



January 29, 2008

The Honorable Edward T. Schafer
U.S. Secretary of Agriculture
1400 Independence Avenue, SW
Washington, DC 20250

Dear Mr. Secretary:

Congratulations on being confirmed and sworn in as U.S. Secretary of Agriculture. We look forward to establishing a strong working relationship with you to help move American agriculture forward and benefit consumers and taxpayers.

One critical issue that will require your attention is the Department's management of the Conservation Reserve Program (CRP). On September 28, 2007, USDA determined there would be no penalty-free early releases from the CRP at that time. We believe it is important that USDA continue to evaluate the option of offering penalty-free early releases so contract-holders can react to market forces. Given the supply tightness in markets for certain crop production inputs and the higher market risks involved in making crop decisions, there is increased urgency to notify CRP contract-holders that USDA is willing to increase the flexibility of contracts so market-driven needs can be met in a timely manner.

Competition for acreage between corn, oilseeds, wheat, cotton, and other crops continues to intensify. For example, the rapidly increasing production of corn-based ethanol and the growing demand for corn in the feed and export markets will require an even larger corn crop in 2008 and 2009. However, numerous analytical firms are forecasting a decrease in planted corn acreage this spring. We believe that by removing the penalties for early opt-out of CRP contracts, USDA will provide the flexibility necessary for the market to respond and meet these growing commodity needs.

We believe the current supply/demand situation for basic agricultural commodities is precarious. U.S. wheat stocks are a good example of the razor thin margins as the projected U.S. wheat ending stocks for 2007/08 are 292 million-bushels – the lowest level in 60 years. Very strong wheat prices are resulting in very robust acreage competition, most likely at the expense of corn acres.

The tight crop supplies are a significant factor in the increase in food inflation. In 2007, food inflation more than doubled the rate experienced in recent years and resulted in one of the largest increases in food prices since 1990. Although the Department's Economic Research Service is projecting food inflation to moderate this year, few private analysts concur. Instead, they believe food inflation is poised to increase to higher levels in the years ahead. Dr. Bill Lapp, principal of Advanced Economics Solutions, expects annual consumer food price inflation to average 7.5 percent from 2008 through 2012. Even more troubling is Dr. Lapp's caution that a yield related crop shortfall of 10 percent or more in any year will drive food prices at least 50 percent above this projected average.

We acknowledge that removing the penalties for early opt-out of non-environmentally sensitive acres from CRP will not provide all the additional cropland needed to meet these needs, but it will significantly

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help alleviate the current situation. We believe that prudent action today will help prevent a severe market disruption. Given the dynamic challenges ahead for American agriculture, we strongly encourage you to reconsider the Department's decision to not waive these penalties.

The undersigned organizations look forward to working with you to craft plans to better enable all of U.S. agriculture to meet this unprecedented growth and demand for agricultural commodities.

Sincerely,

Agribusiness Association of Iowa
Agricultural Retailers Association
American Bakers Association
American Feed Industry Association
American Meat Institute
Broiler & Egg Association of Minnesota
California Grain & Feed Association
Commodity Markets Council
Florida Poultry Federation
Georgia Poultry Federation
Grain and Feed Association of Illinois
Indiana Grain & Feed Association
Indiana Plant Food & Ag Chemicals Association
Kansas Grain & Feed Association
Kansas Agribusiness Retailers Association
Kentucky Grain & Feed Association
Kentucky Poultry Federation
Michigan Agri-Business Association
Michigan Bean Shippers Association
Minnesota Grain and Feed Association
Minnesota Turkey Growers Association
Mississippi Poultry Association
National Chicken Council

National Grain & Feed Association
National Oilseed Processors Association
National Pork Producers Council
National Turkey Federation
Nebraska Grain & Feed Association
Nebraska Poultry Industries
North American Millers' Association
North Carolina Poultry Federation
Ohio AgriBusiness Association
Oklahoma Grain & Feed Association
Pacific Egg and Poultry Association
Pacific Northwest Grain & Feed Association
South Carolina Poultry Federation
The Fertilizer Institute
The Poultry Federation
Texas Grain & Feed Association
Texas Poultry Federation
Transportation, Elevator & Grain Merchants Assn.
United Egg Producers
Virginia Poultry Federation
West Virginia Poultry Association
Wisconsin Agri-Service Association

cc: Charles Conner
Deputy Secretary
U.S. Department of Agriculture

Dr. Mark Keenum
Undersecretary, Farm and Foreign Agricultural Services
U.S. Department of Agriculture