

Ethanol Economics from Ranch to Restaurant



An Ethanol Across America White Paper

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The Case for Higher Corn Prices

I am confident that America's livestock industry will be stronger and more efficient in the era of \$4.00-plus corn than during the three decades of \$2.00 corn.

There. I said it. Perhaps not a popular position among my colleagues in the cattle and restaurant business, but it is true.

For most of the past fifty years, the challenge for U.S. agriculture was too much production. When I returned to my family's ranching operation in 1996, many in the international community were accusing the United States of undermining farmers around the world by dumping cheap, subsidized agricultural products onto the market—and my urban friends were complaining about the massive government support for the food and agriculture sectors.

Now farmers are less subsidized and rural economies are surging in the United States and around the world. After decades of stagnant prices, increased farm income is driving innovation as farmers now have the resources and the price incentives to more fully implement advancements such as precision guidance systems, fuel efficient equipment, new genetics and irrigation equipment that saves water and energy. Instead of undermining food production systems around the world, the biofuels industry is bringing badly needed diversification and stability to agriculture.

Change always causes hardship. Presently the livestock industry has experienced significant erosion in profitability as it has been forced to compete with the ethanol industry and export markets for grain. Nonetheless, there is plenty of evidence that market forces are at work—providing stability to both the ethanol industry and the livestock industry. Elevated corn prices sent a clear signal to the ethanol industry to slow expansion and, in fact, a number of plants may cease production over the next several years.

Jim Jenkins

Jim Jenkins is an owner and operator of several Nebraska restaurants including Skeeter Barnes Steakhouse and BBQ. He is also managing partner of his family's cow/calf and yearling ranch operation near Callaway, Nebraska. Since moving back to the ranch in 1996, Jenkins has implemented progressive grazing practices and multi-species grazing using cattle and goats. Jenkins is a passionate advocate for rural communities and value-added agribusiness development including ethanol and wind energy. He currently serves as chairman of the Nebraska Ethanol Board and is an advisor to the Center for Grassland Studies at the University of Nebraska.



Additionally, the cattle feeding industry, which consumes more than 30 percent of the corn crop, is ratcheting down its utilization of corn and using less expensive forage to place weight on cattle. Two-dollar corn contributed to over-production and inefficient feeding practices. Dan Loy, a beef nutritionist at Iowa State University told *Successful Farming* that the amount of corn used in traditional finishing programs "can be cut in half."

The cattle industry is also beginning to more efficiently use distillers grains, a co-product of ethanol production that replaces more than 40 percent of the bushel of corn that went into the ethanol plant initially.

A number of factors have led to the recent historic increase in commodity prices, but market forces are kicking in—creating stability, and profit opportunities for livestock producers, biofuels producers and the rural communities in which they live and do business. The advent of the biofuel industry is helping lead America out of decades of stagnant commodity prices—while, for the first time, providing consumers with a viable fuel choice for their vehicles.

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The Impact of Energy Costs on Food Prices

The more American consumers spend on energy, the less disposable income they have for dining out in my restaurants or choosing lean beef or pork for their dinner tables. And the more energy costs impact restaurant and livestock operations, the thinner our margins become.

As a restaurant owner, I see firsthand where the increases in our operating costs come from. With virtually every product we use reflecting or carrying a fuel surcharge, it is clearly energy costs that are eating away at our margins more than any other factor. Biofuels such as ethanol are actually helping to mitigate the effect of higher petroleum prices. Public and private analysts have concluded that new biofuels are expanding the fuel supply and thus reducing fuel prices to consumers—saving the average American family up to \$500 per year, which more than offsets any increase in their food bills.

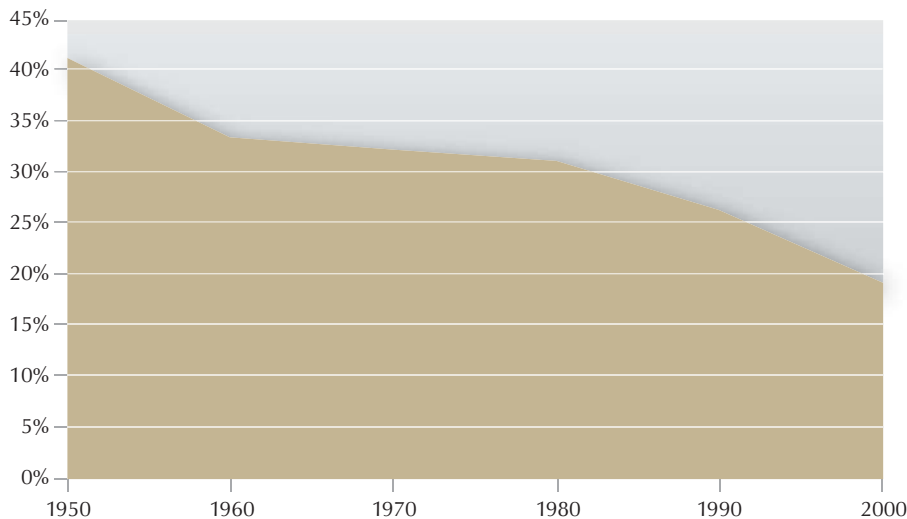
While the costs of key farm inputs such as steel, fertilizer and fuel have doubled or tripled over the past few years, the government's Economic Research Service projects that food prices will increase 15 percent from 2004 through 2008—with the 2008 period contributing three to four percent of that total. On the other hand, the

farmer's share of the retail food dollar has declined from 32 percent in 1970 to 19 percent in 2002. The majority of the cost increases occur beyond the farm gate—including the fuel expense of transporting corn, livestock and processed foods to market.

A research paper released in April 2008 by the Agriculture and Food Policy Center at Texas A&M found that "high corn prices have had very little impact on retail food prices." The truth is that food price increases have lagged well behind other key commodities affecting our nation's economy—and grain ethanol is but a bit player in driving food inflation.

Our Dependence on Oil is Sapping America's Economy

The rapid growth and maturing of the American ethanol industry is one of the significant business and economic success stories of the past several years, particularly in the nation's heartland. This new biofuels movement is a \$20 billion industry spanning more than twenty states. And ethanol is providing more than five percent of the transportation fuel requirements of the United States. While this is a relatively small percentage, it nonetheless represents the first serious competitive challenge to the oil industry in its 100-plus-year history.



Price Spread from Farm to Consumer

The farmer's share of the retail food dollar has decreased dramatically—and now stands at just 19%.

In addition to the rapidly growing wind energy industry, ethanol offers our nation a significant opportunity to diversify our energy portfolio and reduce the economic impact of fossil fuels. This diversification creates wealth in our own country—helping stem the massive transfer of energy dollars to other nations, now totaling more than \$700 billion annually.

Our dependence on oil also undermines our national security interests and costs taxpayers billions of dollars as we seek to protect our overseas oil supply. As former Federal Reserve Chairman Alan Greenspan wrote in his book, *The Age of Turbulence*, "...the Iraq war is largely about oil." Given these real threats to our economic well being caused by our dependence on imported oil, it is imperative that the United States develop alternatives to oil. Even oil tycoon T. Boone Pickens has noted in his television ads that "this is one problem we cannot drill our way out of."

The current biofuels industry provides a critical foundation for decentralization of our energy industry. As ethanol technology continues to evolve, many communities worldwide will be in a position to turn waste materials into energy—from lawn clippings to wood chips to crop residues.

This technology is available now and commercial development will occur within five years. In fact, Brazil is running nearly its entire transportation fleet on ethanol produced from sugar cane. My home state of Nebraska is now a net exporter of transportation fuel, producing approximately 1.3 billion gallons of ethanol, while consuming 900,000 gallons of transportation fuel.

Through public/private partnership, the United States is presently building six cellulosic ethanol plants that will test the capability of producing ethanol from non-corn based plant materials, providing even further diversification for our rural economies while adding to our fuel supply. Importantly, plant matter is available all over the world, whereas oil is available in a comparatively few select regions. In other words, higher commodity prices and increasing demand for food and energy will create economic

Ethanol Co-Product Key to Cattle Producers' Profitability

There is great synergy between livestock industries, especially the beef cattle industry and the ethanol industry. This is certainly the biggest change in the cattle industry in the last 50 years and probably represents the best opportunity for innovative producers to succeed during the 50-year time period. Because wet distillers grains has 30 to 40 percent more feeding value than the corn it replaces in feedlot diets, the net replacement value is about 45 percent of the corn that entered the ethanol plant. Savings in energy by not drying the distillers grains—coupled with the high feeding value of distillers grains and the use of more forages in the beef production system—allow cattle producers similar profits to those obtained when feeding "cheap" corn.

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opportunity across the globe—including agrarian economies that have historically struggled to be a player in world trade.

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

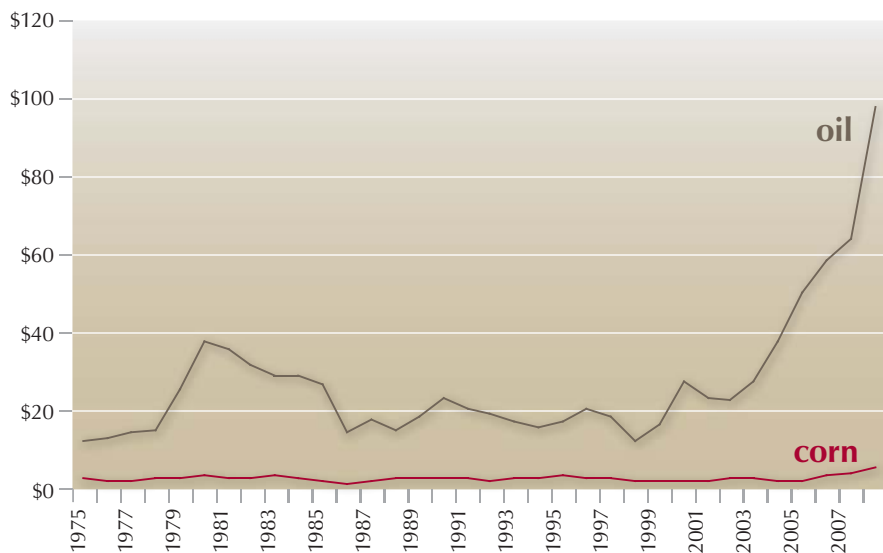
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It's well past time for America to rethink its energy strategy; and since energy is at the core of virtually every business and industry, the implications are profound. The fact is that renewable, domestic sources of energy such as biofuels are already proving their value by revitalizing America's rural economies, reducing the transfer of American wealth to other nations and strengthening our nation's security.

Higher commodity prices lead to a stronger rural economy which is good for the entire nation—helping rural areas contribute to our nation's success and wealth, rather than

depend on federal subsidies. And diversification of our energy sources provides America with alternatives to the tyranny of imported oil that is sapping our economy.

So what is a cattle guy and restaurant owner doing in a pro-ethanol discussion like this? Well, as a Nebraskan and an American, I think the benefits of ethanol are getting lost in what is a muddled and multifaceted issue—creating change which is causing many to have to reconsider their business models...and that makes many people uncomfortable. Those with the intelligence, insight and will to adapt will do so—and thrive.



Historical Price of Corn and Oil

Increases in oil prices have clearly outpaced corn prices—affecting virtually every sector of our economy, including every stage of feed production.

This **"Ethanol Economics from Ranch to Restaurant"** White Paper was produced and is distributed as part of a continuing series sponsored by the **Ethanol Across America** education campaign. The Ethanol Across America White Paper series provides an opportunity for public officials, industry, academia and others to express their views on issues relating to the development of ethanol and other alternative fuels. Interested parties are encouraged to submit papers or ideas to cfdcinc@aol.com



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