



July 29, 2008

Dear Mr. President,

The undersigned organizations urge your administration to take immediate action to allow Conservation Reserve Program (CRP) contract holders the flexibility to opt out of the program early and waive any related penalties.

The supply and demand outlook for agricultural commodities, the escalation in the Consumer and Producer Price Index, and the heightened threat of ongoing and increasing inflation all require a swift and meaningful response. There is no switch to be flipped that will result in immediate increased food production, but the United States needs more tillable farmland in production to help provide some relief to these ever burgeoning problems in 2009 and beyond. The policies we have been following as a nation have assumed we could count on good weather, but now we are experiencing shortages in agricultural commodities that must be addressed promptly.

The attached chart highlights the very fragile supply and demand situation the United State is currently facing for grains and oilseeds. Based on USDA numbers, if corn yields were to fall just 7.5 percent below trend (yields fall below trend, according to USDA reports, 22 percent of the time) ending stocks would plummet. If the same numbers are applied to soybeans, where yields fall at least 7.5 percent below trend 24 percent of the time, ending stocks would be negative. Neither of these ending stock situations is realistic, which means severe price rationing of supply is the only possible outcome.

While export numbers may fall, those countries that need our corn and soybeans have shown recently they are willing to pay higher prices and are helped by the value of the dollar. Many major domestic customers of grains and oilseeds are having difficulty maintaining profitability. The fundamental question is whether or not the U.S. should be idling scarce land resources, many of which are neither highly erodible nor environmentally sensitive, as a key U.S. industry is faced with such circumstances. Failure to address the need for more supplies will only result in demand destruction.

Recently published USDA reports project that wheat plantings for the 2008 crop year will increase by over 4 million acres; however, USDA projected a similar positive outlook in 2007, but a heavy freeze hit the wheat belt and devastated much of the anticipated crop. Moreover, current estimates have wheat stocks at twenty-four days, over two-thirds lower than average supplies. For example, hard red winter wheat stocks-to-use ratio is estimated at 10 percent at the end of the 2007/08 crop year. This means that when the wheat marketing year ends, the U.S. will have between 24 and 25 days of wheat supply, spread out in every stage of production, from the farm to the kitchen table. The last time levels were this low was in 1946.

The supply and demand outlook paints a difficult picture, and those market fundamentals are translating into real increases in producer and consumer prices. The Producer Price Index (PPI) for food as reported by the Bureau of Labor Statistics showed an 8.3 percent increase in June from last year representing the second highest rate of gain since 1981. The Consumer Price Index (CPI) registered a 5.3 percent increase in June from one year ago for food prices. While producer prices have risen at a greater rate than consumer prices, historically the PPI and CPI for food are 99 percent correlated. This translates into an

almost certain steeper increase in consumer food prices as producers and food processors are forced to pass along increasing costs. All these index increases have occurred without much contribution from livestock and poultry prices. While prices for those proteins have lagged overall food price increases, every indication is that those prices will begin to “catch up” and analysts suggest we are headed for significant increases in those areas, further burdening already hard hit consumers.

Allowing additional agricultural production by utilizing available idled land resources can serve an important role in showing support for the Federal Reserve’s efforts to promote economic growth and appropriately manage inflation in this challenging time for the U.S. economy. Beyond the energy price inflation, food prices have been the second largest contributor to overall inflation in recent months, and if not addressed, will ultimately lead to increases in core inflation. Timing is critical as any acres not currently in production must be properly prepared in order to permit timely planting. For any decision to be meaningful it must give as many contract holders as possible the flexibility to participate. We encourage you to not delay in directing the USDA to give contract holders the flexibility to opt out of the program early without penalty. Every day lost puts the U.S. further behind in meeting the growing demand for our agricultural products and staying competitive in world markets.

Thank you for your consideration and we look forward to working collaboratively to find solutions to these unprecedented times and challenges.

Sincerely,

American Bakers Association
American Feed Industry Association
American Meat Institute
Commodity Markets Council
National Chicken Council
National Grain and Feed Association
National Oilseed Processors Association
National Pork Producers Council
National Turkey Federation
North American Export Grain Association
North American Millers' Association
The Fertilizer Institute
United Egg Producers

enclosure

cc: Jim L. Connaughton
Chairman, Council on Environmental Quality

Barry Jackson
Assistant To The President For Strategic Initiatives & External Affairs

Brian McCormack
Assistant To The President For Strategic Initiatives & External Affairs

Hunter Moorhead
Special Assistant To The President On Agriculture

2008–09 Crop Year S&D

	Corn Supply & Demand		Soybean Supply & Demand	
	USDA July 11, '08 Estimates	Estimates with 7.5% Below Trend Yield	USDA July 11, '08 Estimates	Estimates with 7.5% Below Trend Yield
Harvested Acres	78.9	78.9	72.1	72.1
Bushels/Harvested Acres	148.4	143.7	41.6	39.0
Beginning Stx	1,598 (mil. bu.)	1,598	125 (mil. bu.)	125
Production	11,715	11,338	3,000	2,812
Imports	15	15	10	10
Supply Total	13,328	12,951	3,135	2,947
Use Total	12,495	12,495	2,996	2,996
Ending Stx	833	456	140	-49

*Based upon actual yields relative to trend yield for 1972-2007, corn yields are 7.5% below normal (or lower) 22% of the time (an additional 17% of the time corn yields are between 2.5% and 7.5% below normal). In the case of soybeans, the same historical analysis reflects that 24% of the time soybean yields have been 7.5% below trend or lower (an additional 18% of the time soybean yields fall between 2.5% and 7.5% below normal).

This frequency analysis comes from the ProExporter Network, Olathe, Kansas.

(Note: USDA's own assessment of the reliability of July crop estimates confirms the production uncertainty that remains as of the July crop report. For corn the average difference between the July crop estimate and final crop number is 7.4%. For soybeans the average difference is 4.8%. As for wheat, production in 2008 appears more adequate than last year as the crop is farther along than corn and soybeans, but according to USDA's reliability assessment of the July estimate of production, the average difference with the final wheat crop is 2.8%.)