



Statement of the American Farm Bureau Federation

**TO THE
HOUSE COMMITTEE ON NATURAL RESOURCES
REGARDING: IMPACT OF HIGH FUEL COSTS ON AMERICAS
FARMERS & RANCHERS**

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Presented by Don Shawcroft
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Testifying on Behalf of the American Farm Bureau Federation

My name is Don Shawcroft, President of the Colorado Farm Bureau. I am here today on behalf of the American Farm Bureau Federation (Farm Bureau). Farm Bureau is a grassroots organization representing a diverse range of agricultural producers from all 50 states and Puerto Rico. I am a rancher from the San Luis Valley in Colorado.

Farm Bureau appreciates the opportunity to share the impact that high fuel costs have on our nation's farm and ranch families. These prices affect not only our businesses, but our families and communities as well. America's farmers and ranchers work hard to produce the safest, most abundant food supply in the world; unfortunately our nation's dependence on foreign sources of fuel threatens our livelihood.

Our businesses rely on fuel: Diesel to run our tractors and harvesters, gasoline for our pickups, natural gas and petroleum used to manufacture our fertilizer, herbicides and pesticides. Profitability in agriculture is affected greatly by high fuel prices, whether they are caused by instability in other parts of the world or increasing demand from emerging nations. That is why Farm Bureau believes that the United States should be focused on energy independence.

Our grassroots members, representing all 50 states and Puerto Rico and all sectors of agriculture, believe that we must develop and employ a diverse, broadbased domestic energy supply. We support the development and implementation of a comprehensive national energy policy, which includes conservation, efficiency, exploration and research and provides for the domestic production of traditional and renewable energy sources. Opening and using new sources of petroleum, along with existing and future home-grown fuels, should keep current and future generations of Americans safe from the economically devastating effects of our dependence on foreign energy.

Over the past 11 years, we have seen very volatile oil and natural gas prices due to a variety of factors. Although some sectors of agriculture have seen good prices for their products, their profitability is hindered by high energy costs. Farmers and ranchers have little, if any, ability to pass our costs of business, including those for fuel, fertilizer, seeds and agricultural chemicals, on to our customers.

Farmers have been impacted particularly hard by the rising costs of inputs needed to grow their crops. According to the USDA Economic Research Service (ERS) farmers can expect to pay almost 85 percent more than they paid in 2000 just to put their crops in the ground this spring. The ERS calculates the operating costs per planted acre—or cash costs—of the country's most produced crops. This data includes the costs of seeds, fertilizer, chemicals, fuel and electricity, repairs and interest on operating capital. It does not include the cost of labor for the farmers or an employee, the cost of land, the cost of property taxes or the cost of insurance. The ERS data shows that in 2011 corn farmers can expect cash costs that are 85 percent higher than their costs in 2000. Similarly, cotton farmers can expect to see a 77 percent increase and rice farmers a 72 percent increase. ERS has been tracking this data for grain sorghum since 2003. Grain sorghum producers have seen their cash costs rise more than 77 percent in 8 years.

Fertilizer and Chemical Costs

Farmers and some ranchers depend on fertilizer to enhance the nutrients in their soil to produce the safest and most abundant food supply in the world. Unfortunately, we have seen fertilizer prices skyrocket due to a rise in the costs of natural gas and crude oil, increasing demand from emerging countries and a decline in domestic fertilizer production.

Natural gas accounts for 70 percent to 90 percent of the cost of producing anhydrous ammonia, a key source of nitrogen fertilizer. The sharp rise in natural gas prices and the resulting curtailment of U.S. fertilizer production has had a dramatic impact on fertilizer prices throughout the marketing chain and, in particular, at the farm level. According to ERS, between 2000 and 2011 the fertilizer costs for rice rose 125 percent, cotton rose 175 percent and corn rose 197 percent. The fertilizer costs for grain sorghum have risen 127 percent.

As U.S. fertilizer production has slowed, we have become increasingly dependent on foreign sources of the product. According to The Fertilizer Institute (TFI) two of the components of fertilizer, nitrogen and potash, are usually imported from other countries. Current fertilizer prices are expected to surge this spring due to the costs of transporting the imported components and growing demand from other countries. According to TFI, the United States was the fourth largest consumer of fertilizer for fiscal years 2007 and 2008. The top three consumers were China, the rest of the world and India. Brazil came in fifth, followed by Indonesia.

Additionally, the Environmental Protection Agency (EPA) is now pursuing policies which would replace coal and other fossil fuels with natural gas for electricity production. While many factors go into determining fertilizer prices, the natural gas price is a principal component. Should EPA's policies have the effect of pushing natural gas prices higher, we anticipate those costs will combine with other factors into pushing fertilizer prices higher. In addition to making it difficult for domestic manufacturers of fertilizer to make a profit, these policies will make farmers even more dependent on others for our farm inputs.

Natural gas and crude oil spikes have a dramatic impact on the costs of the herbicides and pesticides that we use to protect our crops. According to ERS, the cost of agricultural chemicals increased 58 percent for rice and 19 percent for cotton since 2000, and 24 percent for grain sorghum since 2003. On the other hand, the cost of chemicals for corn decreased by 1 percent.

Fuel Costs

As President of Colorado Farm Bureau, I spend a lot of time talking to the corn and potato farmers who grow two of our state's largest crops. Last week, farm diesel fuel used in tractors and combines to plant and harvest these two crops was, on average, \$3.47 per gallon in Colorado.

I know from conversations with farmers and ranchers in other parts of the country that they also struggle with rising diesel costs. Like all transportation fuels, the price of farm diesel varies from state to state. Most states do not publish these prices, with Illinois being the exception. According to the USDA-Illinois Department of Ag Market News, the average price of farm diesel in Illinois rose from an average of \$1.70 per gallon in March 2009, to an average of \$3.56 per gallon in March 2011. That is a 103 percent increase in price over the past two years.

Most Americans are feeling sticker shock caused by high gasoline prices when they fill their automobile's tank. There is no term in the English language to accurately describe what farmers and ranchers feel every time they put diesel in the tanks of their farm equipment. I have a couple of examples based on the price in Colorado last week.

The fuel capacity on a CaseIH 9370 tractor is 270 gallons, which results in a \$936.90 price tag every time the tank is filled. A new John Deere 9870 STS has a fuel capacity of 305 gallons. At last week's prices the cost of that tank of fuel is \$1,058.35. Depending on the number of acres being covered, farmers and ranchers have to fill those tanks multiple times just to complete the work on one field or pasture. Due to the fracturization of land, we have many fields to cover.

Ranchers face a different set of challenges caused by high oil prices. Like many ranchers, I have to keep my herd on several parcels of land, which requires daily trips between pastures to check on the health and safety of my animals and to feed and water them.

Throughout the year, I have to move cattle hundreds of miles to ensure that they have adequate grazing land. In order to move the cattle safely, I must use multiple semi-trailers and make multiple trips. The semis typically have 300 gallon capacity fuel tanks. Depending on the length of the trip and the terrain we must cover, fuel efficiency varies and affects the numbers of times I have to refuel these trucks on one trip. The fuel bill for just one truck can be over \$5,000 on just one trip. Ranchers in other parts of the country face similar issues

Gasoline prices in my area are \$3.49 per gallon. I use a lot of gasoline in the engines of the vehicles and equipment needed to run my business. It makes more sense for me to have the gasoline delivered to my ranch rather than going to town every time I need to refuel. However, convenience costs—specifically, \$3.52 per gallon.

Given the hype about "food v. fuel," I am sure you have heard a lot of claims made about ethanol's impact on gasoline prices. It is a myth that ethanol is a factor in the high cost of gasoline. Ethanol production has no impact on the cost of a barrel of crude oil. In fact, as oil prices rise, ethanol becomes more important to keeping gasoline costs lower. At \$40 per barrel for oil, the energy value of corn in terms of British Thermal Units (BTU) produced is roughly \$2.50 per bushel; at \$100 per barrel, that same bushel of corn is worth more than \$6.50. This is strictly the energy value of the corn as fuel, not as a value added product that has been converted into valuable livestock feed and a fuel able to be mixed with gasoline and fully functional in our automobiles.

Farm Bureau believes that renewable fuel production can help make our country energy independent, generate good jobs in rural communities, and help keep farming and ranching fiscally sound. We support the goal of the 25x'25 Alliance to generate 25 percent of our nation's energy supply from our nation's farms, ranches and other working lands by 2025.

High gasoline costs have impacts on farm and ranch families that go beyond production costs. Many of our families depend on off-farm employment to supplement their agricultural income and allow them to continue to feed the world. The jobs are rarely just a few miles from home. Steadily increasing gas prices are eating away at these families' fiscal health. Beginning farmers and ranchers can be hit hardest by this situation.

Rural school budgets have also taken a beating from the high cost of gasoline. Our school buses must travel long distances to transport our children to and from school every day. Rural schools' ability to fund and provide quality education for our children is being eaten away by high fuel costs.

Officials at my local school district told me that our school buses traveled 148,340 miles in the 2009-2010 school year. Those buses averaged 8 miles per gallon. According to my math, that comes out to 18,542 gallons of gas. Calculated at the current retail price in my town, the yearly cost of fuel for the district is almost \$ 65,000 – a potentially devastating outlay for a rural school district.

In addition to endangering the futures of our children, this situation can create additional tax liabilities for farmers and ranchers. Many school districts rely heavily on funds gained from property tax revenue. As landowners, we bare a great deal of the costs for our rural schools – schools that have educated generations of many of our families. However, property tax increases chip away at our profitability and reduce our ability to provide for our families and the families of our employees.

Solutions

We must renew America's commitment to domestic oil and gas production. Energy rich repositories such as the Outer Continental Shelf, the Bakken Oilfields and the Arctic National Wildlife Refuge must be explored and opened for oil and gas production. The advancements made in oil and gas-drilling technology will increase the environmental protections for capturing energy feedstocks. Additionally, we must increase domestic oil refining capacity and diversify the geographic locations of those refineries.

We must continue to develop all sources of renewable energy. These sources must play a vital role in securing America's energy security. As with drilling techniques, much advancement has occurred in the production of renewable energy sources such as ethanol, biodiesel, biomass, wind and solar energy.

We must do more to make home-grown energy available to American consumers, including implementing the approved increase of the current ethanol blend rate to 15 percent and building a biofuel infrastructure which includes blender pumps and biofuel pipelines. We must continue to provide incentives, such as the tax credits currently in place, to encourage the production of biodiesel fuels.

American agriculture needs reliable and reasonably priced fuels in order to maintain its ability to feed, clothe and fuel the world. We urge you to take the steps needed to make our country energy independent. The livelihoods of our families, our communities and our businesses depend on it.

Thank you for the opportunity to testify. I look forward to your questions.