

# Ethanol Fueling Sorghum Demand

By Christi Scherler

With ethanol driving high feed grain prices, it's easy to get excited about planting this upcoming season.

Producers like Malcolm Haigwood are looking over their options.

"Fertilizer costs and herbicide resistance issues are always big concerns," said Haigwood who grows grain sorghum, cotton, rice, and soybeans and operates a custom chemical application business in northeastern Arkansas near Newport. "Even if you can't show as much profit as rice and cotton, there's a big benefit because of rotational issues. Grain sorghum will build up organic matter more than other crops, helping to boost crop yields in the future. We're coming along here with a good year, we've got a good price support, and we're going to plant grain sorghum because of those reasons."

Sorghum also may have an upfront advantage since it costs less to grow than most other row crops and that can be attractive to bankers.

"If a producer comes and asks me specifically, 'I'm thinking about changing my operation, going from high dollar input corn to milo or another crop,' I would give him some direction," said Southwest Kansas banker Ray Purdy of American State Bank in Garden City. "Of course it depends on whether producers have water or not. Limited irrigation milo works very well and also on dryland. We get around 18 inches annually. If you don't have irrigation, you're not going to be producing the high dollar crop like corn or alfalfa. You've

got to look at another crop that can do an efficient job with the moisture that you do have. Milo is one of those crops that fits very well in our arid area."

Grain sorghum also works for producers in the Coastal Bend of Texas.

"Sorghum works for us. We make comparable yields to other grains. Our costs are less and we have the equipment to handle it," said Bill Kubecka, who farms on the coast near Palacios and was a 2005 runner-up for the Top Producer of the Year

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Award by *Top Producer* magazine. "I don't have to go out and spend extra money on a specialty header to harvest another crop."

Kubecka also grows rice and cotton like Haigwood. "Our cotton production, last year and with the prices now, is unprofitable. We are continuing to grow cotton, but we have reduced our acreage because we've made a commitment with the purchase of harvest equipment. It's cheaper to use it than to park it. From the market perspective, grain is the only crop that we can actually execute a hedge or a forward cash contract. Besides cotton, the other crop we grow is rice and the market doesn't offer cash contracts or hedging that will work for us."

## CROP INSURANCE

Sorghum can have a low cost of production, helping reduce financial risk. Purdy says sorghum is probably less risky than some other crops. "You can produce a crop with a minimum amount of water. Because of the high input costs that it takes for agriculture production, most farmers use some type of insurance protection whether it's hail, all-risk crop insurance or CRC (Crop Revenue Coverage). In most cases, when they ask us, we encourage them to have some type of floor protection."

With ethanol and export markets driving demand, sorghum values are being equalized with corn or even trading at a premium to corn in some areas in the Sorghum Belt. As such, NSP staff has been working with USDA's Risk Management Agency (RMA) to bring sorghum crop insurance price elections back into alignment with market prices.

At NSP's urging, RMA raised Multi-Peril Crop Insurance price elections 20 cents from \$3.10/bu to \$3.30/bu. However, apples to apples, sorghum is still 20 cents less than corn which is set at \$3.50/bu. This is a 94.3% differential between sorghum and corn and the widest differential since 2001. The CRC differential is 94.4%.

"Since May of 2006, sorghum has been priced over corn in USDA's National Agricultural Statistics Service *Agricultural Prices* report," said NSP's Strategic Business Director Chris Cogburn. "In the last three World Agricultural Supply and Demand Estimates, we've had identical ranges."

In 2006, producers in some areas of Nebraska and Kansas received 30 cents less per bushel through insurance when the market was 10 cents more for grain sorghum as compared to corn.

"The equalization of price elections is now a legislative priority for 2007. We will continue working with administrative agencies to communicate the changing dynamics of the sorghum industry, which in large part is credited to grain demand for ethanol," said Cogburn.

#### SORGHUM TO ETHANOL

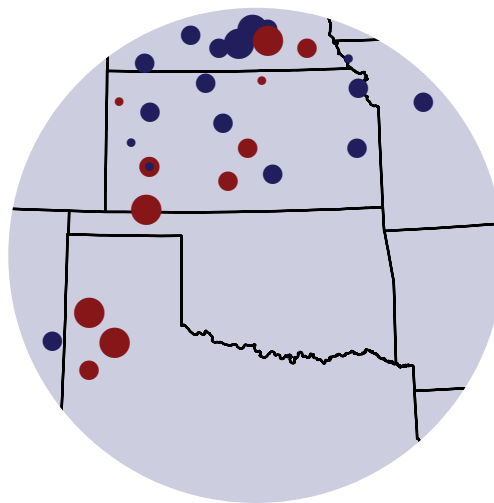
Though sorghum doesn't garner near the national media attention of other crops, it is important to U.S. ethanol production. Sorghum and corn yield the same amount of ethanol per bushel. According to the Kansas Grain Sorghum Producers Association (KGSPA), historically more ethanol has been made from sorghum than from corn in the largest sorghum-producing state.

Currently, Kansas has eight dry mill plants that together produce more than 215 million gallons of ethanol annually, creating a market for 76 million bushels of sorghum and corn. According to KGSPA, production in Kansas could quadruple in the next two to three years, and some of that growth is happening in Purdy's backyard with the construction of a 55-million gallon per year (MGPY) plant in Garden City.

"I feel it's very good for our area," said Purdy. "The more options to market your product, the better off producers are. The ethanol plant also helps bring in dollars to the community because of increased employment at those facilities. It's also going

to aid the availability of byproduct that feedyards might be able to use in our area. If feed is more readily available, it helps in reducing the cost of feed. It's good all the way around for western Kansas."

## Ethanol Plants of the Sorghum Belt



Million Gallons Per Year of Production Capacity

- 2 - 20
- 21 - 55
- 56 - 200
- Existing Plants
- Plants Under Construction

Garden City is also home to Reeve Agri-Energy, an ethanol plant that produces 12 million gallons of ethanol annually.

"We've had our plant for about 25 years and we've ran milo for 25 years," said Lee Reeve. "The main reason we use milo is because there is little difference between milo and corn. And with the increase in the ethanol production in this area, most of these plants are going to use milo. We'll have more demand for milo, obviously, than we have milo."

Reeve also operates a cattle-feeding operation where he feeds most of the wet distiller's grains. "There's not a lot of difference in the feeding values in the distiller's grain from corn or milo. We've had very good results from feeding the byproduct, that's one of the reasons why we put in the plant 25 years ago."

Reeve said that the price they paid for sorghum has changed over the years as well. "With the new milo markets, the corn-milo price spread is going to narrow."

Reeve encourages producers to, "Look at milo. It can step up and yield with corn with a lot less risk."

Reeve said that grain sorghum also has some other advantages. "Milo can be stored on the ground and brought in later. There's a lot less risk. Even if milo's half grown and gets a hail, it will still make a crop."

Ethanol production in the Sorghum Belt is expanding, and not just in Kansas. Four plants are being constructed in the Texas Panhandle that, together, will have an annual production capacity of more than 340 million gallons. These so-called "destination markets" provide a ready supply of distiller's grain for the cattle feeding industry. The bulk of the grain will primarily come from the Midwest. But, plants like the White Energy facility being built in Hereford, plan to utilize up to 30% local grain sorghum when available. The 30 MGPY Abengoa Bionergy plant in Portales, N.M. has traditionally used all sorghum when the grain is available.