

Outlook Bodes Well for Biofuels

Experts see continued effect on livestock industry.

by Barb Baylor Anderson

PHOTO BY KANWARJIT SINGH BOPARAI

The outlook for growth in biofuels production is bright, although concerns exist for the livestock industry. Speakers at the Biofuels, Food & Feed Tradeoffs Conference sponsored by the Farm Foundation in Saint Louis, Mo., this spring predicted additional expansion of the biofuels industry, with higher feed costs and possibly slightly higher food costs.

"Simple economics make it (biofuels industry growth) so," says Dan Kowalski, associate with LECG LLC, Wayne, Pa. "Petroleum prices are historically high, and the legislation is kind with the Clean Air Act and the Job Security and Energy Policy Acts."

Kowalski says the biofuels industry increases economic activity, including gross domestic product (GDP), income and jobs. He also noted that with industry growth, the U.S. could experience reduced dependence on imported petroleum products and smaller dollar outflows, higher farm prices and farm income, and potentially higher food prices.

"Biofuels demand has pushed corn prices to the highest levels since 1995," he says. "However, what is good for grain farmers is not always good for livestock producers."

Kowalski stressed that sharply higher corn and soybean prices will increase production

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costs for livestock producers. Beef producers, he adds, are being hit by a combination of high-priced forage and alfalfa, and higher corn and soybean prices. While a strong economy has supported higher meat prices, he notes profitability is deteriorating. He expects red meat and poultry production to continue to expand, but at slower rates than in the past.

Competition for corn

Livestock industry profitability and corn demand may continue to suffer at the hands of higher corn and soybean prices for some time to come. For the 2007-2008 marketing year, U.S. Department of Agriculture (USDA) Chief Economist Keith Collins in Washington, D.C., predicts corn use for ethanol could reach 3.25 billion bushels (bu.) vs. the 2.15 billion bu. achieved last year.

Collins estimates ethanol production could use 27% of the 2007 corn crop to produce almost 9 billion gallons (gal.) of ethanol. Biodiesel production could use 17% of the soybean oil produced this year for 500 million gal. of biodiesel. By 2016-2017, Collins forecasts ethanol production will take 30% of the crop to make 12 billion gal., and biodiesel will require 23% of soybean oil to make 700 million gal.

"We could see a 3-billion-gallon increase in ethanol production just from last year," he says. "If we get a slice of crude oil imports, that's a real jolt for U.S. crop production. The growth in the last six months has been a tremendous demand for corn."

Given the shift in corn use, Collins says a livestock task force has been formed within USDA to evaluate the situation. "Ethanol has changed the perspective on corn prices. The 2005-2006 baseline was about \$2.50 per bushel."

In comparison, for 2007-2008, the baseline is \$3.75, but that may taper down into the future, Collins adds. "Feed use is down for corn, and that takes pressure off the corn market. Our needs can be readily met with a trend corn yield and mid-\$3 corn," he says. "We are seeing slower meat production growth, too. By the years 2008-2010, we may have 2.8% to 3% per year higher meat prices."

Overall ag industry impact

While corn and red meat prices may remain firm with ongoing growth in the ethanol market, Rick Tolman, chief executive

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officer (CEO) of the National Corn Growers Association (NCGA), says U.S. corn production can meet the needs of both the fuel and feed markets.

“U.S. agriculture has the capability to meet U.S. and world food supply needs and still make a significant contribution to domestic fuel needs. These goals are compatible and not in conflict,” he says. “Less than 8% of corn goes into human foods. When corn is at \$4 per bushel, for example, a \$2.69 hamburger uses 13¢ of corn.”

Tolman says corn feed demand can be partially offset by dried distillers’ grains (DDGs). DDGs can displace about 1.5 billion bu. of corn, primarily in beef and dairy cattle rations. He also predicts average corn yields will continue to rise and acreage change.

Other economists also foresee a potential shift in acreage. USDA’s Collins points to a

6-million-acre increase in major crop planted area since the 1990s, and says pasture has been coming back into crop production. In addition, about 11 million acres enrolled in the Conservation Reserve Program (CRP) are set to expire during 2007-2010, and some could go into crop production. Higher rents would be needed to keep it in CRP.

“We could see massive land use changes, and see land move from less to most productive use,” adds Daniel De La Torre Ugarte, associate director for the University of Tennessee Agricultural Policy Analysis Center. “We may see more intensive production of hay and see the release of some pasture to hay and crops or see farmers replace soybeans in the Southeast. I have confidence in projecting a slower reduction in the livestock industry. Highly integrated businesses will need to adjust the most.”

And while higher feed costs and a slowdown in livestock production are possible, Henry Bryant, research assistant professor at the Agricultural and Food Policy Center at Texas A&M University, does not expect “a disaster for the U.S. feed industry.”

“The industry will adapt. Higher feed prices mean somewhat lower quantities of corn will be used for feeding, but steadily increasing quantities of ethanol byproducts will be available,” he says. “Bottom line, the U.S. feed industry is likely to adapt, and higher prices will ultimately be passed on to consumers. For U.S. consumers, the sacrifices will be minimal. For foreign consumers, fats and proteins will likely be more expensive, and lower exports will reflect the lower ability to pay by some foreign customers.”

