Testimony of Ted Seger
President, Farbest Foods, Inc.
Huntingburg, Indiana
On behalf of
National Turkey Federation
September 14, 2011

Good afternoon, Chairman Rooney, Ranking Member Cardoza and members of the subcommittee, I want to thank you for the opportunity to testify today. My name is Ted Seger and I am president and part owner of Farbest Foods, Inc., located in Huntingburg, Indiana. I am also past chairman of the National Turkey Federation (NTF) and currently sit on the association's Executive Committee. For nearly 30 years I have served in various capacities at Farbest, from sales manager to president. Farbest, the fourth largest U.S. turkey producer in the United States, is an integrated turkey company involved in grain procurement, feed manufacturing, growing, processing and marketing of turkey meat around the world. Our company raises more than 9.3 million turkeys from about 150 contract growers, which produces 374 million pounds of processed turkey meat in our plant, and we employ more than 850 people.

The National Turkey Federation represents the interests of all segments of the U.S. turkey industry, including producers, processors, breeders, hatchery owners, contract turkey growers and allied companies. The turkey industry raises 244 million turkeys annually, which produces7.2 billion pounds of live weight per year, with an estimated wholesale value of more than $16 billion annually.

On behalf of the U.S. turkey industry, Mr. Chairman, this hearing could not have come at a more important time as we have real problems, and immediate and legitimate concerns about the availability and cost of feed ingredients due to the mandated use of corn-based ethanol.

I first testified before this committee in 2007 about this very subject, and unfortunately wish I could report that everything we predicted that day had not come to pass. For example, I mentioned in my testimony that the corn stock ratio for 2007-2008 would fall to levels last seen in 1995-1996 when corn prices reached a record $5 per bushel and turkey production fell by more than 10 percent. In 2007-2008, predictions came true, corn prices reached a new record of $8 and turkey production fell by 11 percent. In 1995-1996 the feed price increase was caused by weather, but in 2007-2008, in a record crop year, it was because of the federal ethanol mandate. It has been clear, from the minute the government chose to subsidize corn as an energy source, livestock and poultry interests have taken a back seat to an ethanol industry. Until recently, was steadily gaining favor with the federal government as it promoted American corn-based ethanol as a way to have less reliance on foreign oil. The interesting thing is we are no less dependent on that oil today and we are now jeopardizing our food supply in the process.

It is my hope that these comments can paint a more complete picture since I last testified in 2007 of the impact the Renewable Fuels Standard (RFS) and other renewable fuel programs have had on our poultry production and the livelihoods of thousands of farm families and processing employees involved in turkey production in rural America.

The Role of Corn in the Turkey Industry

Before fully analyzing the effect of the U.S. biofuels policy on the turkey industry, it is important to understand the vital role corn plays in turkey production. Feed accounts for 70 percent of the cost of raising a turkey, and corn is the major ingredient in most turkey feed rations. For the average turkey, it takes about 2.5 pounds of feed to produce one pound of turkey live weight. Therefore, increases in the price of corn have a significant impact on the price of raising a turkey. It also is important to understand that a change in the price of one commodity used in feed rations tends to affect the price of other commodities used in a ration. So, when corn prices rise, so does the price of soybean meal, the second-largest ingredient in turkey rations.

Prior to the creation of the original RFS and its expansion, elected leaders from NTF, including myself, warned Congress of the potential severe impact this could have on the turkey industry. In July 2005, Jim Mason of the Virginia Poultry Growers' Cooperative told the House Agriculture Committee during a hearing that creating a RFSwould begin tightening the corn supply and forcing feed prices up. By March of 2007, when I testified before the same committee, corn prices already were more than 20 percent higher than their pre-RFS level. And, early this year Paul Hill of West Liberty Foods told this committee that corn prices had increased to more than $7 per bushel with record low carry over stocks. Since earlier this year, corn prices have continued to skyrocket, ultimately topping out at $8 per bushel, while corn stock levels plummeted to record lows, below 5 percent carry over. This spring, farmers planted the second-largest crop since World War II, but high temperatures have significant deteriorated the harvest projections. This troubling news can be seen in the latest corn report released two days ago. USDA cut its corn yield estimates almost five bushels per acre from August. Additionally, cutting corn use by 400 million bushels and reporting ending stocks down 42 million bushels from last month.

Impact on the Turkey Industry

Many factors play a role in corn pricing, however the only one that the federal government can ultimately control is the one that it put in place back in 2005 and expanded in 2007. While hindering profitability almost from it's inception, the RFS' did not begin crippling the turkey industry until 2008. That year was a perfect example of what happens when you have a tight corn supply based in large part on a federal mandate. It led to a downsizing of turkey production to a level that is not likely to change significantly for several years – roughly 11 percent.

In 2005, the turkey industry produced 249.6 million turkeys that produced 5.5 billion pounds of ready to eat turkey meat. Favorable economic conditions and strong prices for turkey meat spurred an expansion of industry production that continued through the end of 2007. As earlier stated, corn and feed prices began to rise during this period, but most turkey companies – like all livestock and poultry companies – use the commodity markets and other instruments to lock-in long-term corn supplies and to hedge against market volatility. This insulated most companies from the full impact of feed-price increases, but not all. By 2008, as corn prices flirted briefly with $8 per bushel, Dr. Tom Elam, an agricultural economist, calculated that the industry had paid more than $1 billion in additional feed costs. Regardless of what anyone says, these increased costs cannot be passed along easily and that was reflected in the largest chicken company going bankrupt that year. Also, in 2008, three turkey plants either closed their doors or temporarily suspended operations, and more than 3,000 people involved in the industry had lost their jobs. The industry no longer could sustain production at levels originally planned for the year. Cutbacks began in mid-year and continued throughout

2009. High domestic product demand and export demand, driven by the low value of the dollar, is really the only thing that has helped the industry survive during these record high grain prices

Turkey production cannot be turned off with the flick of a switch or the shutting of a valve. Once a poult – baby turkey -- is placed in a growout facility, it takes as long as 20 weeks to bring it to market weight. Factoring the time it takes to incubate the eggs and the lead time necessary to place orders for eggs, it generally takes six months or longer for a company to implement a major cutback in production. So while production overall increased by about 2.5 percent from 2007 to 2008, original economic indicators had been for a larger expansion. Meanwhile, 2008 saw consumer purchasing of meat and poultry plummet and significant losses ensued in the turkey business as a result of the higher corn prices. Since then turkey production has declined by 11 percent to about 244 million turkeys raised in 2010. Effectively, the industry wiped out three years of production increases in an 18-month period and reduced production to the lowest levels in more than 20 years. Initial forecasts indicate turkey production will remain largely unchanged in 2011. This means the turkey industry will likely not increase production or ultimately be able to create new jobs.

The general economic recession obviously exacerbated the situation. Softening consumer demand depressed prices for the most valuable cuts of turkey (as it did for all other meat proteins), and that made it even more difficult to sustain production during a period of extremely high feed prices. But, just as use of various hedging tools slowed the impact of higher feed costs, those same tools delayed the inevitable of lower demand. Most turkey companies did not enjoy any benefits of lower feed prices until well into 2009. More importantly, since 2005, when the RFS was created, corn prices are 64 percent higher than the average cost from when the mandate was created.

The facts of the impact to turkey production costs are as follows:

1.) Industry Turkey Live Weight Slaughter for 2010 was approximately 7.2 billion pounds:

> At average feed conversion of 2.5 pounds of feed per pound live weight, industry consumption of feed is approximately 18 billion pounds of feed or 9 million tons annually.

Corn is approximately 52 percent of the ration, or 4.68 million tons, which equates to 167 million bushels of corn

- 2010 Average Price of Production: $901.8 million at $5.40/bu
- 2011 Projected Price of Production: $1.085 billion at $6.50/bu

Soybean Meal is approximately 20 percent of the ration, or 1.8 million tons

- 2010 Average Price of Production: $621 million at $345.00/tn
- 2011 Projected Average Price of Production: $666 million at $370.00/tn

The current situation for corn is unlike any other in the history of this commodity. Usually high prices are a result of a poor weather that limits production for just one year and the next year production rebounds. However, the current dilemma is that the demand side of the equation for corn is far outstripping the supply side, and the demand side is continuing to grow at a rapid pace. Meanwhile, there is limited opportunity for continued growth in supply and no one knows what Mother Nature might do to the potential crop. The reality for my company and many other turkey companies is that there is no economically feasible substitute for a grain-based diet. Feeding more wheat, barley, sorghum, milo or soybean meal is no advantage because wheat and soybeans trade at energy equivalent values similar to corn. All the commodities eventually find their economic value based on the strongest commodity, which is corn. This has placed a premium on improved feed conversion with companies continuing to try new feed improvements such as the use of enzymes in feed rations to help cut down on waste. But it is unlikely that these relatively new innovations can do enough to offset the corn-based ethanol factor. In fact, just a couple of months ago, our company purchased a large quantity of wheat to replace corn, simply because we were worried that the local supply of corn may not even be enough to sustain us until this year's later than usual harvest.

Ethanol Policy and its Impact on the Food Sector

I would like to discuss further the impact of ethanol on the food sector. How did ethanol policy cause grain and other commodity prices to increase? The policy has reduced the supply of grains available for food production. Including the tonnage of distiller's grains (DDGs) production added back to the U.S. feed supply, net U.S. feedgrain production available to users other than ethanol plants, has declined precipitously since 2007. From the 2007 total U.S. feedgrain crop there was a net of 298 million metric tons (mmt) of grain and DDGS left after ethanol use. From the 2010 crop alone there was only 250 mmt left for all users after ethanol production. The United States is covering a portion of that 48 million tons of loss volume by drawing down the feedgrain stocks from 48 million tons last year to only 21 million on Sept. 1, 2011. That 21 million ton figure is barely enough to keep the grain supply system running, and is the basic reason that corn prices are more than $7 per bushel, and extremely volatile. At these prices it is likely that more poultry companies will struggle with potential plant closures and layoffs are highly possible.

Since the use and production of ethanol enjoys the protection of the RFS, feed and food users have been forced to make the entire adjustment to lower net grain supplies. USDA is forecasting that 2011-2012 U.S. feedgrain and soybean supplies will remain very tight, and prices high and volatile. Absent alterations in the U.S. biofuels policy, U.S. food production costs will likely continue to increase and production is likely to decline further. Once again, this means job loss in rural America. We have actually reached a point where any significant weather issues that would affect the 2011 U.S. grain crops will only dig deeper into the projected poor harvest this fall. The U.S. reserve stocks are depleted with stocks-to-use ratio being in the 3 percent-4 percent range, new record low, which is dangerous, uncharted territory. The United States cannot fall back on reserves this year and projections for next year are just as bad or worse. Meanwhile for 2012, there is another increase in the corn-based ethanol RFS, which can be summed up very easily by saying everything better go right and Mother Nature better not mess with next year's corn harvest or we're in a world of trouble.

Limited acreage expansion capability for corn production together with the expanded RFS has driven net feed supplies and stocks available for uses other than ethanol to critically low levels. In light of the realities of grain supply and demand, Congress should reevaluate the corn-based RFS schedule for 2012 through 2015. A fair and balanced approach for the overall good of the U.S. economy would give increased weight to food production costs and food security, and less weight to biofuel production. The Volumetric Ethanol Excise Tax Credit (VEETC), or blender's credit, is not required to support ethanol production and it should simply go away at the end of the year. It was nice to see that Congress is now moving in the right direction and it would be our hope that Congress finally do away with the VEETC once and for all. It will help with corn prices but is also just good government.

Farbest Foods and the National Turkey Federation strongly support the reduction of dependence on foreign oil. However, we believe the goal of achieving less reliance on foreign sources simply through increased corn yields is short sighted and in reality does not fix the problem alone. If we as a country are truly interested in reducing our dependence on foreign oil, then please tell me why the ethanol industry will be allowed to export nearly 1.0 billion gallons of ethanol. Why are the US taxpayers subsidizing another country's dependence on oil? What the turkey industry is looking for is reform of the existing ethanol policy by providing a safety net that ensures that corn prices and availability will be less volatile in the future.

Finally, we have grave concerns about any new federal investment in "infrastructure" for ethanol. It is hard to believe that the federal government would entertain such a venture when it is having trouble paying its bills and would put another taxpayer funded program on the books. To move from one federal support structure to another only goes to exacerbate financial problems and it is time for federal government to stop supporting this more than 30 year old industry. With a guaranteed market for their product, it would seem reasonable that the ethanol industry should be profitable enough to begin developing its own infrastructure.

While no one item is a silver bullet to fixing the low corn stocks problem, we must do something to protect livestock and poultry producers from the excessively high corn prices due to the fact that the government has mandated the use of half of the corn supply in the nations fuel supply. Within just the last three years, 22% of the broiler chicken industry volume was sold to foreign owned companies because the United States companies went bankrupt. More poultry companies will go bankrupt, more jobs will be lost, and more consolidation will happen if these high prices persist. Once a company goes bankrupt it is not just them that are the losers, so are the community churches, the hardware stores and even the grocery stores all get impacted.

In closing, I would like to thank the committee for allowing me to testify today on this most important issue to the turkey industry, and I hope that I have been able to enumerate the impact on feed and food prices for you. I look forward to answering any questions.