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Ethanol pumping up food prices

By Elizabeth Weise, USA TODAY Updated 1h 57m ago | 417 | 17 | Share

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Get ready for higher food prices, which appear to be just around the corner for U.S. consumers and potentially a crippling burden for the world's poor.



By Seth Perlman, AP file

Farmers harvest corn crops near Monticello, Ill. U.S. reserves of corn have hit their lowest level in more than 15 years,

A combination of natural calamities and congressional mandates has come together to drive world food prices to levels that make some governments in developing nations nervous, because higher costs can mean political instability. The toll on American grocery carts thus far is low, but analysts say price increases are coming.

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The immediate causes of the rise are clear: bad harvests due to drought in Russia, China and Argentina and floods in Australia, among other things. But a longer-term cause may come as a surprise:— 24% of the U.S. corn crop is now mandated to go to ethanol, taking slack out of the world food market and making price shocks more likely, agricultural economists say.

PRICES RISING: Prices starting to creep higher

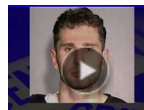
Add lower-than-expected corn yields last year and, according to U.S. Department of Agriculture figures out Wednesday, U.S. reserves of field corn are at their lowest levels in 15 years. The demand for corn for

to \$6.10 in January. Corn futures, contracts to buy corn at a given price in the future, as of Wednesday were \$6.90 a bushel.

INFLATION AHEAD?: Bernanke's not worried

"We're going to be going into next year's harvest with really no surplus inventory at all, so the size of next year's crop becomes critical," says Darrel Good, an agricultural economist at the University of Illinois, Urbana-Champaign.

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A threat to the poor

However, foreign production of corn and projected stocks this year are higher than in the past two years, buffering the global situation somewhat, says Heather Lutman, a corn analyst with USDA.

For the 1.2 billion people who make \$1.25 or less a day and spend 50% to 80% of their income on food, price rises mean hunger and less money for education and health care, says Gawain Kripke of [Oxfam](#) America, an anti-poverty charity.

For Americans, there are "definitely indications that point to higher prices, but we've yet to see a major impact," says Ephraim Leibtag, a USDA food economist. Meat, dairy and eggs, primarily dependent on feed prices, are "less shielded from surges in commodity prices," he says. USDA is predicting rises in the food price index for 2011 of 3.5% to 4.5% for pork, 2.5% to 3.5% for beef, 2.5% to 3.5% for eggs and 4.5% to 5.5% for dairy.

But corn, because it's made into high-fructose corn syrup, our most commonly used sweetener, is in many other items Americans buy as well.

Companies likely to raise prices

Thus far it's been "kind of stealth," but consumers will see the effects soon, says Joseph Saluzzi, co-founder of Themis Trading, a brokerage firm in Chatham, N.J. Companies don't want to increase prices, so they've cut expenses and even made packages smaller, he says. But as earnings statements came out this quarter "a bunch of companies have said they're going to raise prices," he says.

The U.S. is the world's largest producer of field corn, at 13 billion bushels a year. Sweet corn, the kind we eat on the cob, is less than 1% of total corn grown.

Since 2005, more and more of the nation's field corn crop has gone to create ethanol. Fuel blenders are obliged under the 2007 Energy Independence and Security Act to mix a certain amount of eligible biofuels into the gasoline they sell. The blenders receive a tax credit of 45 cents per gallon of ethanol.

"For corn-based biofuels such as ethanol, the current mandate (under EISA) is 12.6 billion gallons, which increases to 15 billion in 2015 and remains at that level," says Tom Capehart, a USDA biofuels expert.

At this year's level, 39% of U.S. field corn is used to produce the gasoline substitute. A third of that comes back into the food supply as distillers' grains, a by-product of ethanol production, which can be added to animal feed, bringing the total down to 24%.

Corn farmers dispute the connection between high prices and ethanol. More corn is being grown per acre "thanks to technology in the seed and practices on the farm," says Bart Schott, president of the National Corn Growers Association. Instead, he points at "speculation in commodity markets, corrupt foreign regimes, currency fluctuation, hoarding by other countries and, of course, the weather" for rising prices.

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