Gov. Perry: Ethanol is Not the Answer

*Note - Gov. Perry frequently departs from prepared remarks.

Tuesday, June 24, 2008

Good afternoon and thank you all for joining us to discuss an energy issue with broad implications, from the global economy all the way down to the family dinner table. Joining me here today are some folks with an up-close and personal understanding of these issues. Gregg Doud, an economist with the National Cattlemen’s Beef Association, Jim Schwertner is the President/CEO of Capitol Land & Livestock in Texas, and Bill Roenigk [Row-nik], the senior vice president and chief economist for the National Chicken Council. I also want to acknowledge all of those here today in support of the waiver, like the National Turkey Federation, the National Pork Producers, the Grocery Manufacturers Association, the American Meat Institute, and the National Restaurant Association, to name a few.

Nearly two months ago, I submitted a letter to the EPA detailing my concerns over the Renewable Fuels Standard and its mandate for corn-based ethanol production and use. My perspective on the issue is shaped by growing up in a farming family, my years spent serving as our state’s Commissioner of Agriculture, and, most of all, seeing the mandate’s negative impact on the state of Texas.

Texas is one of the country’s largest food producers. Livestock operations in our state account for roughly $75 billion of our economy. Two thirds of our state’s 149,000 cattle operations run fewer than 50 head, which means that the small family ranch in Texas makes up a good portion of our production. Since the vast majority of feed products are corn-based, the artificial upward pressure on corn prices caused by the RFS mandate has hit our livestock producers unreasonably hard.

Across our state, cattle feeders have been operating in the red since June 2007, in large part because of escalating feed costs. Our largest agriculture companies are taking a hit as well. High feed prices have driven our state’s largest independent pork producer out of business, Pilgrim’s Pride & Smithfield both posted huge losses this past year, and Tyson’s bonds were downgraded to junk status.

Some of our large companies may be able to weather this storm, but the small-to-midsize companies may not survive the RFS mandate. These smaller companies are facing some tough questions. How long can they continue operating at a loss? How long will the banks keep extending them credit?

If these artificially high prices continue, the doors on many of these operations will start closing, possibly changing the face of Texas agriculture forever. That will result in even higher food costs for families all over Texas and across the nation. That is why I asked for a 50% waiver of the corn-derived RFS mandate.

In response, the EPA opened a comment period that just ended yesterday. As they begin their deliberations, we are
here to reiterate our concerns and refocus the American people on this issue.

Since our waiver request, corn prices have continued to climb, both as a result of the mandate’s artificial demand, but also because of the tragedy unfolding in the Midwest. Our hearts go out to the victims of the Midwest floods. The loss of life, the damaged homes and destroyed croplands have been terrible to watch. And the impact of that damage is being felt across the country. Corn prices, which we thought were high in May at $5 per bushel, are now over $7 a bushel. That hits livestock producers, but it also has a negative impact on their competition for corn supply: ethanol producers. As fuel blenders work to meet the requirements of the mandate, they could very well keep the price of corn going even higher, which will likely drive even more companies out of business while causing higher prices for consumers.

One way to stop this serious spiral is to take simple, direct action: cutting the mandate for corn-derived ethanol by at least 50%. While the mandate may have been a well-intentioned effort to move our country toward energy independence, it is doing more harm than good, and should be modified before it makes things even worse.