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USDA Agricultural Outlook Forum

Panel: Renewable Energy – Inroads to Agriculture

Moderator: Scott Kilman, *Wall Street Journal*

My name is Scott Kilman. I'm a reporter for the *Wall Street Journal* and the Chicago Bureau. I cover agriculture for the paper. And I'm moderating today the CEO Panel on Bioenergy.

A few weeks ago I was in West Africa. One night I was invited to visit a tribal chief, and after the drumming and the traditional dancing and sampling the local beer, I sat down with the paramount chief, and he had questions for me about Doha and Hillary Clinton and Barack Obama.

[Laughter.]

Then the conversation took an unexpected turn. A scheme to plant 10s of thousands of hectares of land to a brush to grow biodiesel. It was astounding to me, this talk, because this is a part of the world where the typical farmer tries to scratch a living for he and his family or she and her family on a hectare of land. And what it showed me was that the biofuels boom is reaching into the most remote parts of the world.

As Bob Brown of Iowa State University has said, This is a transforming moment for American agriculture. For decades, U.S. farm policy and the business plans of food companies have revolved around the tendency of American farmers to generate price-depressing gluts. Suddenly, demand is king. The ethanol industry is growing so quickly that the price of corn has nearly doubled in the face of an ample harvest. Economists now debate whether the Midwest can grow enough corn for everybody. The ripple effects are spreading far and wide. All across the Midwest this winter farmers are debating whether to abandon traditional cropping patterns to plant only one crop, corn.

That expectation, the expectation that soybean acreage will fall by millions of acres this spring, is already pushing up the price of that crop. The size of government checks to farmers is shrinking, just as Congress begins to gear up for debate over a new farm bill.

Which raises this question:

If a demand-led rally can lift the grain markets for years, as some forecast, wouldn't the reforms sought by critics of U.S. agricultural subsidies at the WTO actually put more money into the pockets of grain farmers? If so, insignificant change now politically possible?

Others are seeing change too. After nearly a decade of modest food inflation, consumers are seeing food companies try to pass along their higher ingredient costs. Food

executives meanwhile wonder whether they can count on having a reliable supply of ingredients when their suppliers are pouring hundreds of millions of dollars into building corn-to-ethanol plants.

Ranchers, dairy farmers, hog farmers, chicken producers -- all have a similar fear. Can they compete with an ethanol plant? The world will need to produce twice as much food by 2050. Can agriculture do that and produce tens of billions of gallons of fuel? It's an open question. While Archer Daniels Midland says there's enough for everybody, Cargill has raised red flags. Yet both are investing in ethanol plants. Taxpayers meanwhile wonder what sense it makes to subsidize an ethanol industry that at long last has shown the ability to make money, and big money at that.

Wall Street meanwhile is debating whether there is still time to invest in ethanol. The wide profits of last spring have shrunk under the weight of higher corn costs and relatively lower oil prices. That ethanol production continues to race ahead has some wondering whether there is a bust at the end of the boom.

And then finally, everyone has a stake in whether the U.S. can reduce its dependence on foreign oil. For ethanol to play the role envisioned by the Bush Administration will require technological advances and more abundant feedstocks. While there is promise in the laboratories of companies such as Dupont and Cargill and ADM, it is far from clear that making ethanol from stuff such as switchgrass will be economical anytime soon.

If any folks can enlighten us about how to navigate the ethanol boom, it is this panel of CEOs. As a group, the companies here will probably spend billions of dollars over the next decade developing and making biofuels and bioproducts. How they do their job of making food and fuel will help reshape the American farm economy and help decide who wins and who loses.

I'm going to introduce the panel.

Red Cavaney at the end is CEO of the American Petroleum Institute. He would prefer to have the markets drive ethanol production long-term, not mandates. While we are all aware of the big profits in the oil patch recently, I should also point out that the agricultural companies here are also enjoying record profits, in part because of ethanol.

John Johnson, the second one over, is the CEO of CHS, Inc., the grain handling and oil refining cooperative. I looked it up last night; its fiscal 2006 earnings doubled to a new record. CHS owns a 22 percent stake in the ethanol player U.S. Bioenergy, which has designs to be the number two ethanol maker-- although I think I get e-mails from companies every other week telling me that they are going to be the number two ethanol maker.

Greg Page, number three, is currently president and chief operating officer of Cargill, the commodity processing giant, and one of the nation's biggest closely held companies. On June 1, he will become chief executive, succeeding Warren Staley who was called away from the conference because of a family emergency and we're thankful that Greg could

come such short notice. Cargill recently reported record fiscal second-quarter earnings and has a unit that's building four 100-million-gallon ethanol plants.

Then Patricia Woertz, is the walking symbol of the new forces in agriculture, a former executive of the oil giant Chevron, she is now the CEO of grain processing giant Archer Daniels Midland, a company long famous for warring with oil interests in Washington. Oh, the things Dwane Andreas used to say about the API. That was before.

Already the nation's biggest ethanol maker, ADM is building a pair of 275 million gallon ethanol plants. It also recently reported record fiscal second quarter profit.

Starting with Patricia, the panelists will have 15 minutes to lay out their vision for bioenergy. Then we hope to have at least a half hour for questions. We'll have mikes on the floor for questions. I'll ask a couple, then I'll call for people from the floor.

Thank you very much.