



*“The Voice of the Ethanol Industry  
for More Than a Quarter Century”*

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## Ethanol and the US Corn Crop

The American farmer and the American ethanol producer have been under attack, criticized for seeking to capitalize on the productivity and bounty of American agriculture to help solve this nation’s energy crisis. In particular, critics often misrepresent the impact of ethanol production on American corn and total grain supplies, contorting facts and reporting statistics completely out of context.

In advance of the USDA’s September World Agricultural Supply and Demand Estimates (WASDE) report due out on Friday, the RFA has put together the following facts and figures that put the debate about how America uses its corn supplies in proper context.

### **As the size of the corn crop grows, so too do its uses.**

In 2002/03, the United States produced a corn crop of 9.0 billion bushels and consumed **9.5 billion bushels** of corn. How was that crop utilized?

<u>Usage</u>	<u>Bil. Bu.</u>	<u>Percentage of Total Use</u>
Feed/residual	5.6	59.0%
Export	1.6	17%
Ethanol	1.1	11.5%
Other	1.2	12.5%

(Source: US Department of Agriculture)

In 2007/08, the United States produced a corn crop of 13.1 billion bushels and consumed **12.8 billion bushels** of corn, 35% more than in 2002. While the amount consumed by ethanol production increased, so too did the entire crop and every other usage.

<u>Usage</u>	<u>Bil. Bu.</u>	<u>Percentage of Total Use</u>
Feed/residual	6.1	48%
Export	2.4	19%
Ethanol	3.0	23%
Other	1.3	10%

(Source: US Department of Agriculture)

Because the size of the annual corn crop continues to increase over time, discussing corn’s various uses in the context of percentages can sometimes be misleading. For example, a similar percentage of the crop was exported in 2002 and 2007; but in real numbers, the amount of corn exported in 2007 was 800 million bushels more than in 2002 (an increase of 50%). Similarly, a considerably smaller percentage of the crop was fed to livestock in 2007 than in 2002, but in real numbers, the amount of corn fed to livestock increased by nearly 10%.

## **When corn is used to produce ethanol, one-third of the corn is left over (as distillers grains or DDG) and used as a high protein animal feed.**

- Discussions of how much corn is used for ethanol must recognize the fact that one-third of the corn is returned as feed to the livestock feed market.
- Every 56-pound bushel of corn that enters the dry mill ethanol process yields 2.8 gallons of fuel ethanol and 18 pounds of residual grains. These residual grains, often referred to as distillers grains, are fed to livestock and poultry.
- In 2008, 33% of the corn crop will be used for ethanol on a gross basis, according to the August 12 USDA WASDE report. However, when the distillers grains feed is considered, the net usage of the 2008 corn crop will be closer to 22%.
- Net usage of corn by the ethanol industry in 2007/08 was about 16% of the corn crop.

## **Increased corn production and less commodity speculation have helped reduce corn prices.**

- 2008 new crop corn futures (DEC08) peaked in late June at \$7.88 and were over \$7 for just three weeks. DEC08 corn futures have fallen nearly \$2.50 per bushel since the speculation-fueled peak.
- Corn is currently selling for under \$5 per bushel on the cash market in many locations. USDA is projecting the season-average corn price in 2008/09 will be \$5.40 per bushel and the average price last year was \$4.25.

## **USDA may be overestimating the amount of corn that will be processed into ethanol in 2008/09.**

- Given current ethanol production economics, the expected timing of new capacity coming online, and the levels of ethanol blending required under the 2009 Renewable Fuels Standard (RFS), it seems unlikely that 08/09 ethanol use will reach 4.1 billion bushels, as USDA projected in August. Other estimates place corn use for ethanol in 2008/09 closer to 3.8 billion bushels.
- It is also notable that USDA overestimated corn use for ethanol in the 2007/08 marketing year. In its first estimate of 2007/08 corn demand (May 2007 WASDE), USDA pegged marketing year ethanol use at 3.4 billion bushels. It wasn't until September 2007 that USDA marginally revised the estimate down to 3.3 billion bushels. The estimate was further revised down to 3.2 billion bushels in October 2007, followed by revisions to 3.1 billion bushels in April 2008 and 3.0 billion bushels in May 2008. USDA's latest estimate of corn use for the 2007/08 marketing year, which ended August 31, remains at 3 billion bushels.

## **Higher energy prices have driven the corn farmer's cost of production to unprecedented levels.**

- Farmers are facing record prices for diesel fuel, gasoline, fertilizer and other fossil energy-derived inputs. These higher energy costs are, in part, responsible for the higher corn prices facing ethanol producers and livestock feeders. In many locations this year, if the price of corn drops below \$3.50 per bushel, farmers will not make a profit.