USDA Ag Outlook Conference

Plenary Panel – "Renewable Energy – Inroads to Agriculture"

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Thank you Scott, and thank you Secretary Johanns for inviting me to participate on this panel. This is an important discussion and I'm pleased to be here to share some views on this topic.

The title of this panel is aptly named because energy and agricultural policies are intertwined, with implications for farmers, the energy industry, rural development and our environment. The President has reinforced his interest in renewable energy in the State of the Union Address and as Congress begins to consider future agriculture policy in the next Farm Bill, renewable energy is sure to be part of that conversation. As a global agri-foods company with a biofuels component, Cargill sees that many complex issues and decisions face our policymakers with implications for the agricultural economy as commodities traditionally used for consumption become increasingly used for combustion.

Let me take the next few minutes to discuss Cargill's activities around biofuels, challenges that arise when considering the needs of food, feed and fuel markets, and policy options that offer solutions to these challenges.

Cargill has invested in biofuels and is committed to helping our farmers meet the growing demands of the biofuels industry. We will have invested nearly $1 billion in biofuels worldwide. We are building ethanol plants and biodiesel plants in the United States and Europe. We have a joint venture with Missouri soybean farmers to build a biodiesel plant there and another joint venture in Brazil for ethanol production. We provide services to ethanol producers and we trade ethanol globally. In another joint venture, we are researching high starch corn varieties specifically tailored for biofuels production and we are examining ways to improve the nutritional value of Distiller's Dried Grains, or DDGs as they are called. Our presence in biofuels is diverse and we are helping our farmers meet the growing demands brought on by increased biofuels production. At the same time we remain committed to participating across a broad portfolio of food, feed and fuel products from renewable sources around the world. That is why I described Cargill as an agri-food company with a biofuels component, not the other way around.

What we at Cargill have been trying to do as the biofuels movement has expanded is to encourage policymakers to critically consider the needs of both the food and feed sectors, in the United States and around the world, when developing energy and biofuels policy. We want policymakers to keep in front of themselves the core question: How will a growing biofuels industry help reduce our dependency on foreign oil.

The UN estimates that by mid-century, food production must double from current levels to feed the world's people. As we devote a greater proportion of crops to fuel, we can expect the pressures on the supply and demand equations to cause the price of food to rise. Higher food prices across the globe certainly will impact people in less developed countries far more than those in the developed world who can more easily adapt to price increases.

The world, through new agronomic technologies, may be able to support a biofuels industry while also feeding the world. But, is it really that simple and is that the end of the story? As leaders, we should be asking ourselves this question: What prices are we prepared to make the world's poor pay for food? As a developed society we will have the capability to produce both food and renewable fuel, but what will be the cost to those who can least afford it? As a responsible society, we need careful thinking and planning as we navigate new ground and continue to face the challenge of providing food to an ever-expanding world population.

In promoting biofuels, policymakers must face this challenge head-on. We all must consider the impact biofuels promotion will have on food and feed supply chains, and on choices around land and crop use. As competitive pressures build over the use of land for food, feed and fuel, the costs of all three will rise.

At Cargill, we are balancing our agri-foods and biofuels businesses in a way that helps meet our vision of nourishing people. For us, this balance is best maintained through policies that are market-driven, trading arrangements that are open and compliant with existing agreements, and production and use that benefits the environment. Let me take a few minutes to expand on these thoughts.

We believe market forces and sound economics offer the best solution for providing a balanced biofuels policy. Biofuels economical viability has been enhanced by government support such as mandates, targets, incentives and, in some cases, trade barriers. While governments will make choices to promote biofuels with these measures, inflexible government mandates risk creating inefficiencies and exerting unnecessary pressures on food and feed supply systems, pressures that are likely to be inconsistent with market demands.

The more that biofuels markets are based on market forces and sound economics, the better. Whatever incentives governments put in place, they should provide sufficient flexibility to allow markets to work and to allow relief from market distortions that mandates and other government programs can cause. Also, biofuels investors will react more rationally to incentive tools that move the industry toward free-market fundamentals.

We've been blessed in this country by not having a serious nation-wide drought for several years. The more crops we devote to fuel, the greater impact drought or other stresses will have on our food and feed systems. An effective and non-political waiver of the biofuels mandate, that has the actual effect of relieving pressure on food and feed systems, is the best way to ease pressure in such times of stress. An effective waiver mechanism should be removed from politics, be transparent, and be predictable for both investors and producers.

In addition, biofuels should be freely traded worldwide. Open trading arrangements for biofuels will provide flexibility to our domestic biofuels markets and greater cooperation and integration with our biofuels trade partners around the globe. Global trade in biofuels should comply with international trade rules and agreements by ensuring equity for all countries as well as industry and trade participants.

Brazil is an increasingly important global player in ethanol production and ethanol exports, producing nearly half of all traded ethanol today. We currently charge a 54-cent duty on Brazilian imports. But then, we allow the purchaser of that imported ethanol to be eligible for a 51-cent credit when the imported ethanol is blended into our US fuel supply.

Rather than view global biofuels trade as a threat, we should view overseas sources as an opportunity to develop a diverse and global biofuels market that can take advantage of multiple points of origin. U.S. production of biofuels can *help* increase our energy security – but other kinds of renewable energy will increase our flexibility and improve our ability to help feed the world's hungry, while improving the global and U.S. energy picture.

Clearly, renewable energy and biofuels have a place in our nation's energy complex, bringing improvements to our energy security and our environment. We support biofuels production and use that proves to be environmentally beneficial. Biofuels can help reduce greenhouse gas emissions and contribute to net carbon neutrality, so long as the growing production of corn as a feedstock does not force environmentally sensitive land into production.

And, importantly, energy conservation must be part of the equation. In promoting biofuels, governments need to strongly consider other policies that reduce energy consumption across the energy supply chain, including consumer use. Policy incentives to reduce consumption could have an important impact on the energy reliance equation.

Summary

In summary, the intersection we are seeing between agriculture and energy presents multiple challenges – challenges we believe are best met with policies that are market-driven, trading arrangements that are open and compliant with existing agreements, and production and use that benefits the environment. I'm pleased to be part of a discussion that helps us try to understand the longer-term implications of what's happening in the biofuels markets and the impact on food and feed supply chains. This continuing discussion should address the use of global feedstocks, the intersection of global energy and agricultural policy, and ways we can best use and manage our resources in a time of increased fuel demand and a growing world population.

I am grateful, Mr. Secretary, that you are leading such a conversation today. Thank you very much.