



# American Bakers Association

*Serving the Baking Industry Since 1897*

**ABA Band of Bakers March**  
**Washington D.C.**  
**March 2008**

## **ISSUE: CONSERVATION RESERVE PROGRAM**

### **Background:**

ABA is highly alarmed about current and future wheat availability and the impact of high wheat prices on wheat users, including consumers. A major contributor to the dangerously tight wheat supplies is the increasing pressure on arable farm land in the US, as Congress and the government encourage production of biofuels. At the same time, the USDA allows up to 39.2 million acres of crop land to be enrolled in the Conservation Reserve Program (CRP), with 34.6 million acres of US cropland currently left idle within the program. A significant portion of CRP acreage located in large wheat producing states. ABA believes that as much as one-third of acres under contract in the CRP could be returned to production without sacrificing environmental goals.

### **Baking Industry Impact:**

Wheat plantings have tumbled in the last 10 years, and the US now harvests fewer wheat acres than it did in 1898. In most years, US production of hard red spring wheat for bread is insufficient to meet total usage. USDA projects wheat stocks this year will be at their lowest level since the 1940s. Bakers are experiencing critical difficulties in obtaining flour, the key ingredient for their products. These higher raw material costs are also impacting consumers as grocery store prices for a wide range of staples have jumped precipitously.

### **ABA Position:**

ABA has held numerous meetings over the last eight months with USDA officials, including Secretary Mike Johanns, Acting Secretary Chuck Conner and current Secretary Ed Schafer, to express our mounting concerns regarding wheat availability. We continue to call on the Secretary to immediately use his authority to waive penalties for farmers wishing to follow market signals and return land retired through the CRP to production. ABA has also communicated with President Bush regarding the escalating wheat supply situation, and is seeking White House support for quick action to make more land available for production. In this regard, an Environmental Impact Statement (EIS) may be required prior to USDA action to grant early outs from CRP contracts. Since this step could take months to complete, ABA is urging USDA and the White House to begin work immediately on this project and to give it high priority status.

ABA is also urging USDA to increase the focus of land retirement through the CRP on only the most environmentally sensitive land, such as waterway filter strips and similar areas, which provide the best return on investment.

ABA strongly supports the newest congressional compromise proposal currently being considered by House and Senate farm bill conferees to cap the CRP at 32 million acres versus the current 39.2 million acres. While not a quick fix, ABA believes such action would send an important signal to the marketplace that additional acres will be available for future production.

## **ISSUE: ETHANOL PROGRAM: FOOD VERSUS FUEL**

### **Background:**

Ethanol as a gasoline additive is currently being used in the United States to increase gasoline's octane thereby improving vehicle efficiency and power. The nation's ethanol industry relies almost exclusively on corn-based ethanol to manufacture this "renewable fuel." There is also increasing research and development of cellulosic ethanol, which can be produced from a variety of feedstocks including switch grass, food and vegetation waste, wood chips, sugar and corn. Ethanol currently constitutes only a small fraction of the United States' fuel supply, but domestic production capacity has more than doubled since 2001. This trend is likely to continue as the 2007 "*Energy Independence and Security Act of 2007*" (Act) is implemented. The Act mandates new requirements for production of biofuels to 36 billion gallons in 2022 from 7.5 billion in 2012. The law defines "renewable fuels" as including ethanol produced from corn, sugar, switch grass, vegetation waste and biomass-based diesel.

This legislation created a foundation to lead the nation toward becoming more energy independent. Some have characterized this legislation as the start of the nation's "energy revolution," saying it will lead to a new national energy policy based on better efficiency, conservation measures and more reliance on renewable energies, such as solar, wind and ethanol. Concerns remain that this legislation will do little to change the nation's immediate fuel and energy challenges in the next three to five years. Further, the baking industry is already experiencing adverse consequences from the government's ethanol programs, as the baking industry's ability to continue bringing cost-effective products to the marketplace has been dramatically hindered by decreasing lands available for food crops.

### **Baking Industry Impact:**

The "*Energy Independence and Security Act of 2007*" mandates increasing national biofuels production to 36 billion gallons by 2022, with approximately 15 million gallons coming from corn-based ethanol. This has the potential to continue impacting the baking industry's grain commodity prices. USDA stated in January that the nation's 2007 corn crop was one for the record books, with 13.1 billion bushels of production eclipsing the previous high, set in 2004. This corn crop is being used for ethanol production, which, according to USDA, by 2017 is expected to represent only 8.5 percent of the annual gasoline use in the US. Further, if projections are correct and there is an increased demand for corn-based ethanol, other grains, including wheat, may be in short supply.

### **ABA Position:**

ABA supports increasing the use and development of alternative fuels to improve the nation's energy efficiency. Such policies should ensure a balance between alternative fuel production and the ability to provide consumers with reliable and affordable baked products.

In order to provide this critical balance between food and fuel, ABA urges Congress to include a clear mechanism to periodically evaluate the nation's grain situation in cases of projected food shortages or

drastic consumer price increases, adverse weather conditions, environmental challenges, infrastructure bottlenecks or other adverse consequences. ABA also urges EPA, in consultation with the USDA and Energy Department, to use its authority granted in the “*Energy Independence and Security Act of 2007*” to waive yearly renewable fuel standard requirements as ABA believes these standards currently “severely harm the economy of ...the U.S.,” as domestic supplies are not adequate to meet these standards.

In addition, ABA supports Federal Reserve Chairman Bernanke’s proposal to eliminate all tariffs on ethanol from other countries to help alleviate pressure on U.S. food prices.

## **ISSUE: WHEAT AVAILABILITY AND PRICES**

### **Background:**

Wheat availability has sharply decreased while prices have sharply increased since the last quarter of 2007. This has happened for multiple reasons, including increases in consumption of grains and meat in developing countries and the devaluation of the dollar, as well as weather events.

Government has also played an important role in the decrease of domestic wheat availability and the corresponding sharp increase in wheat prices. The USDA Conservation Reserve Program takes viable acres out of production by offering farmers incentives not to produce crops on their land, while the government ethanol program encourages farmers through special subsidies and incentives to grow food crops for alternative fuel purposes. This combination of tightening supplies of arable land, coupled with increased incentives for biofuels, has played a key role in igniting the current commodity crisis.

### **Baking Industry Impact:**

The CRP and the new ethanol program provisions passed in December 2007, coupled with current USDA policies regarding domestic wheat supply, have led to the current commodity crisis. While USDA reports that wheat production in the U.S. is expected to increase, they also project that any increase will be “more than offset by increased use and trade prospects” and that “global ending stocks of wheat are projected to be the lowest in 30 years.”

In past years, U.S. wheat stocks have averaged a three-month supply. Today, these wheat stocks are dangerously low. Current estimates have wheat stocks at twenty-seven days, over two-thirds lower than average supplies. The hard red winter (HRW) wheat stocks-to-use ratio (carryover stock for any given commodity as a percentage of the total demand or use) is estimated at 12% at the end of the 2007/08 crop year; levels last reached this low in 1946/47. Soft red winter (SRW) wheat stocks-to-use ratio is estimated at 7%, the lowest it has been in the past 20 years. This means that when the marketing year ends, the U.S. will have roughly between twenty-six and twenty seven-days worth of wheat supply, spread out in every stage of production, from the farm, the elevator, an export terminal, a flour mill or in some form of transportation.

Low wheat stocks are an enormous problem for the baking industry. Low stocks mean a higher price for flour and other ingredients used in producing baked goods for consumers. Recent statistics show that

the cost of flour in one loaf of bread is roughly thirty-six cents. In February 2006, flour cost was only ten cents a loaf. Consumers are currently paying eleven cents more per loaf of bread than last year, meaning fifteen cents is lost in the process: bakers are absorbing these costs, draining opportunities for expansion and growth! This statistic does not take into account other drastic increases in production costs, including costs of transportation, energy, health care for employees and wages. Even though bread prices have only modestly increased, the costs of doing business in the baking industry have dramatically risen.

Bakers are being forced to make tough business decisions. As prices rise due to low wheat stocks/supply, some are cutting back on production or cutting jobs in their plants, or, in a worst case scenario, going out of business. None of these scenarios are good news for the economy.

### **ABA Position:**

ABA strongly believes that the federal government and Congress should carefully consider the needs of the domestic food industry first when supplies of wheat and other commodities drop to dangerously low levels. Not doing so places unnecessary risk on the U.S. food supply as well as undue burdens on consumers. Low commodity stocks in the U.S. leave too much to chance, as even a slight weather or transportation problem could lead to possible serious global food shortages.

### **SUMMARY:**

These proposals were shared with members of Congress, the USDA and the White House on Wednesday, March 12, 2008, during the Band of Bakers March in Washington DC. ABA and participants of the 'Bakers March' met with over 45 members of Congress, USDA officials, including Secretary Ed Schafer, Deputy Chief of Staff Dave Johnson, Under Secretary Research, Education & Economics Dr. Gale Buchanan and Deputy Undersecretary for Farm and Foreign Agriculture Services Floyd Gaibler, and Senior level White House officials, including Deputy Assistant to the President for Strategic Initiatives and External Affairs Brian V. McCormack and National Economic Council Agriculture Advisor Hunter Moorehead.

It is important to note that there is no one fix for the current commodity crisis. ABA believes, though, that steps can be taken to help stabilize commodity markets, give wheat users increased confidence about supply availability, and importantly, provide some relief for consumer concerns about escalating food prices. Lowering the total number of acres in the Conservation Reserve Program by one-third will allow farmers to respond to current market conditions calling for increased production of wheat and other commodities. Revisiting the food for fuel ethanol program as well as implementing a mechanism to periodically evaluate the program's impact on the nation's commodity supply will ensure a better balance between food and fuel production, benefiting the entire food chain, including consumers. Finally, ABA urges the government to be ever vigilant and responsive to the needs of the domestic industry when supplies of wheat drop below the three-month stocks average.

If you have any questions regarding issues presented in this issue brief, please contact Cory Martin, ABA Federal Government Relations Manager, by phone (202) 789-0300 or email ([cmartin@americanbakers.org](mailto:cmartin@americanbakers.org)).