



National Farmers Union

Testimony of Donn Teske

**Before the
U.S. House
Select Committee on Energy Independence and
Global Warming**

**Concerning the Economic Toll of America's Oil
Dependence**

**Wednesday, May 9, 2007
Washington, D.C.**

STATEMENT OF DONN TESKE
PRESIDENT, KANSAS FARMERS UNION
BEFORE THE U.S. HOUSE
SELECT COMMITTEE ON ENERGY INDEPENDENCE AND GLOBAL
WARMING
CONCERNING THE ECONOMIC TOLL OF AMERICA'S OIL DEPENDENCE
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Congressman Markey and members of the committee, thank you for the opportunity to address you on the very serious consequences of the high cost energy inputs on my farming operation, and my family.

We operate a fifth generation farm in Pottawatomie County, Kansas. Pottawatomie County is located in northeast Kansas on the eastern edge of the Flint Hills. Our operation consists of about 2,000 acres, two-thirds of which is native Bluestem pasture. We have a cow-calf operation and also do some custom grazing. About 500 acres of the operation is certified organic and on these acres we produce organic commodities sold into the organic livestock industry, mostly alfalfa hay, red clover hay, milo, corn, soybeans, and wheat. My wife Kathy and I spent many years operating a dairy on the farm as well.

Agriculture in Kansas, much like the rest of rural America, struggles every year to sustain itself as a viable industry. Often, in my 33 years of farming the only thing that might make the end of the year analysis positive is the government subsidy payments we receive. Even though this farm was already established, my wife and I must both seek off-farm income to sustain our family. For an operation this size it isn't right that we have to work off the farm to feed our family, while we produce the nation's food virtually for free!

Now, added to our daily struggles, we have outrageous energy costs. There is a saying in agriculture that the farmer is the only entity who buys retail and sells wholesale. This saying has a lot of truth in it. We, the farmers and ranchers, pay for everything our operation needs through the marketplace. What we receive for our products is beyond our control. Yes, things can be fine-tuned with a variety of marketing tools, but as a whole we have to take what is offered to us.

Over the course of the past few years, input costs have skyrocketed. Most of that increase can be traced back to the rise in energy costs. A good example of this is shown by Kansas State University in which the non-irrigated crop expenses averaged about \$115 per acre in 2000; of this, about 26 percent was energy related (fertilizer, fuel). In 2005,

the expense per acre was over \$140 and energy accounted for 35 percent of the expenses. That is over \$20 per acre more! Irrigated cropland, with its huge need for energy pumping, shows even more dramatic ratios.

Wherever rural Americans gather today, at church, picking up parts or getting repairs at the implement dealers, at the feed store, the local cooperatives and, of course, at the local coffee shop, everyone is talking about fuel and energy costs. They are not only talking about the tremendous increase in costs, they are discussing how they will survive and outrageous profits being reported by the oil industry. The rise of environmental concerns has also been a significant focus of rural America.

We recognize the need for enormous amounts of energy in all forms. We should strive to produce this energy while maintaining standards that protect the environment and prevent damage to health, crops, livestock and wildlife. The National Farmers Union (NFU) supports the Clean Air Act and believes that implementing regulations should also emphasize achieving the greatest amount of pollution control through the most cost-effective measures available. This country must recognize that with the exploding demand for energy, we must not rely solely on fossil fuels, the majority of which are produced overseas. Our energy supply must move away from this reliance and into a new economy, which actively takes steps to be friendly to the environment. Let me share, more specifically, what farmers like myself and my colleagues across the country have been experiencing in terms of increasing energy prices.

First, it is prudent to look at the market, both domestic and international, and view what has become an ever-growing volatility that farmers face. A Congressional Research Service report released in November of 2004, while outdated as far as being current with energy statistics, still provides an interesting view into the impact of international oil markets on agricultural production. “Because the United States depends on international sources for so much of its energy needs, U.S. energy prices reflect international market conditions, particularly crude oil supplies. This heavy import dependence renders the United States vulnerable to unexpected price movements and supply disruptions in international energy markets. Agriculture appears particularly vulnerable to energy price increases through both petroleum and natural gas markets, as well as fertilizer markets.”¹ The reliance of the agriculture industry on foreign oil markets creates difficulties for farmers and ranchers throughout the country because fuel and fertilizer prices fluctuate rapidly, thereby disabling their ability to accurately project future energy costs.

As a way to deal with this volatility, it is the position of NFU that the production of renewable fuels is essential, not only to ease the growing cost of fuel, but to also deal with the problem of global climate change. Farmers and ranchers have proven time and time again that they are willing and able to deal with this growing problem and we see this as an opportunity to both benefit the environment and provide a new venue for economic growth and development.

¹ Schnepf, Randy. “Energy Use in Agriculture: Background Issues.” November 19, 2004. Congressional Research Service. CRS-24.

Natural Gas and Related Products

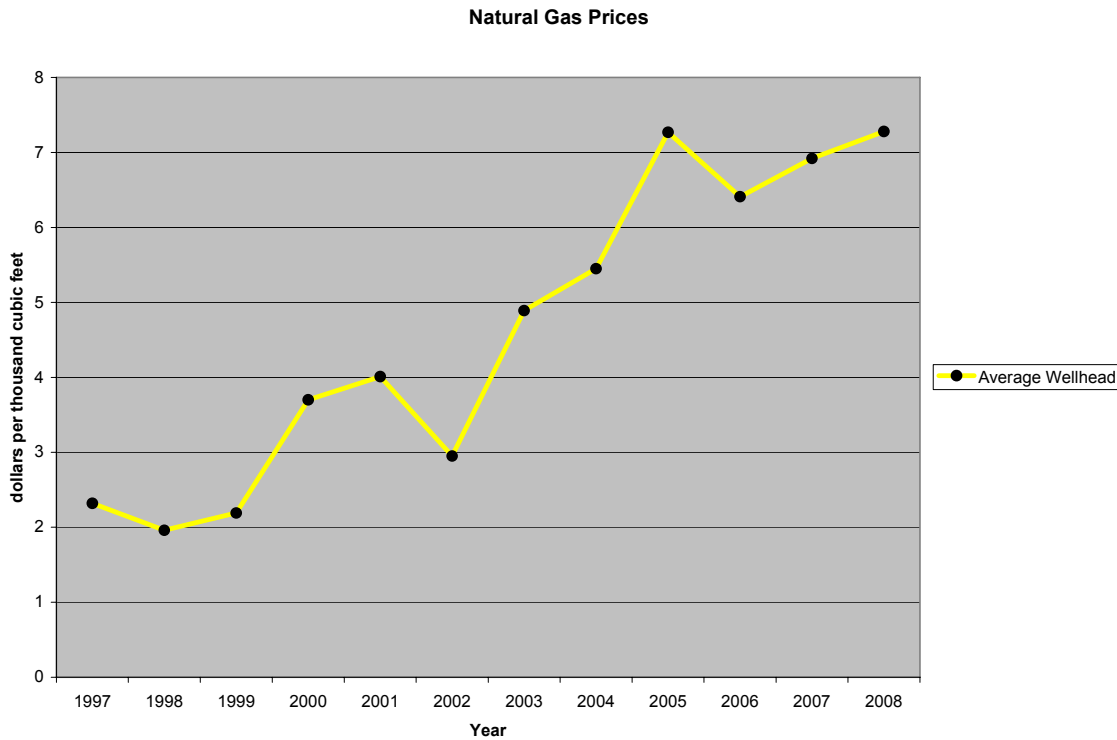
In examining increasing fuel prices, both international oil and international natural gas markets must be considered, especially when we realize that domestic supply comes nowhere close to meeting domestic demand.

Natural gas has a major impact on many aspects of farming, including acting as a power source in many different ways. It is the main ingredient in nitrogen, used as fuel to run irrigation motors and is increasing electricity costs as more electricity is generated at plants using natural gas rather than new clean coal, wind and hydroelectric technologies.

Natural gas is also the main ingredient used to make anhydrous ammonia and liquid nitrogen. These products replenish soil with nitrogen. Later in my testimony, I will address how the costs of anhydrous ammonia and nitrogen have shot up the last few years as a result of the increasing price of both oil and natural gas.

As shown below in Graph 1, the average price of Wellhead natural gas over the last 10 years, and the projection for this year and next, show the sharp increases that farmers and ranchers must deal with. Our reliance on international sources of both oil and natural gas has increased dramatically over the last several years and we see, with projections, that the growth is going to continue.

Graph 1



At this rate, farmers will not be able to afford irrigation and be forced to dry-land farm in an area that has been in a drought for the last several years. Especially in the Midwest

and Great Plains, dry-land farming irrigated ground is not an option. Other options include long-term leasing of irrigation water to a metro area to help meet cash flow needs, resulting in the loss of agriculture production and a significant negative economic impact felt throughout the rural communities.

There are various other expenses that come with increasing natural gas costs. Natural gas, as a primary source of electricity on many farms throughout the country, powers the shops within which we work on machinery, the barns in which we hold and work our livestock and the grain bins in which we must store and dry our crops. The increasing electricity costs that farmers and ranchers face is another side effect of the rising oil and natural gas prices, in addition to rising transportation costs.

Increased Transportation Costs - Diesel Fuel

The main source of fuel that farmers and ranchers use for farm machinery and equipment, the combines, tractors, semi-tractors, pickups, and other equipment, is diesel fuel. If it is on the farm, it probably runs on diesel fuel, although regular unleaded is also very common for other purposes.

In 2003, the national average price for number 2 diesel was \$1.50 per gallon,² whereas the projected average for this year is \$2.75³ (See Graph 2 and Table 1 below for historical and projected numbers).

In Kansas, we are seeing transportation expenses account for a greater and greater percentage of overall expenses every year. As a supporting document from Falk Trucking states, they delivered a truck load of alfalfa hay to a Texas dairy for me a couple of weeks ago. The check that I will receive for that 20 ton load of hay will be about \$3,500. Somehow between the three entities, the trucker, the dairyman, and I, we have to absorb about \$600 in increased delivery fuel expense above what it would have cost just a couple of years ago. And we have to struggle with our budgets as the oil companies are reporting record profits year-after-year.

In addition, farmers and ranchers have been facing volatile commodity prices, which have not kept pace with the rapidly increasing input costs. There is no doubt in anyone's mind in rural America that the rural economy has been deteriorating because of historically declining or stagnant commodity prices and skyrocketing input expenses as a result of higher energy costs. It has not been until this year that rural America has seen some positive signs in the commodities market. Even though corn prices shot over \$4.00 per bushel, the market has brought the price back down to a level which will still continue to be difficult to handle when combined with ever-increasing fuel and input costs.

Many operators today rent and lease more farm and ranch land than they own. Will these farmers and ranchers be able to continue to rent and lease land considering the production

² Energy Information Administration/Short-Term Energy Outlook – April 2007

³ Ibid.

costs they are facing in 2007? If they cannot, the likely effect will be lower land rental rates, a drop in farmland values and loss of farm equity.

All over the country, farmers and ranchers are waiting for an indication from Congress and the Administration that says this is a serious issue. We need to see that Congress takes seriously the economic crisis resulting from high energy and fuel costs, and that this problem will be addressed, such as is happening in this very venue. Farmers have no means by which to pass on the higher costs of energy, and it is the opinion of NFU that Congress should consider approving some type of mechanism to help farmers and ranchers offset the higher costs.

National Farmers Union, of which I am a member, and the Kansas Farmers Union, of which I am president, believe that resolution of, or at least relief from, these increasing costs comes from a focus on the production of energy from renewable sources which is cleaner, promotes our domestic rural economy, and provides additional supply to the ever-burgeoning demand for oil. Specific recommendations will be addressed in the renewable fuels section.

Increased Transportation Costs - Unleaded Gasoline

As we all know and have seen in the news, the average price for a gallon of gasoline is over \$3.00⁴ and many areas of the country are seeing it close to \$4.00 a gallon. This price shock is not only felt in populated areas of the country but also in rural America. Our continued and expanded reliance on foreign oil is having a devastating impact on all sectors of the economy, including agriculture. As the price of oil goes up, gasoline prices tend to skyrocket and when prices drop, as little as they do, gasoline usually has a hard time keeping the same pace.

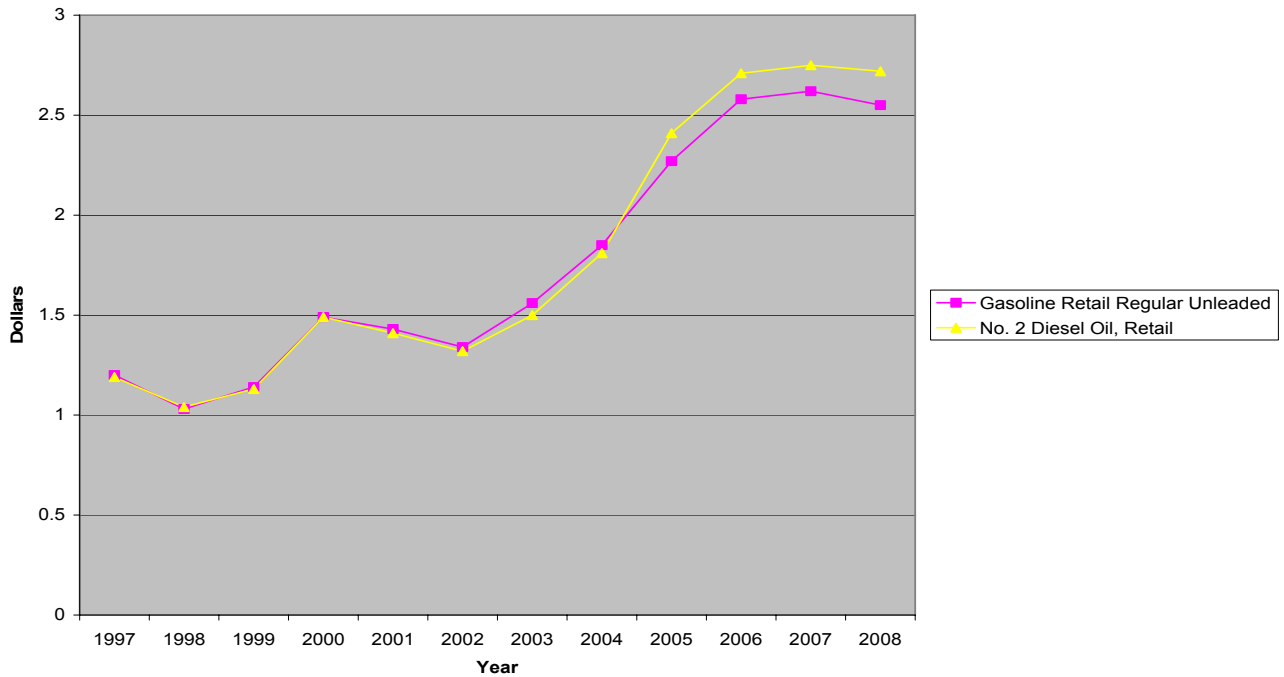
In looking at the price of unleaded gasoline, or at any fuel, it is important to look at the historical trends in order to gauge a valid perspective into the impact of rising costs. As seen below in Graph 2 (and the numbers shown in Table 1), farmers have experienced dramatic increases in the prices of both unleaded and diesel fuel. With the continued reliance on oil, farmers are subjected to an ever-decreasing supply and therefore an ever-increasing input expense. Although released last month, the statistics projected in this report are already outdated as a Lundberg survey released within the last few days shows that the average price for a gallon of regular unleaded gasoline is \$3.07.

Graph 2⁵

⁴ <http://money.cnn.com/2007/05/06/news/economy/gasoline/index.htm?cnn=yes>

⁵ Energy Information Administration/Short-Term Energy Outlook – April 2007

Fuel Price History and Projection (dollars per gallon)



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gasoline Retail Regular Unleaded	1.2	1.03	1.14	1.49	1.43	1.34	1.56	1.85	2.27	2.58	2.62	2.55
No. 2 Diesel Oil, Retail	1.19	1.04	1.13	1.49	1.41	1.32	1.5	1.81	2.41	2.71	2.75	2.72

Fertilizer

Not many people realize it, but the primary components of most fertilizers are oil and natural gas. There are two important things to consider in this context: the first is, fertilizer is one of the most significant input costs associated with the business of farming; and second, the increasing cost of oil and natural gas not only affects transportation costs, but increases the cost of fertilizer as well.

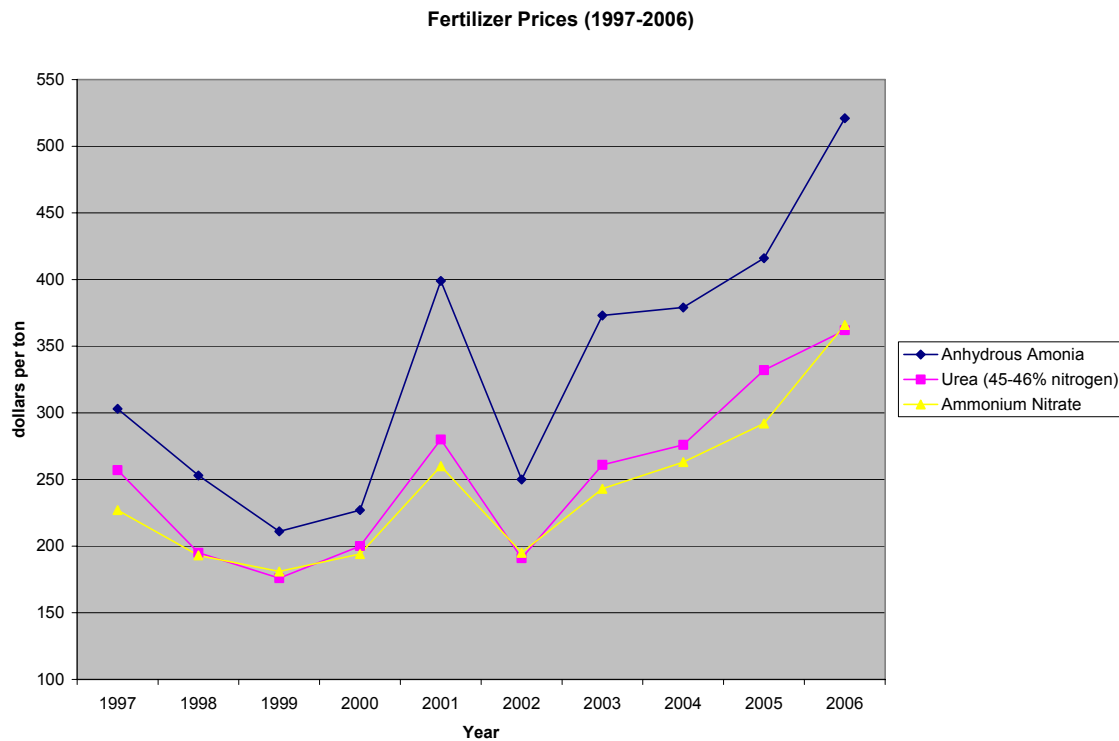
The development of technology includes the development of various types of necessitated fertilizers, which are required to have a successful and high-yielding crop. Therefore, as fertilizer becomes a more significant component of the production process, so too does the percentage cost of this particular input. If we look back to a report by the Congressional Research Service analyzing fertilizer production costs, we find that “in 2002, fertilizer expenditures accounted for about 5 percent of agricultural production expenses. However, they were the single largest outlay among farm energy expenditures, with a 34 percent share of the \$28 billion of total energy expenses. That same year, fertilizer also represented the largest single source of farm energy (measured in Btu’s),

⁶ Ibid.

with a 29 percent share.”⁷ This was at a time before the sharp price increase in practically all input components of the agricultural sector.

As already discussed, the price of oil and natural gas has risen significantly in the last few years and this increase has translated into recognizably significant increases in the price of fertilizers, as shown below in Graph 3.

Graph 3⁸



The fertilizer component of agricultural production could be relieved if we were to promote the production of renewable fuels because this will also ease the oil demand from the transportation component. When there is greater supply, it is common sense that prices should drop back down, and this could be realized in the fertilizer sector with renewable energy production.

A Big Picture Approach

As a society, we are starting to take responsibility for our energy gluttny. I believe that global climate change is the scariest thing we are throwing at our kids. Economies and governments can change quickly, but if we mess up our environment with our excesses, it is not something that can be fixed overnight.

⁷ Schnepf, Randy. “Energy Use in Agriculture: Background Issues.” November 19, 2004. Congressional Research Service. CRS-11.

⁸ USDA, NASS

As a nation, we need to look forward responsibly. There needs to be a common sense approach to our energy crisis that addresses the following:

- Energy conservation;
- More competition in the energy industry
- Renewable energy (especially community-owned wind);
- A more responsible food delivery system that utilizes local foods and takes much of the “highway miles” off of the food we eat; and,
- In a worst-case-scenario; a ration system that separates the recreational from the needed energy uses, especially that of producing the nation’s food supply.

As stated in the policy of the NFU, renewable energy production is probably the most important step that can be taken to address the growing threat of global warming and diminishing access to energy.

Renewable Fuels

National Farmers Union supports a balanced energy policy that seeks energy independence by 2025 for the United States and, at the same time, protects our nation’s environment and recognizes the special energy needs of America’s agricultural sector. In order to address the growing prices of energy, NFU believes the appropriate steps are necessary in decreasing our reliance on foreign sources of energy and to reverse the current trend of global warming:

- Any actions taken by the Congress must balance our energy needs with a sustainable environment.
- Congress ought to make the development of renewable sources of energy our number one priority in reducing our dependence on fossil fuels, including economic assistance for family farmers to make agriculture more self-sufficient through increased application of alternative forms of energy such as the expansion of corn-based ethanol, cellulosic ethanol, biodiesel and wind.
- Reverse the trend toward concentration of the ownership or control of sources, production and distribution of energy, targeting incentives to encourage diversified, community-based energy systems that create jobs and new wealth in rural areas of our country. We have already seen rural America take these steps with community-based wind energy projects like those in Minnesota and, as a report NFU recently released shows, the ethanol sector has actually seen a decrease in concentrated ownership and accounts for the single-greatest industry of local ownership at 39percent.⁹
- The ambitious mandates for renewable energy production, specifically the Renewable Fuels Standard (RFS), are a good step but farmers are ready to see it expanded. The RFS should set a mandate for biofuels production to make up one-third of the nation’s fuel supply as soon as possible. In addition, it should set up separate mandates of production for each form of biofuel, including cellulosic, ethanol and biodiesel.

⁹ Hendrickson, Mary and William Heffernan. “Concentration of Agricultural Markets.” April 2007. University of Missouri in a study commissioned by the National Farmers Union.

- Congress should expand and extend renewable energy incentives, tax credits and other financial programs such as the renewable energy production tax credit, the biodiesel and ethanol blenders' tax credit, and the cellulosic ethanol loan guarantee program.
- Congress must show concern for the survival of independent oil producers, those cooperatives and small well owners which make up a much-needed share of total domestic output, through the elimination of the oil depletion allowance on all but domestic production.
- NFU supports the creation of a renewable energy reserve to reduce price-depressing supplies of farm commodities. The purpose of the program is to provide storage incentives sufficient to encourage renewable fuels processors to purchase and store surplus commodities for use later when commodity prices have stabilized.
- To enable more realistic use of biofuels, NFU urges the dramatic expansion of the biofuel infrastructure, including pipelines and increased and affordable rail transportation. Transmission of other renewable energy sources such as wind and solar is also needed. Congress should establish expanded incentives for the use of blender pumps, as well as E-85 filling stations/pumps. The production and use of flex fuel vehicles should also be expanded so as to increase the use of, and demand for, renewable fuels.
- To promote domestic production of renewable energy, NFU supports a phased-in moratorium on the export of domestically produced energy until such independence is reached. Additionally, no local, state, and/or federal tax dollars, or tax exemptions should apply to imported renewable fuels or derived from imported commodities. No local, state, and/or federal tax dollars or exemptions should apply to foreign-owned companies that produce renewable fuels.
- NFU urges Congress and the Administration to launch an alcohol fuels program to include renewable resources to establish low-interest federal loans to farmer-owned cooperatives, in the same way rural electricity and rural telephones were established. Additionally, NFU supports the extension of the ethanol fuel tax incentive to include the ethanol portion of ethyl tertiary butyl ether (ETBE). NFU supports allowing ETBE refiners the ability to claim the ethanol excise tax exemption at the blend point and we oppose any future efforts to eliminate the tax incentive.
- NFU promotes the increased use of ethanol, biodiesel, animal fats, oilseeds, switchgrass, methane and other agriculturally derived products as alternative sources of fuel energy products to aid rural America in building an energy-independent and cleaner nation.
- Incentives for environmentally-friendly practices should also be expanded by supporting a national mandatory carbon emission cap and trade system to reduce non-farm greenhouse gas emissions. The Chicago Climate Exchange should continue to expand to allow for continuation of financially compensating farmers and ranchers for their environmentally sound practices.

National Farmers Union believes that renewable energy sources like wind and solar for electricity, biodiesel, ethanol and hydrogen can decrease our dependence on imported and fossil fuels; farmers must be integrally involved in the manufacturing side of the process to benefit economically.

Protecting the environment is an issue that farmers take very seriously, which is why National Farmers Union has been at the forefront of promoting environmentally-friendly practices on the farm through our Carbon Credit Program which enables and incentivizes environmentally friendly cropping practices. Additionally, farmers have been at the forefront of developing ethanol plants which produce cleaner burning fuels and enable our fuel supply to be less reliant on foreign oil.

Attached are support letters from a rural bank and my trucker which outline what they see increased energy costs doing to their communities and business. Additionally, there is supporting documentation from Kansas State University's website reporting on the increased energy inputs and the effect it has on Kansas Farm Management operations.

In closing, I appreciate the important venue you provide for hearing testimony from sectors of the economy such as agriculture. On behalf of the Kansas Farmers Union and National Farmers Union, I want to thank you for the opportunity to testify. I would also like to thank the chairman and ranking member for recognizing the importance of rising fuel prices and taking a proactive effort to address the negative impact on all aspects of the agricultural industry.

Thank you very much for your time and the opportunity to be here today. I would be happy to answer any questions of the committee.