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Ethanol Reduces Government Support for U.S. Feed Grain Sector

The surge in the use of corn in ethanol production is increasing the price of corn received by producers, thereby reducing the income support received by the Nation's feed grain sector. In the past decade, a large share of farm support has come from income support programs, such as marketing loan benefits, market loss assistance or counter-cyclical payments, and production flexibility or direct payments. Now, however, market revenue, stimulated in part from renewable energy policies and strong energy prices, is increasing in importance to the sector.

Ethanol demand for corn is raising feed grain prices above farm program support levels, thereby reducing or eliminating marketing loan benefits and counter-cyclical payments. For example, the season average price received for corn was \$2 per bushel in marketing year 2005, but the projected price for marketing year 2006 is \$3.20 per bushel, as of March 2007. In the 2005 marketing year, income support for feed grains totaled \$10.5 billion, coming from marketing loan benefits, counter-cyclical payments, and direct payments. In marketing year 2006 and the next several years, stronger prices are expected to reduce income support to include only direct payments.

The size and speed of the increase in corn's use in ethanol production is unprecedented in its effect on the U.S. feed grain market and its implications for other agricultural markets.



Scott Sinkler, AgStockUSA

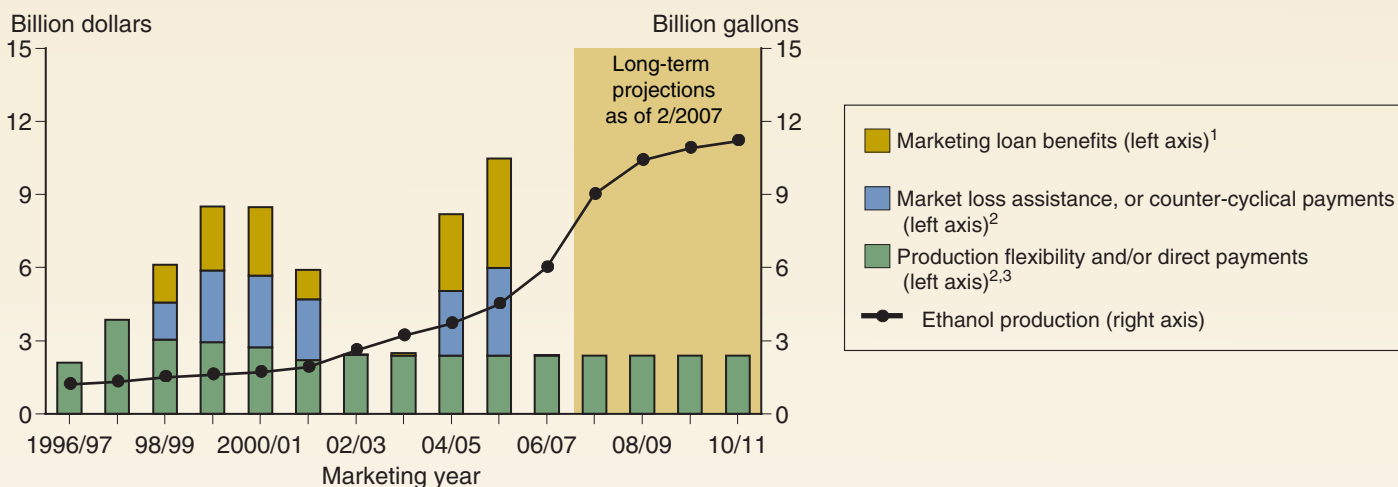
Nonetheless, there are risks in the ethanol market outlook. Ethanol production is expected to continue to grow and exert pressure on the agriculture sector but its growth rate depends on several factors, including oil prices, ethanol prices, feedstock costs, changes in technology, and changes in government incentives and policies. The use of corn in ethanol production could also decline for several reasons, and thereby mitigate pressure on the agriculture sector. For example, crude oil prices (gasoline prices) could decline, feedstock costs could rise further, ethanol's price premium to gasoline could disappear, or technological breakthroughs could lower alternative feedstock costs to compete with corn. *W*

Linwood Hoffman, lhoffman@ers.usda.gov

This finding is drawn from ...

Feed Grains Background, by Linwood Hoffman, Allen Baker, Linda Foreman, and C. Edwin Young, FDS-07c-01, USDA, Economic Research Service, April 2007, available at: www.ers.usda.gov/publications/fds/2007/03mar/fds07c01/

Ethanol reduces government support for U.S. feed grain sector



¹Payments are made to feed grain producers.

²Payments are made to owners of feed grain production flexibility contract acres or owners of feed grain base acres. These payments are based on historical, not current production, so recipients of these payments may not necessarily be producing feed grains.

³Direct payments are assumed to continue in 2008/09 through 2010/11, although this will be determined by forthcoming farm legislation.

Sources: USDA, National Agricultural Statistics Service; USDA, Farm Service Agency; and *USDA Agricultural Projections to 2016*, OCE-2007-1, February 2007.