Sanderson Farms

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January 28, 2014

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Air and Radiation Docket and Information Center
Docket ID No. EPA-HQ-OAR-2013-0479
Environmental Protection Agency
1200 Pennsylvania Avenue, NW
Washington, DC 20460

RE: Request for Comment on Proposed Rule on 2014 Standards for the Renewable Fuel Standard Program: Docket ID No. EPA-HQ-OAR-2013-0479

Dear Ms. MacAllister:

Sanderson Farms, Inc. (Sanderson Farms) appreciates the opportunity to submit comments on the Environmental Protection Agency's (EPA) proposed rule issued in response to constraints on the supply of higher ethanol blend levels in transportation fuels through the Renewable Fuel Standards (RFS) program.

Sanderson Farms supports EPA's action to reduce, for one year, the volumes of advanced biofuel and total renewable fuels that can be consumed in gasoline and diesel as required by Congress under the Energy Independence and Security Act of 2007. Given the economic harm the RFS mandate imposes on livestock producers and consumers, we also believe it is imperative for the federal government to enact a longer-term and permanent solution.

Sanderson Farms also supports the arguments outlined in the National Chicken Council's (NCC) submitted comments and emphasizes that we, like the NCC, are not opposed to corn ethanol. However, as data from the U.S. Department of Agriculture (USDA) and other credible institutions has shown a link between the RFS and higher corn prices since 2006, we have serious concerns with the unworkable nature of the existing RFS program.

Originally a small family-owned business founded in Mississippi in 1947, Sanderson Farms has proudly grown to become the third largest poultry processor in the U.S. today, with sales last year of over $2.6 billion. Sanderson Farms is engaged in the production, processing, marketing, and distribution of fresh, frozen, further processed, and partially cooked chicken. We pack fresh chickens for sale by retailers, distributors, and casual dining operators, and we sell further processed and partially cooked chicken to distributors and food service establishments. We own hatcheries

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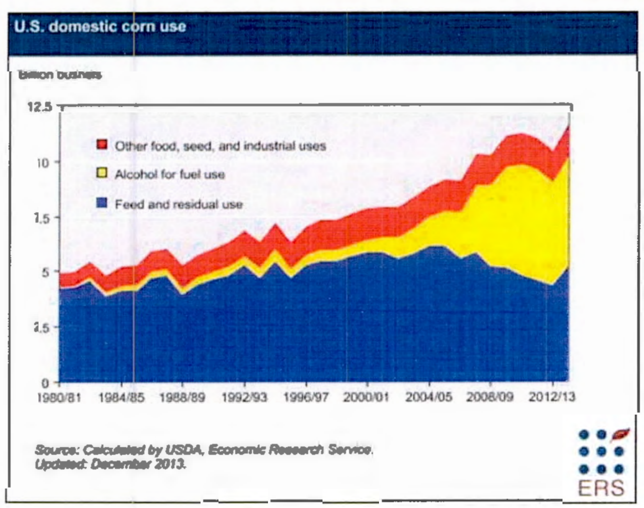
and operate feed mills and processing plants across Mississippi, Texas, Louisiana, Georgia and North Carolina. We also contract with over 800 independent poultry producers who own and operate family farms across Mississippi, Texas, North Carolina and Georgia. Collectively, we employ over 11,000 valued employees.

The success of our business – and our ability to provide the American consumer with quality products at reasonable prices – is directly related to the availability of reasonably-priced feed grain. For this reason, we applaud reforms such as EPA's proposed rules that look to minimize the volatility and uncertainty of corn prices.

I. The Renewable Fuel Standards Program Has Artificially Caused Corn Prices to Rise.

Since the inception of the RFS program in 2006, the mandate has resulted in an increase in demand for ethanol (see Figure 1), which has signaled to corn futures and forward contract markets to set higher corn prices. According to USDA, the RFS program "has provided incentives to increase corn acreage. In many cases, farmers have increased corn acreage by adjusting crop rotations between corn and soybeans, which has caused soybean plantings to decrease."[1]

Figure 1. U.S. Domestic Corn Use[2]



Further, USDA has concluded that "strong demand for ethanol production has resulted in higher corn prices."[3] As a result, since the beginning of the RFS program, livestock producers and other farmers and ranchers have experienced volatility in the market with substantial spikes in corn prices over 8-12 month periods. For example, the price per bushel for the first ten months of 2013 totaled

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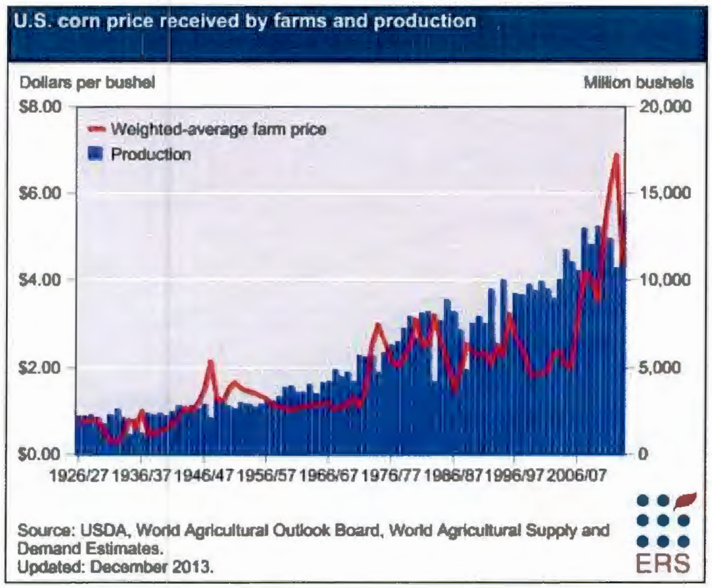
1 *Background*, Economic Research Service, U.S. Department of Agriculture (Dec. 2013) *available at* http://www.ers.usda.gov/topics/crops/corn/background.aspx (last visited Jan. 4, 2014).

2 *Id.*

3 *Id.*

$6.51, but now current corn prices can range from $4.10 to $4.75.[4] This volatility has created uncertainty for chicken companies like Sanderson Farms as well as other livestock producers. What is certain, however, is that since 2006 the price of corn has steadily increased from $2.00 to over $4.00 (see Figure 2). In fact, since 1975-1976, the annual weighted average price of corn per bushel hovered around just over $2.00, and only rose above $3.00 three times until the creation of the RFS mandate.[5]

Figure 2. U.S. Corn Price Received By Farms and Productions[6]



[4] World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 514, at 2 (Jan. 11, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-01-11-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 515, at 2 (Feb. 8, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-02-08-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 516, at 2 (March 8, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-03-08-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 517, at 2 (April 10, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-04-10-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 518, at 2 (May 10, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-05-10-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 520, at 2 (Jul. 12, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-06-12-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 521, at 2 (Aug. 12, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-08-12-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 522, at 2 (Sept. 12, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-09-12-2013.pdf;
World Agricultural Supply and Demand Estimates, U.S. Department of Agriculture, WASDE - 523, at 2 (Nov. 8, 2013) *available at* http://usda01.library.cornell.edu/usda/waob/wasde//2010s/2013/wasde-11-08-2013.pdf.

[5] *U.S. Corn Acreage, Production, Yield and Price*, Economic Research Service, U.S. Department of Agriculture, *available at* http://www.ers.usda.gov/media/521667/corndatatable.htm (last visited Jan. 13, 2014); and Hibah Yousuf, *Corn Prices Rally to New Record High* (Jan. 13, 2014) *available at* http://buzz.money.cnn.com/2012/08/09/corn-prices-record/.

[6] *Background*, Economic Research Service, U.S. Department of Agriculture, supra note 2.

In addition to USDA, other institutions have produced studies documenting the link between the RFS program and high corn prices by calculating the price of corn in the absence of the RFS program. For example, a 2012 Iowa State University assessment found that "[i]f US ethanol consumption were somehow banned, then US corn prices would drop to an average of $2.67 per bushel."[7]

II. The Steady Increase of Corn Prices Due to the Artificial Market Created by the RFS Program Has Imposed Economic Harms on Livestock Producers, Including Sanderson Farms.

As highlighted in NCC's comments, corn comprises nearly 70 percent of the feed given to chickens, making corn feed the largest input cost for companies like Sanderson Farms. Further, average annual feed costs have skyrocketed by $8.8 billion per year for poultry producers, affecting both the price at which consumers can purchase chicken products and our company's bottom line.

Sanderson Farms prides itself on investing in local and state economies, particularly in creating and maintaining jobs in a variety of states, including Georgia, North Carolina, Louisiana, Mississippi, and Texas. However, the negative economic effects of the RFS mandate have required us to cut back our production. In 2012, we reduced production by 4 percent, and in 2013, we reduced production by 6 percent. This reduction translates into $8.0 million in lost wages for 2012 and $12.0 million in lost wages for 2013. We have also been deterred from creating new jobs. In 2012, we announced an expansion project that would create almost 1,300 new jobs and result in new investment of $224 million in the economy of Rocky Mount, North Carolina. However, due to high grain prices, we placed the expansion project on hold.

III. EPA's Proposed One-Year Volume Reduction Works Toward the Objective that the RFS Program Should Recognize Equal Standing in the Marketplace, but a Permanent Solution is Still Needed.

Sanderson Farms is not opposed to corn ethanol production and use. However, we are against the way the RFS program predetermines winners and losers in the marketplace. Under the current program, increases in ethanol production come at the expense of basic food production, including corn and other commodities, and come even when economics would dictate otherwise. As discussed previously, USDA has found that "farmers have increased corn acreage by adjusting crop rotations between corn and soybeans, which has caused soybean plantings to decrease."[8] Therefore, as the demand for corn increases, the costs of both corn and substitute crops (e.g., wheat, soybeans) increase as well. These cost increases result in higher prices paid by consumers for a host of staple foods.

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[7] Bruce Babcock, *Updated Assessment of the Drought's Impacts on Crop Prices and Biofuel Production*, Center for Agricultural and Rural Development, Policy Brief 12-PB 8, at 9 (Aug. 2012).
[8] *Background*, Economic Research Service, U.S. Department of Agriculture, *supra* note 7.

Moreover, last year, more than 40 percent of the nation's corn crop went to ethanol production – not food or feed. Along these lines, in April 2009, the Congressional Budget Office estimated that the use of ethanol for fuel had accounted for a 28 to 47 percent increase in the price of corn between April 2007 and April 2008.[9]

Despite the fact that gasoline demand remains flat and is decreasing over the long term, the volume of ethanol and other biofuels will continue to increase under the RFS. As a result, the program will continue to pre-select livestock producers as "losers" by forcing us to pay artificially high prices for corn. Ethanol production should be subject to the same market principles to which chicken production is subject. That is, when free markets demand more product and it is economical to produce, the market will produce the product. For ethanol and livestock producers to be placed on equal footing, either the mandate to produce ethanol regardless of economics should be removed, or Americans should be mandated to consume a specific amount of chicken. Since we neither want nor expect a mandate to consume chicken, the mandate to consume ethanol should be eliminated.

IV. Conclusion

The RFS mandate has increased the price of corn since its inception, resulting in economic harm to Sanderson Farms and the broader livestock industry in the form of job loss, decreased wages, lost economic output, and lost tax revenue. In its effort to increase the use of renewable fuels, the RFS program has unfairly predetermined livestock producers to be "losers" in the marketplace.

We support EPA's proposed rule because it is a step in the right direction in creating equal standing in the marketplace and capping the RFS mandate. Additional reforms, however, will be needed to create more stability and certainty in the market.

Sincerely,

MCockrell

Mike Cockrell
Treasurer and CFO
Sanderson Farms, Inc.

CC: Joe F. Sanderson, Jr.
Lampkin Butts

[9] *The Impact of Ethanol Use on Food Prices and Greenhouse-Gas Emissions*, The Congress of the United States, Congressional Budget Office, at 7 (Apr. 2009) *available at* http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/100xx/doc10057/04-08-ethanol.pdf.