

A look back, with an eye on 2008

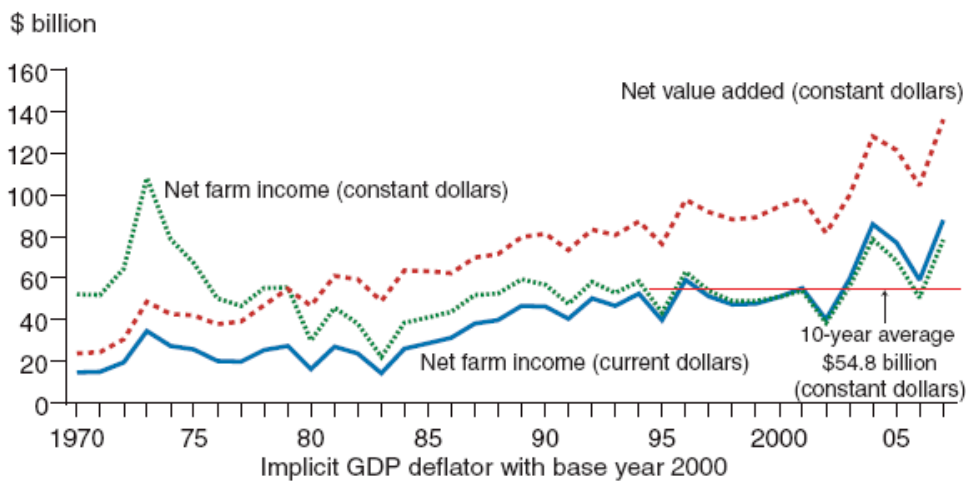
The start of a new year provides a good opportunity to reflect on some of the headlines over the past year, while looking ahead at the challenges and opportunities in 2008. Certainly, **2007 was one for the record books**, with a global commodities boom and record high prices for corn, wheat, soybeans, rice, and milk. U.S. net farm income is forecast to reach \$87.5 billion, up \$28.5 billion from 2006 and exceeding the 2004 all-time high, according to USDA's Economic Research Service. With higher farm incomes and rising real estate values, farm sector net worth is expected to be about \$2 trillion in 2007, up from \$1.8 trillion in 2006, reports ERS. Overall, farm sector equity growth exceeded 12% in each of the past four years and has risen 54.6% since 2003.

“There probably has never been a better time to be involved with agriculture,” noted Ray Brownfield, President of the American Society of Farm Managers and Rural

Appraisers. He cited several factors which contribute to this “bullish” scenario: world demand for commodities coupled with a cheap dollar, tremendous plant genetics, and expanded use for our commodities, (domestic use, livestock consumption, alternative energy, and global consumption).

But along with higher prices last year came greater risks and greater management challenges. **“Volatility in the marketplace is unprecedented,”** points out Michael Toelle, Chairman of CHS Inc. “Ethanol plants have seen margins of one dollar a gallon in early 2007 to breakeven margins this fall. This volatility creates many opportunities in agriculture but it also increases the potential risk factors that farms and agri-business will need to manage.”

Farm sector net income in 2007 above 10-year average in constant dollars



Note: 2007 forecast.
Source: USDA, ERS.

We asked several farm and industry leaders to share what they viewed as the top issue or event impacting their industry last year and in the coming year. Here are some of their reactions:

High commodity prices and the farm economy, in general, were at the top of the 2007 list for many. “Finally, farmers and ranchers are beginning to earn a profitable price from the marketplace -- thanks to the demand for renewable fuels mandated by the Renewable Fuels Standard, and production problems, especially with wheat,” explained **Tom Buis, President of the National Farmers Union.**

“Higher wheat prices had a big positive impact in 2007, but on the negative side, much higher prices for fuel and fertilizer are eroding profitability,” says Daren Coppock, CEO of the National Association of Wheat Growers. **“So even though a \$9.35 price sounds great, it’s not the gravy train that some may think.** If somebody produces a big wheat crop somewhere in 2008, that can be expected to take some of the steam out of wheat prices; **but I’m not sure what takes the steam out of diesel and fertilizer.”**

John Campbell, senior vice president for AGP, says high oil prices were really at the core of agricultural issues in 2007. “High oil prices have led to high agriculture prices and policies such as the recently passed energy bill. Wheat is a special case, but the normal supply response to the wheat situation is blunted by the fact that the whole world is scrambling for fuel acres.

“High oil prices/ag prices lead politicians to believe they can enact an inflationary farm bill without any consequences,” Campbell adds. “Not only do we have a fight for acres but we have hedge funds getting into commodities, adding fuel to the fire. **Now add on the cheap dollar and you have a recipe for a US ag runaway.”**

Hands down, the biggest issue that impacted the soybean industry in 2007 was biofuels, says **American Soybean Association CEO Steve Censky.** “High petroleum prices and incentives for ethanol (the tax incentive as well as the renewable fuel standard) resulted in a loss of soybean acres to corn of nearly 12 million acres.”

“The impact of biofuels is a bit like a double-edged sword. One side of the sword has positive consequences as the link to energy markets for corn, soybeans, and other commodities has resulted in today's record high commodity prices. Having this new link to energy markets will result in higher prices for years to come; this is great news for oilseed and grain producers. Unfortunately, the other side of the sword can have negative consequences as planting decisions are distorted and traditional livestock and food customers are negatively affected.”

Bob Stallman, President of the American Farm Bureau Federation, also pointed to high crop commodity prices as having the biggest impact on agriculture in 2007, both for those who benefited and the livestock feeders who suffered. “Farmers are beginning to adjust their mindset to account for the possibility of new price plateaus along with rapidly increasing input costs,” says Stallman. “The question that remains: how will all this balance out?”

Rapidly rising feed grain costs, and in some production areas, the loss of access to feed grains, has been the issue in 2007 with the most impact, **says Steve Murphy, CEO of the National Pork Board.** “The impact of this issue on the US pork industry and the American consumer will carry far into the future, **but near term it ended 48 consecutive months of pork production**

industry profitability, the longest sustained period of profitability since records have been kept.”

“Short-term, and undoubtedly long-term, this issue has and will accelerate the industry’s structure transition to modern pork production systems,” emphasizes Murphy. Additionally the feed grain issue has negatively affected US pork’s international competitiveness, but the Canadian pork production challenges and Chinese swine health issues should allow us to stretch the US pork industry’s export growth record to 16 consecutive years.”

Even though it’s not yet complete, development of a new farm bill in 2007 was also cited by several. Coming up with a reasonable solution for implementing Country-of-Origin Labeling (COOL), was a big issue for **Joe Swedberg, vice president of legislative affairs and marketing services for Hormel Foods.**

“With the proposed language in the House and Senate versions, it will allow many in the industry to not have to sort animal primals and cuts, especially from Canada and the US,” Swedberg explained. **“This would have cost millions of dollars to implement** if we would have had to separate and those costs would have been added on to the selling prices with consumers having to pay even more for their food than they are already with price inflation.”

In 2007, the most important issue was the **dairy producer community's ability to unite behind a package of policy prescriptions for the 2007-08 farm bill,”** says Chris Galen, Senior Vice President, Communications, for the National Milk Producers Federation. “We recommended, and Congress, at least at this point, has largely endorsed, a number of items to improve farm policy in the next farm bill. Obviously we still have a ways to go before any of this comes to fruition but we devoted a great deal of effort in 2007 to improving the farm bill, and we are confident now we'll have something to show for it later in 2008.”

Wide variety of 2008 issues

Not surprisingly, predictions were more varied for the issue likely to carry the most weight in 2008, **although price volatility, a new farm bill and a wide range of issues related to development of renewable energy** were frequently mentioned. The impact of high grain prices on the livestock and poultry industries, will be key this year, says AgCarolina Financial President Gene Charville. And as more renewable energy is developed, Tom Cook, President of the National Renderers Association, says his organization we will be watching what happens in the alternative fuel area to make sure they gain equity with other feedstocks.

NPB’s Murphy agrees that the feed grain challenges will continue its effect all through 2008, but also cites another rapidly growing industry concern: **the impact non-governmental organizations are having on pork industry public relations and regulations,** undermining the confidence others have in the US pork production industry. “I believe there will be a well coordinated pork industry effort to establish assurances that the industry is doing the right thing and rebuild any wavering customer trust,” he adds.

Closing the deal on the farm bill will be critical for the dairy industry, says NMPF’s Galen. “At the same time, **I think the biggest challenge we'll have in the coming year is ensuring that the labor needs of agriculture are addressed through immigration reform.** Dairy farmers, along with many other employers, are very concerned about continued access to a adequate

workforce. Immigration has become such a flash point politically (as the presidential primary and caucus process has demonstrated), however, it will be a real challenge to improve our laws this year. But this is also a big priority for many dairy farmers, some of whom are more concerned with this issue than the farm bill.”

“For 2008, I believe WTO negotiators will finally reach an agreement,” says Alan Tracy, CEO of U.S. Wheat Associates. **“The story, though, will likely be a divisive battle within the U.S., and even within U.S. agriculture, over whether the agreement is worth ratifying, as the agreement is unlikely to achieve as much as we had hoped it might.** For wheat, in particular, I believe the agreement will be a net positive and worth supporting, but that doesn't mean reaching a consensus will be easy, for the wheat industry, for U.S. agriculture or for the U.S. Congress. Any vote on ratification is likely to have to wait for the new Congress to be seated in 2009, and the battle will be a tough one. However, trade liberalization is incredibly important for a U.S. agriculture that is still largely export oriented, and I think we will end up as net supporters of passage.”

For 2008, **AGP's Campbell says it will be interesting to watch the liquidity issue caused by the subprime mess.** “Will it spill over into the commodity pits? Think of how much more money it takes to run agriculture from a working capital point of view when commodity prices double. Will the banks have the funds and will agribusiness have the balance sheets to handle the increased need for credit?”

Coming up with a “most important” issue or event for 2008 is much more difficult than reviewing last year, says AFBF's Stallman. “Timely implementation of a new farm bill, agriculture labor shortages, shake-out in the ethanol industry, attacks on livestock production by animal welfare activists, and, given tight crop markets, the effects of the inevitable weather disaster somewhere! **But maybe the most important issue is the direction American voters will take the country in November.”**

Preliminary plans for Farm Bill conference

Prior to the Holiday break, Senate and House staff started talking about how to reconcile their respective versions of the farm bill and members also had an informal meeting. Since then, the latest development is that the actual legislative language as passed by the Senate is nearly done, and will soon be posted on the Senate Agriculture Committee's web site, says a committee spokesperson. House Ag Committee Chair Collin Peterson believes much of the Farm Bill can be worked out informally before lawmakers return to Washington. The House is scheduled to return from the holiday recess on Jan. 15 and the Senate on Jan. 22.

“The (Senate) added 151 amendments to the (farm bill),” Peterson said. “We have about 500 pages in our bill. The Senate has 1,600 in their bill. My guess is that most (of the amendments) are parochial things, unrelated things,” he told the *Redwood Falls Gazette* last week. **“We have agreed to the target date for finishing (reconciliation) by Feb. 1,”** he added.

Administration banks heavily on conference to change farm bill

There's a long list of features of the House and Senate farm bills that the Bush Administration opposes quite strongly – higher loan and target prices for program crops and sugar, higher milk payments, prohibitions on packers owning livestock, farm credit and food aid changes among

them. No single one of the many policy or program changes by itself appears likely to justify a presidential veto, but both bills' reliance on new revenue to offset cost increases emerges as the one feature that could persuade President Bush to veto a bill even if it created political risk for Republican congressional candidates.

Remarks by Acting Secretary of Agriculture Chuck Conner in public forums and his comments to reporters at a USDA briefing Dec. 20, along with a fresh reading of the official administration statements on each bill, **lead to the conclusion that new revenue-raising features alone are enough to draw a veto.**

The administration's adamant position on taxes puts conferees in a tough spot. Removing new revenue would make it difficult to offset the cost of conservation, renewable energy, specialty crop and nutrition programs. But the administration's veto threat will be its big stick when conferees meet later this month –possibly big enough to convince them to backtrack significantly from major elements in the two bills.

“The conference is always the important part of the farm bill debate,” says Conner, who has been involved in farm bill conferences since 1985, first as a Senate staff member and in 2002 as the White House staff representative. “It’s going to require fundamental changes in the direction the bills are headed,” Conner says, including the adoption of more reform of commodity programs. “We have not written off the possibility of reform in the farm bill,” he adds. Although it would require a major rewrite of Title I commodity program language, he says, “I still think we can get there. When you consider the breadth of these bills, they have the ability to do almost anything they want.” In today’s Congress, the flexibility of conferees is constrained mostly by what can muster political support. “The report has to be approved by both houses,” Conner observes. “They can’t ignore the sentiment in either body.”

The administration also will argue for changes in commodity programs so as to minimize the likelihood that they will be found to contravene U.S. obligations under World Trade Organization agreements. “I feel very strongly that we should not increase distortions,” Conner says. “The administration’s recommendations took away a lot of distortions but gave back in higher direct payments.” Even as he firmly advocates policy change for domestic and trade reasons, taxes still loom as the biggest obstacle. “The president relies on the advice of his senior advisers,” Conner points out. “There is a clear consensus that if the bill includes additional taxes and lacks reform, we are going to recommend he veto it. **Farm bills are not about taxes. These taxes need to come out to avoid the recommendation for a veto.**”

During the media briefing, **Conner also cited USDA’s progress – although in some cases not as much as he’d like to see – on a national livestock trace-back system, prevention of avian influenza and bovine spongiform encephalopathy and control of citrus canker.** He also expressed satisfaction that Mexico, the Philippines, Russia and Egypt had recognized international standards for resuming beef trade but said Japan and Korea still applied “totally unacceptable” standards. With “strong consumer demand in those countries for high quality beef,” he said the U.S. had sold both a sizable amount despite the obstacles.

Although higher feed costs are challenging for livestock and poultry producers, Conner is optimistic that supplies will be adequate. **“As I look out over the horizon at the technology, 160 bushels an acre of corn is not a plateau,”** he says. “We can march that figure right on up” with new varieties that someday could contain up to 11 biotech traits stacked in a single variety. “We have acknowledged all along that 2007 and 2008 are going to be watershed years. We are

feeding a little more corn than a year ago.” He expects corn and soybean supplies will keep up with demand, even if the cost is higher, and livestock feeders will continue to make more creative use of biofuels distillers dried grain byproducts. “The market is sorting through this,” he says. “This is a rough patch period for them but we are going to get through it.”

Presidential veto threat: Bad political strategy or not?

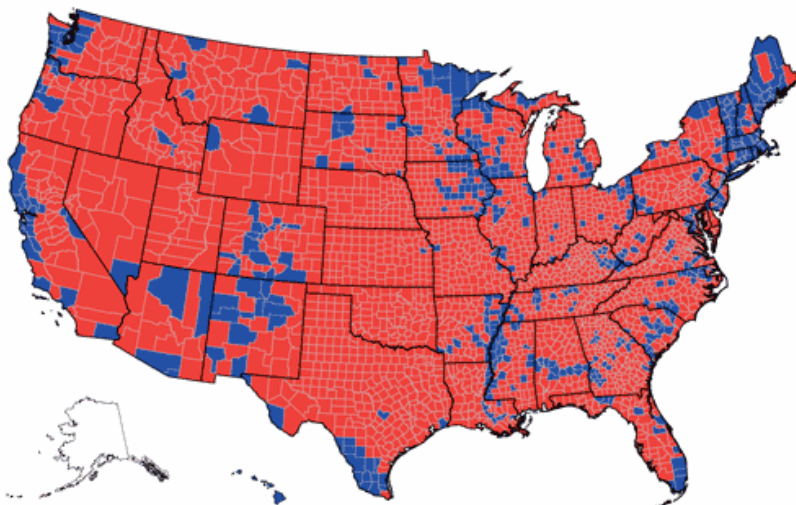
Acting Agriculture Secretary Chuck Conner continues to talk up the farm bill veto threat, **much to the dismay of Congressional Democrats and a quite a few members of his own political party.** For months, Conner complained that the Farm Bill cannot raise taxes or increase crop support rates, or even deliver program benefits to some of the nations’ wealthiest. In recent speeches, Conner has been adamant about the need to deny farm program benefits to people with an adjusted gross income above \$200,000.

But with the Senate’s seemingly veto proof 79-14 vote for the farm bill, most veteran farm bill lobbyists say Conner is simply **ratcheting up the rhetoric to appear that this Administration will play a role in negotiating the final farm bill package.** Some lobbyists say the Bush Administration is cherry-picking issues where they think they can make a difference and claim some kind of victory. Conventional wisdom is that President Bush will not veto a bill that could be politically popular in farm states as well as provide billions to food and nutrition interests.

"If other interested parties outside the farm groups had a big problem with the bill, the Administration's threat would carry more weight," noted one veteran farm lobbyist. "But conservation, nutrition, and specialty crop groups are on board because of increases in funding for their programs. This has broadened political support for the bill well beyond the farm belt. **Objections based only on farm policy and WTO concerns just won't hunt with Congressional Republicans who are up for election in 2008.**"

Indeed, House Agriculture Committee **Chairman Collin Peterson recently predicted that Democrats would get a boost at the polls next year if President Bush follows through with his threatened veto of agriculture legislation.**

“If you want to turn the whole center of the country blue, that’s a good start,” he said during a recent speech in Washington, D.C.



Yet, conventional wisdom could be wrong---if you look at the 65 million rural voters who overwhelmingly supported President Bush in 2004. **By focusing on 2-3 issues that resonate with smaller farmers and fiscally conservative voters, the President may be able to veto the farm bill without political damage and potentially some gain.** The map above shows the rural vote, by county in 2004, with

residents in red counties voting Republican and blue counties voting for Democrats.

Take the issue of targeting farm program payments to small or mid-size farmers. The 2006 Farm Foundation National Public Policy Education Committee (NPPEC) survey of 15,000 farmers in 27 states found strong support for this type of targeting. Only the nation's largest farm operations were neutral or negative on the proposal, representing somewhere between 80,000 and 200,000 votes---depending on your definition of "large."

And on the issue of raising taxes, the President will likely build support among fiscal conservatives who live in rural areas as well as those farm operators who have enjoyed another banner income year and will be looking to minimize taxes.

"The net effect of a farm bill veto may not be as detrimental as many are predicting," adds another lobbyist with strong GOP ties. "Sure it's uncomfortable, because the Administration is driving a wedge in the heart of the regional compromises that are holding the bill together."

And what about the impact on House and Senate races? **You can envision how Democrats might play the veto back in GOP attack ads this fall,** especially in some of the most vulnerable districts where members serve on the House Agriculture Committee.

Yet, some of the most venomous opposition to the Senate farm bill thus far comes from groups with traditional Democratic ties. The Center for Rural Affairs, for example, blamed Senator Kent Conrad (D-ND) for voting against the Dorgan-Grassley payment limit amendment and flip-flopping on the issue from previous votes. **"The farm bill shaped by Conrad does keep federal dollars flowing to our region – but in a manner that destroys family farming and undermines rural communities. It does not deserve our support,"** wrote the Center's Director Chuck Hassebrook in a recent letter to the Fargo (ND) Forum.

The safest bet for the White House would be to win concessions during conference that pass their self-imposed "litmus test" and sign the bill. But given the President Bush's recent willingness to "just say no," it won't be a surprise if the first pass out of conference gets axed by the veto pen.

Ultimately, the President's decision to sign or veto a new farm bill could rest not only on what comes out of conference **but on possible extraneous matters that are difficult to predict, such as an underlying desire to make his tax cuts permanent or cut new global trade deals.** In 2002, then Chairman Larry Combest persuading Bush to sign the farm bill by threatening to oppose Trade Promotion Authority, which the President wanted a lot more. Are there other things that President Bush has on his 2008 "wish list" that farm bill conferees could dangle?

New appropriations, farm bill extension approved for USDA

President Bush recently signed the omnibus appropriations bill into law, ending a months-long impasse with congressional Democrats. The fiscal 2008 omnibus appropriations bill, H.R. 2764, that Congress cleared Dec. 19, provides \$473.5 billion in discretionary money spread across 11 of the 12 regular spending bills for the year (Defense package was signed earlier). The measure also provides an additional \$11.2 billion in emergency appropriations, which would be exempt from budgetary caps.

The package includes funding for the USDA and its agencies through September 30, 2008 and extends most of the authorities of the 2002 Farm bill to March 15. The disaster assistance eligibility date was also extended from Feb. 28, 2007 through Dec. 31, 2007.

The Food Safety and Inspection Service's (FSIS) budget was one of the few agencies whose budget was not cut by the 0.7% that all other agencies faced. FSIS's budget is \$930.1 million, \$38 million above 2007 and matches the President's request, addressing vacancies in federal meat inspector positions. **The pilot project for a Risk-Based Inspection system was halted, as well as a rule allowing poultry products to be imported into the U.S. from China.** The Grain Inspection, Packers and Stockyards Administration's budget was increased \$1 million for increased enforcement of the Packers & Stockyards Act,

Spending on the Women, Infants and Children (WIC) program would rise to \$6 billion, a figure that includes \$400 million in emergency spending. The WIC total is \$816 million more than appropriated for 2007, and \$633 million more than Bush requested.

The Food and Drug Administration would receive \$1.7 billion in fiscal 2008 — about \$143 million over fiscal 2007 levels and \$76 million more than requested. The bill would allocate \$930 million to the Food Safety and Inspection Service, an increase of \$38 million over 2007, which appropriators said was intended to address vacancies in meat inspector positions. The Commodity Futures Trading Commission would receive \$111 million under the omnibus, which is \$13 million above its fiscal 2007 budget, for additional enforcement staff and other needs. As requested by the President, The bill also provides for **\$11.2 million in new spending to detect potential waste, fraud and abuse in crop insurance and farm loan programs.**

The bill would fund renewable-energy research and development at \$847 million, which is \$617 million above fiscal 2007 and more than double the president's request. Conservation programs would receive \$938 million, about \$43 million less than in the House-passed bill. Rural development funding would be reduced by \$116 million from fiscal 2007, while technology upgrades in rural areas would see slightly more money than in the House-passed bill.

A closer look at the new energy bill

On Tuesday, Dec. 18, President Bush signed into law the Energy Independence and Security Act of 2007---**a measure that could easily have as much or more impact than the new farm bill.** The use of renewable fuels, including ethanol, biodiesel, and cellulosic renewables, is now scheduled to increase from 9 billion gallons in 2008 to 36 billion gallons by 2022, of which 15 billion gallons will be corn-based. This new law also aims to reduce U.S. oil demand by setting a national Corporate Average Fuel Economy (CAFÉ) standard **of 35 miles per gallon by 2020** and studies the feasibility of ethanol pipelines, higher blend levels and the optimization of flex fuel vehicles.

This new law updates the volume of renewable fuels required in 2008 and creates a new 36 billion gallon program beginning in 2009 through 2022, according to Larry Schafer, National Biodiesel Board (NBB). The program creates side-by-side **minimum use requirements** for the following technologically neutral classes of renewable fuels, according to NBB:

The schedule is as follows:

<u>Year</u>	<u>Volume in billions of gallons</u>	<u>Conventional Biofuels</u> (may include biodiesel)	<u>Advanced Biofuels</u>	<u>Cellulosic Biofuels</u>	<u>Biomass-Based Diesel</u> (biodiesel is eligible)	<u>Undifferentiated</u>	<u>Total Biodiesel Potential</u> (biodiesel is eligible)
						<u>Advanced Biofuels</u> (biodiesel is eligible)	
2006	4.000	4.000					
2007	4.700	4.700					
2008	9.000	9.000					
2009	11.100	10.500	0.600		0.500	0.100	0.600
2010	12.950	12.000	0.950	0.100	0.650	0.200	0.850
2011	13.950	12.600	1.350	0.250	0.800	0.300	1.100
2012	15.200	13.200	2.000	0.500	1.000	0.500	1.500
2013	16.550	13.800	2.750	1.000	≥1.000*	0.750	1.750
2014	18.150	14.400	3.750	1.750	≥1.000*	1.000	2.000
2015	20.500	15.000	5.500	3.000	≥1.000*	1.500	2.500
2016	22.250	15.000	7.250	4.250	≥1.000*	2.000	3.000
2017	24.000	15.000	9.000	5.500	≥1.000*	2.500	3.500
2018	26.000	15.000	11.000	7.000	≥1.000*	3.000	4.000
2019	28.000	15.000	13.000	8.500	≥1.000*	3.500	4.500
2020	30.000	15.000	15.000	10.500	≥1.000*	3.500	4.500
2021	33.000	15.000	18.000	13.500	≥1.000*	3.500	4.500
2022	36.000	15.000	21.000	16.000	≥1.000*	4.000	5.000

* Administrator determines minimum use allocation for "biomass-based diesel"

The schedule, for calendar years after the calendar years specified in the tables will be established by the Administrator of EPA in coordination with the Secretary of Energy and the Secretary of Agriculture. Here's how the definitions shake out:

Biodiesel:

- The program creates a minimum use requirement for "biomass-based diesel" which is a technology neutral classification, and includes biodiesel (conventional biofuels, cellulosic biofuels, and co-processed renewable diesel do not qualify as "biomass-based diesel").
- The program also creates a larger minimum use requirement for an "advanced biofuels" category, referred to in the table as "Undifferentiated Advanced Biofuels", which creates a larger pool, and is again technology neutral (conventional biofuels do not qualify for this category). In order to qualify for either program, the fuel must meet the 40-50% lifecycle greenhouse gas emission requirement, as compared to the baseline greenhouse gas emissions of the fuel being replaced.

Conventional Biofuels

- Renewable fuel that is ethanol derived from corn starch
- The renewable fuel produced from facilities that commence construction after the date of enactment achieves a 20% reduction in greenhouse gas emissions compared to baseline lifecycle greenhouse gas (ghg)emissions. The 20% ghg emissions number may be adjusted to a lower percentage if the Administrator determines it is not feasible for fuels using a variety of feedstocks, technologies, and processes to meet the applicable reduction; however the reduction may not be reduced below 10%

Advanced Biofuels:

- Renewable fuel other than ethanol derived from corn starch, that is derived from renewable biomass and has lifecycle greenhouse gas emissions, as determined by the Administrator that are at least 50% less than baseline greenhouse gas emissions. This term includes “cellulosic biofuels” and “biomass-based diesel”. The 50% ghg emissions number may be adjusted to a lower percentage if the Administrator determines it is not feasible for fuels using a variety of feedstocks, technologies, and processes to meet the applicable reduction; however the reduction may not be reduced below 40%
- The schedule for Advanced Biofuels, includes the schedule for Cellulosic Biofuels, Biomass-Based Diesel, and Undifferentiated Advanced Biofuels

Cellulosic Biofuels:

- Renewable fuel derived from any cellulose, hemicellulose, or lignin that is derived from renewable biomass and that has lifecycle greenhouse gas emissions, as determined by the Administrator, that are at least 60% less than the baseline lifecycle greenhouse gas emissions. The 60% ghg emissions number may be adjusted to a lower percentage if the Administrator determines it is not feasible for fuels using a variety of feedstocks, technologies, and processes to meet the applicable reduction; however the reduction may not be reduced below 50%

Biomass-Based Diesel:

- Renewable fuel that is biodiesel as defined in section 312(f) of the Energy Policy Act of 1992 (42 USC 13220(f), which according to the Environmental Protection Agency (EPA) is, a diesel fuel substitute produced from nonpetroleum renewable resources that meets the registration requirements for fuels and fuel additives established by the EPA under section 7545 of the Clean Air Act"
- Is derived from renewable biomass and has lifecycle greenhouse gas emissions, as determined by the Administrator that are at least 50% less than baseline greenhouse gas emissions.
- The 50% ghg emissions number may be adjusted to a lower percentage if the Administrator determines it is not feasible for fuels using a variety of feedstocks, technologies, and processes to meet the applicable reduction; however the reduction may not be reduced below 40%
- Does not include the co-processing of biomass with a petroleum feedstock, which is classified as an “advanced biofuel.”

Undifferentiated Advanced Biofuels:

- Renewable fuel other than ethanol derived from corn starch, that is derived from renewable biomass and has lifecycle greenhouse gas emissions, as determined by the Administrator that are at least 50% less than baseline greenhouse gas emissions. This term includes “cellulosic biofuels”, “biomass-based diesel” and “co-processed renewable diesel”.
- The 50% ghg emissions number may be adjusted to a lower percentage if the Administrator determines it is not feasible for fuels using a variety of feedstocks,

technologies, and processes to meet the applicable reduction; however the reduction may not be reduced below 40% .

Waiver Provisions:

- Generally, the program can be waived by the Administrator on his own motion, or after “one or more States” petition for a waiver and it is approved by notice and comment.
- Cellulosic Biofuels - additional waiver provisions if the minimum volume requirements are not met
- Biomass-Based Diesel – specific waiver provisions if EPA, in consultation with DOE and USDA, determine there is a significant renewable feedstock disruption or other market circumstances that would make the prices of Biomass-Based Diesel fuel increase significantly

Study of Impact of Renewable Fuels Standard:

- The National Academy of Sciences shall conduct a study to assess the impact of this program on each industry relating to the production of feed grains, livestock, food, forest products and energy

Environmental and Resource Conservation Impacts:

- EPA, DOE and USDA shall assess and report to Congress on the impacts and likely future impacts of this program on environmental issues, resource conservation issues, the growth and use of cultivated invasive or noxious plants and their impact on the environment and agriculture.
- EPA shall complete a study to determine whether renewable fuel volumes required by this section will adversely impact air quality as a result of changes in vehicle and engine emissions

Lenders debate: Who can best finance renewable energy?

Shortly after the new energy bill was signed into law, the banking industry and the Farm Credit System were still fighting over which lenders are best qualified to finance the construction of new ethanol plants and help build the industry. The Farm Credit Council financed a report last fall, which indicated that community banks do not have the lending capacity, expertise, or willingness to take on the risk for loans needed to build ethanol plants. Last week, the American Bankers Association and the Independent Community Bankers issued a report they financed, saying that banks contributed 56% of the financing for ethanol plants since 2004, or more than \$8.4 billion. By contrast, Farm Credit lenders contributed 8%, according to the study conducted by New Energy Finance Ltd. in Washington, D.C. Ironically, both individual banks and the Farm Credit System partner on many loans, but that’s not evident in these reports.

For a copy of the banker’s report, go to:

<http://www.icba.org/files/ICBASites/PDFs/ethanolindustryreport1207.pdf>

EPA proposal exempts livestock from reporting emissions

Shortly before the holidays, the Environmental Protection Agency (EPA) delivered an early Christmas present to the livestock industry and thousands of emergency responders. The agency proposed that **livestock farms be exempt from reporting non-emergency emissions associated with livestock waste, primarily ammonia and hydrogen sulfide, from animal waste at farms.** Release notifications must still be made to emergency response authorities when hazardous substances are released to the air from sources other than animal waste (e.g., ammonia tanks), as well as releases of hazardous substances to soil and water. Under Federal National Contingency Plan (NCP) regulations, farms and other facilities are required to report any releases of hazardous substances above an EPA-established level to the Coast Guard National Response Center and state and local emergency response authorities. However, EPA may grant an exemption under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, also known as Superfund) and the Emergency Planning and Community Right-to-Know Act (EPCRA). Agency officials said it is unnecessary to respond to such reports from livestock operations and several livestock groups wholeheartedly agreed.

“The Environmental Protection Agency has wisely proposed to grant to poultry farmers a narrowly tailored exemption from rules that would otherwise require them to report ‘emissions’ that are actually nothing more than the normal consequences of livestock and poultry operations,” noted the National Chicken Council, National Turkey Federation, and U.S. Poultry & Egg Association in a joint statement. **“The fact is that chickens and turkeys, like cattle, produce ammonia in small concentrations as their wastes biologically degrade. These are not the industrial emissions that are regulated by the law.”**

Several environmental groups criticized the decision.

"Once again Bush's EPA is poised to put polluters before public health," said Ed Hopkins, Director of the Sierra Club's Environmental Quality Program, in a statement. "Despite the fact that some of these factory farms release more ammonia than large industrial facilities, the EPA is set to give them free reign to pollute."

A public comment period continues through late March. For more information on this proposed rule: http://www.epa.gov/emergencies/content/epcra/cercla_dec07.htm

USDA rolls out business plan for animal identification

Under fire from lawmakers for lack of progress and accountability, USDA officials released its draft of a Business Plan, detailing how agency officials plan to reach the 48-hour trace-back goal outlined in the National Animal Identification System (NAIS). The draft plan provides a comprehensive look at the country's current traceability status, including a breakdown by species. It details seven strategies that will provide the greatest amount of traceability progress in what USDA officials describe as “a short amount of time” and establishes a timeline for implementing each strategy and specific outcomes. For example, USDA plans to be able to identify 90% of the premises for horses that move to events by January 2009 identify the premises for 70% of the beef and dairy breeding animals by December 2009. The strategies:

#1: Prioritize NAIS Implementation by Species/Sectors

#2: Harmonize Animal Identification Systems

#3: Standardize Data Elements of Disease Programs to Ensure Compatibility

#4: Integrate Automated Data Capture Technologies with Disease Programs

#5: Partner with States, Tribes, and Territories

#6: Collaborate with Industry

#7: Advance Identification Technologies

Some of the strategies are already underway, such as cooperative agreements with various industry groups to promote premises registration. Other strategies, such as those to prioritize species, are more refined and targeted. For example, USDA specified that Tier 1 species includes the primary commercial food animal industries – cattle, poultry (chickens and turkeys), swine, sheep, goats and horses that, when moved, require either a test for Equine Infectious Anemia or a health certificate. All other livestock and poultry are Tier 2. Additionally, **sectors within the Tier 1 species have been prioritized, with beef and dairy breeding herds ranking highest.**

Since fiscal year 2004, USDA's Animal and Plant Health Inspection Service (APHIS) has received slightly over \$118 million to implement the NAIS, with about \$33 million per year from appropriated funds. Yet critics point out that there is little to show for the investment, with only about 440,000 premises registered as of the end of last year and millions of animals that do not meet the 48-hour trace-back goal.

Even though USDA officials may have sufficient funds to continue the program in fiscal 2008, lawmakers decided to cut the fiscal 2008 budget by \$23.4 million from 2007 levels, and deny the small increase sought by the administration. **“The budget did not provide adequate A-justification for the requested increase,”** the Appropriations Committee said in a statement.

The draft plan was published in the Dec. 19 Federal Register and is available on the National Animal Identification System Web site at www.usda.gov/nais. Comments on the plan or other aspects of the system can be provided by sending an e-mail to animalidcomments@aphis.usda.gov or by writing to the National Animal Identification System program staff, USDA, APHIS, VS, 4700 River Road, Unit 200, Riverdale, MD 20737.

2008 – A Bright New Year for New Crops/New Uses

A perfect storm of political, economic, energy, national security, human health, and environmental concerns could make 2008 the year of New Crops/New Uses – a year in which U.S. and Canadian farmers see their struggling experiments with crops from castor and crambe to industrial hemp and taxol capture dependable markets and solid profits.

What's changed? It's ten years ago that President Clinton signed a key Executive Order ordering federal agencies to comply with “policies for the acquisition and use of environmentally preferable products and services and implement cost-effective procurement preference programs favoring the purchase of these products and services.” The result: ten years later, USDA has compiled a list of “BioPreferred products.” This growing list includes bio-based diesel fuel additives, hydraulic fluids, lubricants and roof coatings – and government agencies are required to give preference to these high-performance, price-competitive products.

The BioPreferred list alone might not mean much. But the list's release coincides with:

- Political concerns which have flipped President Bush from dismissing climate-change concerns to insisting in his year-end press conference that "I take the issue seriously. . . And we're developing a strategy that will deal with it, and an effective strategy."
- Heightened energy concerns with crude oil prices stuck over \$90 a barrel.
- National security concerns related to heavy U.S. dependence on importing oil from the troubled Middle East.
- Human health and environmental concerns related to world-wide pollution blamed on using coal and petroleum for transportation fuels, power plants, plastics, clothing, etc.

This combination has produced today's "perfect storm" says Bill Holmberg, the long-time renewable resources champion who chairs the influential Biomass Coordinating Council of ACORE (The American Council on Renewable Energy). Holmberg credits this perfect storm with winning bipartisan support for the new Energy Bill which President Bush signed into law Dec. 20. Holmberg explains that

"Energy has become the de facto currency of the world and using our renewable biomass resources to reduce our reliance on imported fossil fuels is a critical part of our society advancing.

Our renewable new-wealth industries present us with an extraordinary opportunity."

Ron Buckhalt, Projects Director for Biobased Products at USDA's Agricultural Research Service, agrees. As he works on adding more new uses products to USDA's BioPreferred list, Buckhalt sees a bright future not only for the steadily increasing ethanol and biodiesel use mandated by the 2007 Energy Bill but also for lower-volume, higher-value products like high

performance specialty lubricants, PLA (corn-based polylactic acid) biopolymers, cleaning products, and soy-based foam insulation. Buckhalt says green products are here to stay because **"There's a realization that you can pay me now or pay me later.** You can, for example, spend a reasonable amount for a green cleaning product and have a healthy work force, or you can continue to use harsh chemicals and you are going to have a lot of sick days that you wouldn't have. And that affects not only the maintenance people who clean, but also those of us who work in buildings that have been cleaned with harsh chemicals."

Biobased Resources

- Whether you want to list your own biobased product with USDA, see the USDA's current list of BioPreferred products, or simply learn about the program, visit: <http://www.biopreferred.gov>
- To read the Nov. 7, 2007 "Federal Acquisition Regulation Provisions and Clauses for Purchasing Biobased Products." visit: http://ofee.gov/whats/20071107_BiobasedFARfinalrule.asp These latest provisions require that "agencies must consider purchasing biobased products when doing acquisition planning and describing their needs."
- Put **WIREC 2008** on your calendar: The U.S. Department of State, in cooperation with USDA, EPA, Interior and DOE, will host the Washington International Renewable Energy Conference (WIREC 2008) at the Washington Convention Center in Washington, DC on March 4-6, 2008, assisted by the American Council on Renewable Energy (ACORE). WIREC 2008 is the third global ministerial level event on renewable energy policy. Details at: <http://www.americanrenewables.org/>

U.S. rice industry on track for normalizing trade with Europe

In a victory for the U.S. rice industry, the European Union (EU) decided to remove the requirement for mandatory testing of U.S. long-grain rice for the presence of genetically engineered (GE) traits at the first point of entry. Mandatory testing was required after the

August 18, 2006, announcement that trace amounts of genetically engineered Bayer CropScience Liberty Link (LL) rice were found in the U.S. commercial supply.

“Removing mandatory destination testing in the EU is the single most important step necessary for the restoration of the EU market for U.S. long-grain rice,” USA Rice Chairman Al Montna said in a statement. “Destination testing creates tremendous risk and uncertainty for U.S. shippers and EU customers and, as a result, has had the effect of slowing trade to a trickle.”

The decision by the Standing Committee of the Food Chain and Animal Health — which could come into effect as early as mid-January, 2008 — followed the recommendation by staff of EU Health and Consumer Protection Directorate General. Exports of U.S. long-grain rice to the EU were 282,000 metric tons (MT) in the 2005/06 marketing year prior to the discovery of the LL traits, according to USA Rice. Exports were 50,000 MT in 2006/2007.

Farm Hands on the Potomac By James C. Webster

Martin Sorkin, a legend in agricultural policymaking, died here Dec. 9 after a short illness. He was 96. Sorkin was USDA chief economist during the Eisenhower Administration and had been an influential consultant for Archer Daniels Midland and others since leaving government in 1961. He was a mentor for many USDA and congressional staff, lobbyists and analysts and influenced many commodity policy decisions. He had a key role in the formative years of the Food for Peace Program, once relating how the late Secretary of Agriculture **Ezra Taft Benson** assigned him to facilitate the decision by **President Eisenhower** in early 1964 to increase PL-480 wheat purchases to stimulate the market ahead of the November election. Sorkin recalled how he had wrestled with an inter-agency committee of lower-level officials of other agencies who would not sign off on new USDA purchases until after the election. Later, he would give greenhorns at USDA a valuable tip: just before they were to meet a member of Congress, check that day’s weather and major commodity prices in the member’s state or district. That kind of knowledge let the member know that they understood at least some the pressure he or she felt back home.

New director of external affairs at USDA Farm Service Agency: **Patricia P. Klintberg**, who’s been director of constituent affairs in the Office of Communications. She succeeds **Richard Jefferson**, now senior director of public relations for the Association of Equipment Manufacturers in Milwaukee. Klintberg was Washington editor of *Farm Journal* from 1996 until 2001 after seven years covering Washington for Farm Journal Publishing’s *Beef Today*, *Hogs Today* and *Dairy Today* and an earlier term as Washington editor of *Doane’s Agricultural Report* newsletter . . . FSA named **Richard Renegar** of Iredell County, N.C., to the North Carolina FSA State Committee. Renegar, whose family partnership has a crop farm and a cow-calf and hog finishing business, also owns a farm equipment dealership.

Deanna Tanner Okun, an eight-year member of the U.S. International Trade Commission and one-time counsel to former Sen. **Frank Murkowski**, R-Alaska, was nominated last month to be deputy U.S. Trade Representative to succeed **Karan K. Bhatia**.

Patricia Healy, deputy chief financial officer since 1999, retires this week after 30 years in government. She joined USDA in 1998 after working at the Internal Revenue Service and the National Institutes of Health . . . Radio producer **Brenda Curtis-Heiken** retires after nearly more than 28 years at USDA.

After a year-long search, the Commodity Markets Council has named **Michael D. Walter** the first president under the name it adopted in December 2006 when it succeeded the long-time National Grain Trade Council. Walter, who has almost 30 years of experience at ConAgra Foods and General Mills, replaces **Jula J. Kinnaird**, who resigned in November 2006 to open her own consulting firm. Walter also will be president of the Transportation Elevator and Grains Merchants Assn. **Christine Cochran**, who's manned the fort at CMC for the past year, was promoted from director to VP government relations.

The U.S. Meat Export Federation has appointed **Jim Herlihy** VP information services. He was VP communications and public relations Swift & Co. in 2001-05, ran a public relations consulting firm . . . The International Dairy Foods Association promoted **Clay Hough** from senior VP to senior group VP and general counsel, **Neil Moran** from VP to senior VP of finance, administration and trade show, and **Robert Yonkers** from chief economist to VP economic analysis . . . **Courtney Schmidt**, stewardship coordinator for the Purdue College of Agriculture development office, was named communications director at the Conservation Technology Information Center, West Lafayette, Ind.

Everett Dobrinski, grain and oilseed producer from Makoti, N.D., has been elected chairman of \$47 billion CoBank, the Denver-based Farm Credit System lender, to succeed **J. Roy Orton** of Ripley, N.Y., who retired after five years as chairman and 13 years on CoBank's board. **Daniel T. Kelley**, chairman and president of Growmark, Bloomington, Ill., was re-elected first vice chairman and **Mary E. Fritz**, Chester, Mont., grain and cattle raiser, was elected second vice chairman to succeed Dobrinski.

USDA's National Agricultural Statistics Service presented the Cooperator of the Year Award to **Betsy Maixner**, manager of information services at the National Association of State Departments of Agriculture, for supporting its Census of Agriculture information and training efforts.

O.B. Goolsby Jr., president and CEO of Pilgrim's Pride, the largest U.S. poultry company, died Dec. 16, two days after suffering a massive stroke during a hunting trip with customers in south Texas. He was 60. Goolsby became CEO in 2004 after two years as COO and four as executive VP. He joined the Pittsburg, Texas-based company in 1969 at its distribution center in Mt. Pleasant, Texas . . . **Arley Lee Van Doren**, 68, a retired Illinois high school agriculture teacher, died Dec. 11 at an Alton, Ill., hospital of cancer. He was the father of **Terry Van Doren**, farm hand for Senate Republican Leader **Mitch McConnell**, R-Ky. . . . **Herman L. (Hank) Custer**, retired head of retirement and safety at the National Rural Electric Cooperative Assn., died Dec. 4 at his home in McLean, Va. He was 86.

Best regards,

Sara Wyant
Editor

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Russell Redding, Deputy Secretary, Pennsylvania Dept. of Ag

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