APAC Agricultural Policy Analysis Center
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PolicyPennings by Dr. Daryll E. Ray

National Grain and Feed Association decry possibility of profitable corn prices

For the better part of the last two decades, corn farmers have been researching, promoting, lobbying for, and investing in ethanol production for one reason—chronic low corn prices. The low prices are the result of the farmers' ability to produce more corn than the market demands at a profitable price in a typical year.

The goal of corn farmers in promoting ethanol was to develop an alternative market for their corn that would sop up the extra production and lift corn prices to more profitable levels. Even with a number of ethanol plants coming on line and more in the planning stage, the Monday, September 25, 2006 Watonwan Farm Service Welcome, Minnesota cash price for corn was $2.05 for September delivery—in the same price range farmers saw 20 years earlier.

Keep this in mind as we tell you about the September 13, 2006 House Committee on Agriculture testimony given by Mike Malecha on behalf of the National Grain and Feed Association (NGFA). Malecha said, "Make no mistake, if current biofuels investment trends continue, the United States will experience lower average stocks for grain and comparatively higher prices for corn and other grains as crops compete for available resources."

Isn't this exactly why corn farmers have been promoting ethanol—higher prices for corn and other grains, higher prices that have yet to be seen at the local elevator? At this point, local elevator prices have just broken out of the sub-$2.00 summer doldrums and have yet to fully cover the cost of production for many farmers.

In his Congressional testimony, Malecha asserts that "Over the life of the next farm bill, it is entirely conceivable that the United States will require an additional 8 million to 10 million planted acres of corn to avoid triggering: 1) sharp declines in livestock profitability; 2) supply interruptions to long-term export markets; and 3) supply shortages that could hamper ethanol profitability."

We have no problem with any of those concerns or the likely need for additional corn acreage, but we have one additional concern that the NGFA representative did not mention: profitability for corn, soybean, wheat and rice farmers. For the first time in decades with the growth in the number of and capacity of ethanol plants, grain farmers can see on the horizon the possibility of seeing prices at levels that would not leave them dependent upon Loan Deficiency Payments and Counter-Cyclical Payments for their farm profitability.

And before prices even come close to shedding government payments, the NGFA is calling for measures to increase the supply of grains—measures that will dampen any ethanol-driven price increase. The NGFA wants the government to release CRP acres even before farmers have the opportunity to respond to price signals by converting other crop acreage to corn and bringing suitable (read not highly-erodible) pasture land into crop production.

To us Malecha's testimony seems to make clear that the NGFA is more interested in the welfare of the customers they sell to than the corn farmers they buy from, which of course is their prerogative. The House Committee on Agriculture will weigh all views.

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