're seeing the prices we are today.

One tool, indeed perhaps the only tool that is helping to reduce those costs and thus helping to keep food prices in check is ethanol.

An analyst from Merrill Lynch estimates that removing bio-fuels from the market would result in oil and gasoline prices soaring 15 percent higher than they are today. According to the Center for Agricultural Research and Development at Iowa State University, ethanol has helped keep gasoline 30 to 40 cents cheaper than it might otherwise be depending on where you live.

Over the course of a year that means consumers are saving between \$305 and \$420 because of ethanol. Compare that to the relatively modest impact increased corn prices are having on food inflation; about \$9.78, or 19 cents a day and the importance of maintaining the movement toward bio-fuels becomes very, very clear.

The crisis the world is facing today, be they food, economic or environmental, all have a common denominator: the ever tightening world oil market. Addressing this issue will require commitment, leadership and vision. We cannot afford to jettison the promise of bio-fuels because of the manufactured hysteria of a phony food versus fuel debate.

American farmers and farmers around the globe are capable of producing both food and fuel. Thanks.

Female:

Thank you. Ladies and gentleman, if you would like to register a question please press star then the number one on your telephone.

If your question has been answered and you would like to withdraw your registration, please press the pound key. If you are using a speakerphone, please lift your handset before entering your request. Once again, to ask a question, please press star one. One moment for your first question.

Bob Dinneen:

-- support for ethanol thus far because I believe public policy makers are taking a much more studious look at these issues than just reading the popular media. They understand that there is far more to do with food price inflation than simply bio-fuels.

They also understand that we have got to do something to reduce our dependence on oil and the movement toward bio-fuels is important.

They also understand that if we take our legs out from underneath this important industry today, the ability to move forward and build a cellulosic ethanol industry will be greatly undermined.

So, no, I don't expect that there'll be an erosion of political support. Will there some that will take advantage of what is the misperception being created out there and pursue their own political gain? Sure.

I'm certain that there will be, but it's our job to make sure that we are correcting that misinformation. That's why we're here today.

Moderator:

I should also note: please use the mic so the folks on the phone can hear you. Let's go right here, please.

Peter Shin:

Yes, this is Peter Shin with Brownfield and my question is for you Rick Tolman and you Tom Buis, or anyone else who can answer it, which is to what extent are the higher prices for raw commodities spurring global production, which if weather cooperates will presumably help relieve some of the pressures that are being felt outside of the United States?

Rick Tolman:

That's an excellent point, Peter. Farmers respond to price incentive and there is certainly incentive around the world to produce more grain. I think that most every country in the world, many countries in the world can produce wheat and so I think we'll see a supply response for wheat even this year.

More countries can produce soy beans and we'll see that as well. There's not as many countries that can produce corn. Although we expect to see more corn production out of Brazil and Argentina, as well as here in the United States to respond to that. So I think that that will be a significant factor.

The old adage in farming is high prices are the best antidote to high prices because farmers produce more and they can do that.

Tom Buis: Good question, Peter. I'm amazed. Just a couple of years ago the United States and corn production and cotton and many other commodities were being blamed for putting farmers around the world out of business 'cause our prices were too low.

We were also being blamed for obesity. Now we're being blamed for hunger. I don't know if we're ever going to win on anything. I haven't found a solution here.

Moderator: In the back standing up.

Dan Goldstein: Thanks a lot for taking my question. I'm Dan Goldstein with Platts. Tom and Rick, I guess you've got to get back up again 'cause this one's for both of you guys.

Rick, let me start with you. With four dollar a gallon diesel and six dollar a bushel corn, at what point does corn drop and diesel go up to the point where it's not profitable to harvest corn anymore and farmers are going to actually stop producing corn acreage and I guess Tom, this question's for you is are you in line with I guess the majority of Democrats who are calling for the President to stop filling the strategic petroleum reserve?

Rick Tolman: Interesting question. Input prices have gone up dramatically for corn production. Not only diesel fuel that you mentioned, but fertilizer prices have doubled. Seed corn prices are up. Land prices are up. Equipment prices are up.

Right now with our productivity and with the higher corn prices, there's still a nice margin for farmers. They can still make a return.

Our biggest dilemma this year is not so much the incentive to plant. It's the weather. If we can get some good weather out there, I think we will see very significant planting of corn across the nation. Corn is right now the most profitable crop that the farmers can plant. So there's a real incentive to plant it.

Tom Buis: The answer is yes, we are supportive of suspending the purchases for the strategic oil reserve. I would take that a step further. I think the President ought to release oil out of the strategic reserve.

If you look at what high oil prices are doing to the economy, it's wrecking it. On the heels of the mortgage crisis and the credit crisis, we're in trouble. Our economy's in trouble.

Ironically some of the people that are introducing legislation and making a lot of noise about rolling back the RFS come from oil states. I guess \$40 billion a year for Exxon/Mobil in profits and those record profits aren't enough.

If they want to help, let's release that oil. Let's also put an excel oil profits tax on and distribute it to help people that are truly needy in this higher energy, higher food price crisis.

Secretary Block:

I want to say something on another subject that was asked about before, but I'm thinking about this and it's very important. Higher priced food as was mentioned earlier means we're going to produce more food.

But just think of the investment and the incentive now for countries all over the world that have really first of all, maybe they didn't have the money to invest in their agriculture.

Or secondly maybe they didn't have the incentive so they were holding to the old ideas that oh, we're not going to use genetic engineering. That's 20 or 30 percent increase in production if you could use this kind of new technology.

Europe and Japan have been fighting it and they've been closing the door on bio-technology in Africa and many places. Africa – some places there they don't even have hybrid seed corn.

There's a long ways to go to increase production in a lot of countries and with a little higher prices, which the growers, even in those other countries are seeing today, they're going to have the incentive and the where with all to do something about it. I think this is a great thing.

It's a bad thing in some ways, but it's a great thing for rural countryside and people in these countries all over the world and the rural United States too I might add in the end. Might not be so great for my hog profits aren't what they were, but I'm optimistic. A rising tide lifts all boats. We'll all be there.

Alan Bjerga:

Alan Bjerga from Bloomberg News. When you take a look at global food inflation as well as some of the causes and solutions to it, there is seemingly a difference between ethanol and some of the other factors in that you can't decide, the U.S. government can't decide how much somebody in India eats; they can't decide how much oil OPEC decides to produce.

They can waive the renewable fuel standard, which is what a lot of ethanol's opponents are saying should be done. So we've already heard Mr. Buis suggest the strategic petroleum reserve or a windfall tax on oil companies, but I'm wondering what sort of public policy solutions all of you would be pushing for for the U.S. government as an alternative as a way to get people away from the whole RFS suspension debate.

Tom Buis:

Well, number one, part of the reason we're in this problem with high oil prices and very little production from renewables is because every time we have an oil crisis and you go back to the Arab oil embargo in the early 70's. We get all ginned up about taking these next steps.

Then oil prices come down or something happens and we go back to sleep. This has happened time after time after time. And we didn't get serious about this until the first RFS was passed. I think it would be the biggest mistake for the future of this country to roll it back now to address that.

We know how to roll back the oil prices. We know how to help people truly in need. We're about to pass a farm bill, Congress is, that is going to provide \$400 billion in domestic and international food nutrition aid to people that are less fortunate; \$400 billion.

Other countries of the world haven't stepped up to the plate like we have, but I think there's solutions out there and let's not roll it back.

I think Bob mentioned that infrastructure for that next generation of ethanol being produced from cellulosic for that next generation of all these energy products, corn ethanol is setting the template for it. When we started gasohol I think it was called back in the early 70's, right Mr. Secretary? It probably wasn't energy efficient.

It wasn't economically efficient and the truth be known, the real expertise probably lied with moon shiners who were used to making it in the backyard. But it took 30 years – corn ethanol is the newest 30 year phenomenon anyone's ever heard of. It took 30 years for us to get there. Why we would back slide now would be a huge, huge mistake.

Bob Dinneen:

Again, I'm Bob Dinneen with the RFA. The one thing I would say to those that believe that there's nothing they can do with rising food prices other than perhaps roll back the RFS or ignoring the fact that the single most important factor driving food prices is oil.

So the one thing that we have to moderate oil prices, ethanol, they want to roll back. Might be good for Texas. Okay. Get Exxon's profits a little bit higher I guess, but it would hurt American consumers.

But absolutely, the only thing we have to address rising gasoline and oil prices today is domestic renewable fuels like ethanol. We can't shoot ourselves in the foot.

By the way, Texas' own Texas A&M University agrees with that point that rolling back the RFS would not have any impact on corn prices and would absolutely devastate the demand base for ethanol.

Bill McConnell: I'm Bill McConnell with the Deal Magazine. Regarding the separate varieties for corn for ethanol and food, isn't it fair to argue that food prices are increasing because land that would be devoted for food corn is being switched to grow ethanol corn?

Rick Tolman: Rick Tolman from National Corn Growers again. No, that's not fair to suggest. The vegetable growing areas, the areas that grow sweet corn are primarily dedicated to growing sweet corn because they feed into processing channels that it's primarily grown under contract. It's a whole different seed, distribution, marketing, processing channel than is field corn.

You don't grow corn just for ethanol. The field corn is grown and the farmer sells it to whoever gives him the best price. If it's a livestock operation, if it's for export or if it's for an ethanol plant.

So it's a commodity across those different markets. For sweet corn it can only go for sweet corn and that land has a different pricing and generally a commitment level to it than what does the field corn. So they're in general very different categories.

Now, yes, land values are rising. You can look at alternatives, but I would find it very hard to suspect that food corn – we've moved away from producing food corn for field corn. Food corn sells at a premium to field corn.

Bob Dinneen: Let me just make one other point, or a couple other points. With respect to some of the food issues that have been addressed, rice, for example. You don't grow corn in a rice paddy.

Wheat, actually last year wheat acres increased. We produced more corn than we ever have on more acres since 1945 and at the

same time, wheat acres were increasing. So there hasn't been this shift that some are suggesting.

Maryann Leville: Mr. Buis, and also others if you want to, I want to follow up on that solution – oh, sorry. Maryann Leville from U.S. News and World Report. The solutions, you mentioned the commodity markets.

Now of course that's been used by farmers for years, it's important, but what solutions could there be to this real – I mean people go into the commodity markets when the dollar is weak. Is there anything policy related that can be done?

Tom Buis: Well, I think number one, you have to make sure that the policy's in place to prevent speculators from dominating the market. There's speculative limits right now.

There's a strong feeling that those have been avoided by some of the more complex trading tools that are available out there.

Whenever you have pension funds buying in the Chicago or whatever market, futures market, you pretty well know they're not planning on taking delivery. That retiree's not going to take delivery of a train load of corn in December after it's harvested.

So it's more speculative than commercial. You need some speculation in the market to provide liquidity, but we have seen tremendous influx. Again, you can't blame that on corn. You can't blame that on rice.

You ought to be blaming that on the weak dollar because that's a pattern that's repeated every time the U.S. dollar is low, the commodity prices go higher.

The people on Wall Street, you had the same time the big index funds can't make a profit on Wall Street that they could on this hot commodity market.

So they're all related, but we have asked for, the House and the Senate Agriculture Committees to hold extensive hearings on this issue 'cause very frankly the answer we got the Commodity Futures Trading Commission was disappointing to me.

We know there's a problem out there and as I mentioned, it's precluding farmers for being able to forward price their commodities for delivery after harvest and that's a huge concern.

Rick Tolman: Let me add one comment to that. The convergence issue is a real challenge also for farmers. Normally futures contracts and cash contracts come together at the end of the contract period and that has not been happening. So, it sends a different signal into the marketplace.

We testified last week with the Commodity Futures Trading Commission. One of our suggestions was that there be more delivery options, more delivery locations so that there could be more liquidity and more opportunity to deal with it.

But as Tom said, it's a real issue for farmers. They see six dollar corn, 5.80 corn quoted and they can't get that price because the local markets are not offering that. They're offering significantly less because of this disconnect that's going on.

Moderator: In the green tie in the back.

Stewart Dunn: Stewart Dunn with Agri-Pulse. Question for Bob Dinneen. What would be the likely impacts on the ethanol market if Governor Perry gets the waiver? In your view will blenders, if he gets the waiver, will they stop blending? Will there be some who will continue? Just what do you think the impact would be?

Bob Dinneen: It's hard to tell what refiners would want to do. I mean they could certainly take advantage of the fact that four and a half billion gallons of domestic U.S. fuel is not required to be used and further tighten gasoline markets, further run up consumer prices, or they could because they need octane and they need fuel supply, continue to use it. I don't know.

I do know that it doesn't make any sense from a policy standpoint and I would hope that the Administration, EPA denies the waiver request.

Steve Cook: Steve Cook with BNA's Daily Environment Report. A lot of people are saying that the environmental benefits from bio-fuels are potentially a wash or maybe even a negative when you consider fertilize use and new land being plowed up, conservation lands, lands being taken out of conservation, as well as on the international scene, supposedly they're cutting down rain forests to grow oil crops. What is your response to that?

Bob Dinneen: I say that ethanol reduces exhaust VOC emissions and carbon monoxide. It reduces toxic emissions from gasoline and it is the

only liquid transportation fuel available today that is having a greenhouse gas benefit because we are taking CO2 out of the air in the growing of the crops.

You're referring to an article that was published in Science Express a couple of months ago in which a lawyer decided to write a polemic about ethanol and how it might be produced in an unsustainable way and he lined up a bunch of assumptions that as ethanol use increases and increases beyond levels that are allowed in law today mind you, that it would result in acreage coming out of the rain forest.

Well that's not what's going to happen. It wouldn't be allowed under our laws or the laws in other countries against deforestation, but it created a great deal of interest.

Land use issues are going to be an important subject of discussion as EPA continues to promulgate rules implementing the energy bill from last year and there will be effects. But the effects that were discussed in that science article aren't based in reality and the assumptions were not at all realistic.

Moderator:

Let me go right here in the white and then we're going to take a couple questions from the phone lines.

Jenny Mandell:

Jenny Mandell with Climate Wire. Questions for Mr. Tolman and Buis. You both talked about other crops and other food prices that are not linked with corn. Are you both saying that there's absolutely no correlation between feed corn prices and other grains in the world markets?

Rick Tolman:

No; I said there is some correlation. There is some impact. It's not to the level that's being portrayed in the media and it's not nearly to the level that oil prices have.

Now there's a closer correlation in the United States to corn prices and other grain crop prices. Obviously wheat and soy beans and corn all compete to some degree for some of the same acres so they play off one another, but the dynamics driving up wheat prices are very different than those driving up corn prices.

The wheat price rise is coming from world shortage from primarily weather disruptions in Australia. And so independently those prices would have risen with or without any bio-fuels market because of a shortage and so there is competition, as was said, our

wheat acres expanded last year and this year our corn acres are contracting because wheat acres went up.

There is a correlation between wheat and soy beans and they're caught in the middle, but for rice, no correlation at all. The reason that rice prices have gone up have to do with what you've heard. It is growing demand around the world and if you look at the major rice producers, there has been a drop off in yield against trend for the last five years. That's happening in India and in China and elsewhere.

The U.S. is a rice exporter, but a fairly minor one compared to the world players, but it has virtually nothing to do with bio-fuels.

Tom Buis:

I would just like to add I think there's this misconception that you're having this huge shift of acreage. You have some, but in the case of wheat versus corn, most of the wheat acreage that's been converted has been converted over the last couple decades.

As Secretary Block said, a rising tide lifts all boats. Low yields, weather related problems and low prices have encouraged farmers to shift to higher value commodities where they stood a chance to make a better price or possibly a profit. You had new hybrids for corn and soy beans. So the traditional Corn Belt has been expanding for decades.

I'm not saying there wasn't some shift, but the difference between wheat and corn is you need water for wheat. Most of the wheat is grown in areas where they don't have sufficient water in order to produce a more thirsty crop like corn or soy beans.

In the case of rice, as Rick mentioned, the United States produces two percent of the world's rice. We export one half of that. There is plenty of rice out there. Ninety percent of all rice is produced within 60 miles of where it's consumed. So to blame corn for world rice prices is a real stretch.

Moderator:

See if we can make the phone line work. I believe it's Forest.

Female:

Our first question comes from the line of Forest Hall with Delta Farm Press. Please proceed with your question.

Forest Hall:

Yes; you've talked about the impact of the increase in commodity prices on food prices. Can you put some numbers on the impact of the increase on oil prices on food prices?

Rick Tolman: Forest, this is Rick Tolman, CEO of the National Corn Growers. Some of the recent studies have suggested that the impact of oil prices on food prices is twice what the increase in corn price is on retail food prices.

There was an Iowa State study that suggested a 30 percent increase in grain prices would have a 1.1 percent increase in retail food prices. The same increase in oil prices would have three times that impact. That's the nature of the results in the studies that I've seen. Anywhere from two to three times the impact at the retail food level that grain prices have on retail foods.

Again, as Bob so eloquently said, if you think about all the things that transportation impacts from growing the crop, farmers have – fuel intensity to grow the crop, transport it to market, store it, get it to the grocery store. You have to drive to the grocery store to pick it up. Everything that we do is impacted by higher fuel prices.

Forest Hall: Thank you.

Moderator: Any other questions?

Female: Your next question is from Pam Russell.

Moderator: In the pink.

Allison Winter: Hi, I'm Allison Winter with A&E Daily. I'm wondering with the farm belt, what do you think the effects on the U.S. ethanol industry would be if it does indeed include the reduction in the blenders' tax credit and perhaps with tariffs too.

Bob Dinneen: Again, this is Bob Dinneen with the RFA. It's important to understand that it is the refiners that get the tax incentive for ethanol production; not the ethanol industry.

We are not uncomfortable with the slight reduction that is being discussed in the Senate Finance Committee right now. As I understand it they are extending the secondary tariff on ethanol as well in that package, which we think makes sense.

I'd like to just make a point on that as well. The secondary tariff is there not so much to protect the industry. To protect the U.S. taxpayer because it is only there to offset the benefit of the tax incentive that's available to refiners whether that product is imported or domestic.

So we are quite comfortable with the package that is moving through on the farm bill.

Tom Buis: This is Tom Buis. I would just like to add to what Bob said. This farm bill and part of the reduction in the blenders' tax credit, it's being used to increase the incentive for cellulosic production to make it more economically viable so that we move to that sooner rather than later.

So I think there is significant improvement in the farm bill and for those who don't want to see corn ethanol, they want to see cellulosic ethanol, this will accelerate it.

Moderator: I'm going to go back to the phones real quick. Is it Pam?

Female: We have a question from Pam Russell with Engineering News Record.

Pam Russell: Thank you. I just wanted to switch gears here just slightly. Since October a handful, maybe more than a handful of ethanol plants, construction of ethanol plants have been cancelled. _____ said that it was because of the rising corn prices and the lower ethanol prices. Do you see that this is going to continue?

I know that the financial markets are holding off on financing any new plants because of this latest political shift or opposition to more bio-fuel plants. How do you see the construction of these new plants going forward and do you expect that this is maybe just a temporary bump or what will happen with the construction of these plants?

Bob Dinneen: Thank you, Pam. I think this is an example of the marketplace doing what it should do and looking out and seeing where the economics are today, it's understandable that there would be some slow down perhaps, but I think it's important to put in context.

There are 61 ethanol plants that are under construction today that are moving forward, that are pouring cement, that have people on the site and those facilities are moving forward and we believe are going to be up and running within the next 12 to 18 months. The industry is continuing to grow and to expand and the fundamentals in this industry remain extraordinarily strong.

So I'm not surprised that there might be a few changes in some people's plans, but I'd view that just as the marketplace doing what it should do.

Pam Russell: And this is Bob? I'm sorry. Was it Bob that was responding?

Tom Buis: The point I would like to make is that as you just -- take a look at where we're at in the world today and the price of energy going up as much as it's gone up and all the money that we're transferring to the countries that have oil, I mean listen.

This is telling us something in the United States that we probably would rather not transfer as much of our wealth to some other country that may not even be friendly to us. Maybe we could keep some of it here at home.

One way to do it is renewable fuels. It's not the only way. We're for all these things. We should do everything and try to find something that works the best. Renewable fuels' with corn now, cellulosic renewable fuels later, assuming it works. We think it will, but maybe it won't be perfect.

Of course we've got the wind and we've got the sun. We ought to be drilling for oil in our own land. We're not even doing that. We're not against these other sources of energy. We're just saying let's use all of it because we don't like to transfer our wealth some place else.

Let's keep the money here at home and keep the jobs here. It's a good idea, especially with our trade deficit the level that it is today.

Moderator: Time for a couple more. Anyone else? Let's go here and then we'll come over to you Jeff.

Michelle: My name is Michelle. I'm with Executive Intelligence Review. As the problem of pricing as everybody has been discussing is actually one that takes a number of considerations into account.

I would ask about the policy we used to have of fair pricing, of parity pricing as opposed to the philosophy of allowing the markets to continue to do their own thing despite what affects that may have.

So I'd like to know where the panel stands on that, but in addition, in terms of the energy question, really the best choice is nuclear power.

The fact that there has been a drive to hold back the development of nuclear power for those same 30 years or so, we could've

developed enough nuclear power that this problem wouldn't exist at all.

And plus we'd have the ability to create the irrigation for the desalination of the water that would generate much more productivity in the farms to begin with.

So if you could comment on those two things, please.

Secretary Block

On the nuclear power question, I was in France last year and rode bicycles for a week in Lawar Valley. Everywhere you would ride there's a nuclear power plant there in front of you.

It just made me think what's wrong with us that we have not done this. Well, we missed the boat. That's another example of things that we should be doing here at home. What was the first part of your question?

Michelle:

Fair pricing.

Secretary Block:

Oh, parity and – well, I've lived through the parity stuff and I think in the end though markets override things like that unless you just have a guaranteed price.

Markets – you can't beat a market system. High prices encourage production of what you want. Low prices discourage production of what you don't want as much. I think we just need to rely on markets for the most part.

A market driven economy is really what we have, although we get involved in it sometimes for certain reasons and usually it's appropriate, but the market itself is what should dictate.

Tom Buis:

I don't think you'd find a farmer that would turn back a parity price in their commodities, but I do think it would probably set off a fire storm bigger than the one we have if we were receiving those prices.

I mean the highest that any of these commodities has reached in comparison to parity recently was wheat price and it got up to about 90 percent. Everyone in the world is screaming about the lack of wheat.

So I think it would be a difficult thing to achieve. Although again, there's nothing wrong with a farmer receiving a profit for all their

hard work. Profit shouldn't be a dirty word only for America's farmers.

I think there's some in this debate that really take that attitude. They want that cheap commodity, yet they want a dependable supply. Somehow you're going to have to get your income.

Last 30, 40, 50 years we've made up for the lack of a marketplace price, except in a few peaks and valleys with government transfers. Yet for the past year we've been pounded in the press that these greedy farmers are getting all these subsidies.

So somehow we're going to have to get that profit or you're going to have to come up with another mechanism and I've never met a farmer that didn't want to get profit from the marketplace as opposed to the government.

Moderator: _____ for the last one.

Joe Kamlick: Joe Kamlick with ISIS News again. Secretary Block mentioned that we ought to be drilling for more oil domestically here in the U.S. and offshore.

I wondered how your three organizations feel about that very issue because industries outside of yours are manufacturing chemicals, fertilizer, have been clamoring for Congress to lift the moratorium on offshore drilling, for example, for five, six years now.

Where do each of your organizations stand on the issue of opening up more domestic U.S. energy development?

Bob Dinneen: Bob Dinneen, RFA. I guess I'd just say this. Our nation's energy crisis is so severe I think you would be foolish to not be pursuing every source of domestic energy that we have.

That's been our point. We can't say no to bio-fuels because it's too important. We ought not be saying no to wind or solar or geothermal or perhaps even nuclear. We need to pursue all of this.

If we don't as a nation get a hold of our dependence on imported oil and do something very real soon to address \$120 a barrel oil, or heck, the Minister of Oil from OPEC yesterday said that he could see \$200 a barrel oil soon. Then our economy, our national security and indeed our way of life is going to be at risk.

Ethanol is not the solution to everything. It needs to be part of a more rational, more progressive energy policy that includes all of these things.

Rick Tolman:

Rick Tolman again, National Corn Growers. I would echo Bob's comments. We often hear that corn ethanol is not the silver bullet and then people go on to calculate how many acres it would take to satisfy all of our gasoline needs.

We agree. It is not the silver bullet. It's part of the silver shotgun shell. It's one pellet in it. We need nuclear. We need renewable, wind power. We need plug in hybrids. We need cellulose. We need more drilling domestically. So we're strongly in favor of that.

Agriculture runs on energy. We need a cheap, reliable source of energy that's market based.

Tom Buis:

I agree with Rick. We need to look at all sorts of sources. My understanding is there's some new technologies out there that are currently at play. They're being able to drill – I forget the term – horizontally up in the Dakotas to get some of this oil. There's a lot of potential ways that we get around this energy thing.

But I think the thing that Congress could do and has refused to do so for the past few years is pass a renewable electricity standard similar to the renewable fuel standard because that will send an incentive and a message to the industry to invest.

Right now we have the capacity in wind alone. I'm not talking about the people up there, but like North Dakota is the windiest state in the nation, but we have to be able to send the signal that that technology or to invest in the technology and also the challenge of how we transmit electricity generated in the rural areas to get it to where the people who live and want to use it. So we're for a combination.

Bob Dinneen:

I'd just like to add maybe again; we do need all of these resources. If we allow the current hysteria over this issue, over ethanol to undermine the confidence that the financial community currently has in new renewable fuel technologies and some of these other future technologies we will do great damage to those others that are coming along.

The ethanol industry today is providing the foundation upon which a cellulosic industry will grow. It'll provide the confidence to the financial community that other new technologies can be successful

as well. And if we allow opponents of domestic renewable fuels to succeed by creating this hysteria, then I am very concerned for the future of all those other technologies as well.

Tom Buis: One other thing that needs to be mentioned. We need conservation as well. That has to be a component in all this as well. The recent passage of a higher café standard, fuel mileage standards was a step in the right direction, but other steps need to be taken.

Secretary Block: This is the last word I guess. Listen, thank you all for showing up. I want to say that I was pleased to be here. Everybody here from a little different vantage point, however in a lot of ways the same vantage point.

Looking out for the country, looking out for the agricultural industry and farming and to me, having been part of the whole food industry from the farm to the fork as they say, I'm for all of it, but we're going to have to kind of make sure we give everything a chance and be even handed and fair and try to address our energy problems because I think in the end we'll all prosper.

As I said earlier, I think this rising tide's going to lift all boats. We're going to get to a new plateau. We're already up there. It'll come down some. You know, some day it'll drop, but we're not going back where we were. You can't go back where you were before unless you go back to \$20 a barrel oil.

We're not going back there and so we're never going to go back to \$1.90 corn or whatever. We're going to see a little higher prices. We don't know where they'll settle out, but let the market system work and let the market system decide and I think we'll all have a good future.

Certainly the American agriculture and the whole of the food industry has always done an outstanding job, amazing job of feeding the people in this country and exporting almost a third of our crop to people all over the world and I think we're going to keep doing it.

Moderator: Thank you folks. That's it.

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