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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.

CHINA DROUGHT: China prepares for 'severe, long-lasting drought'

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

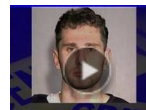
Add lower-than-expected corn yields last year and, according to U.S. Department of Agriculture figures out Wednesday, U.S. reserves of field corn are at their lowest levels in 15 years. The demand for corn for

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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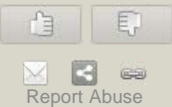


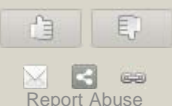
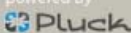
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April 15, 2008

NEWS ANALYSIS

Fuel Choices, Food Crises and Finger-Pointing

By [ANDREW MARTIN](#)

The idea of turning farms into fuel plants seemed, for a time, like one of the answers to high global oil prices and supply worries. That strategy seemed to reach a high point last year when Congress mandated a fivefold increase in the use of biofuels.

But now a reaction is building against policies in the United States and Europe to promote ethanol and similar fuels, with political leaders from poor countries contending that these fuels are driving up food prices and starving poor people. Biofuels are fast becoming a new flash point in global diplomacy, putting pressure on Western politicians to reconsider their policies, even as they argue that biofuels are only one factor in the seemingly inexorable rise in food prices.

In some countries, the higher prices are leading to riots, political instability and growing worries about feeding the poorest people. Food riots contributed to the dismissal of [Haiti's](#) prime minister last week, and leaders in some other countries are nervously trying to calm anxious consumers.

At a weekend conference in [Washington](#), finance ministers and central bankers of seven leading industrial nations called for urgent action to deal with the price spikes, and several of them demanded a reconsideration of biofuel policies adopted recently in the West.

Many specialists in food policy consider government mandates for biofuels to be ill advised, agreeing that the diversion of crops like corn into fuel production has contributed to the higher prices. But other factors have played big roles, including droughts that have limited output and rapid global economic growth that has created higher demand for food.

That growth, much faster over the last four years than the historical norm, is lifting millions of people out of destitution and giving them access to better diets. But farmers are having trouble keeping up with the surge in demand.

While there is agreement that the growth of biofuels has contributed to higher food prices, the

amount is disputed.

Work by the International Food Policy Research Institute in Washington suggests that biofuel production accounts for a quarter to a third of the recent increase in global commodity prices. The Food and Agriculture Organization of the [United Nations](#) predicted late last year that biofuel production, assuming that current mandates continue, would increase food costs by 10 to 15 percent.

Ethanol supporters maintain that any increase caused by biofuels is relatively small and that energy costs and soaring demand for meat in developing countries have had a greater impact. "There's no question that they are a factor, but they are really a smaller factor than other things that are driving up prices," said Ron Litterer, an Iowa farmer who is president of the National Corn Growers Association.

He said biofuels were an "easy culprit to blame" because their popularity had grown so rapidly in the last two or three years.

Senator [Charles E. Grassley](#), Republican of Iowa, called the recent criticism of ethanol by foreign officials "a big joke." He questioned why they were not also blaming a drought in Australia that reduced the wheat crop and the growing demand for meat in China and India.

"You make ethanol out of corn," he said. "I bet if I set a bushel of corn in front of any of those delegates, not one of them would eat it."

The senator's comments reflect a political reality in Washington that despite the criticism from abroad, support for ethanol remains solid.

Representative Jim McGovern, Democrat of Massachusetts, said he had come to realize that Congress made a mistake in backing biofuels, not anticipating the impact on food costs. He said Congress needed to reconsider its policy, though he acknowledged that would be difficult.

"If there was a secret vote, there is a pretty large number of people who would like to reassess what we are doing," he said.

According to the [World Bank](#), global food prices have increased by 83 percent in the last three years. Rice, a staple food for nearly half the world's population, has been a particular focus of concern in recent weeks, with spiraling prices prompting several countries to impose drastic limits on exports as they try to protect domestic consumers.

While grocery prices in the United States increased about 5 percent over all in the last year,

some essential items like eggs and milk have jumped far more. The federal government is expected to release new data on domestic food prices Wednesday, with notable increases expected.

On Monday, President Bush ordered that \$200 million in emergency [food aid](#) be made available to “meet unanticipated food aid needs in Africa and elsewhere,” a White House statement said.

His spokeswoman, Dana M. Perino, said the president had urged officials to look for additional ways to help poor nations combat food insecurity and to come up with a long-term plan “that helps take care of the world’s poor and hungry.”

Skeptics have long questioned the value of diverting food crops for fuel, and the grocery and live-stock industries vehemently opposed an energy bill last fall, arguing it was driving up costs.

A fifth of the nation’s corn crop is now used to brew ethanol for motor fuel, and as farmers have planted more corn, they have cut acreage of other crops, particularly soybeans. That, in turn, has contributed to a global shortfall of cooking oil.

Spreading global dissatisfaction in recent months has intensified the food-versus-fuel debate. Last Friday, a European environment advisory panel urged the [European Union](#) to suspend its goal of having 10 percent of transportation fuel made from biofuels by 2020. Europe’s well-meaning rush to biofuels, the scientists concluded, had created a variety of harmful ripple effects, including deforestation in Southeast Asia and higher prices for grain.

Even if biofuels are not the primary reason for the increase in food costs, some experts say it is one area where a reversal of government policy could help take pressure off food prices.

C. Ford Runge, an economist at the [University of Minnesota](#), said it is “extremely difficult to disentangle” the effect of biofuels on food costs. Nevertheless, he said there was little that could be done to mitigate the effect of droughts and the growing appetite for protein in developing countries.

“Ethanol is the one thing we can do something about,” he said. “It’s about the only lever we have to pull, but none of the politicians have the courage to pull the lever.”

But August Schumacher, a former under secretary of agriculture who is a consultant for the Kellogg Foundation, said the criticism of biofuels might be misdirected. Development agencies

like the World Bank and many governments did little to support agricultural development in the last two decades, he said.

He noted that many of the upheavals over food prices abroad have concerned rice and wheat, neither of which is used as a biofuel. For both those crops, global demand has soared at the same time that droughts suppressed the output from farms.

Elisabeth Rosenthal and Steven R. Weisman contributed reporting.

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Global warming rage lets global hunger grow

By **Ambrose Evans-Pritchard**, International Business Editor

Last Updated: 1:08pm BST 15/04/2008

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We drive, they starve. The mass diversion of the North American grain harvest into ethanol plants for fuel is reaching its political and moral limits.

"The reality is that people are dying already," said Jacques Diouf, of the UN's Food and Agriculture Organization (FAO). "Naturally people won't be sitting dying of starvation, they will react," he said.

The UN says it takes 232kg of corn to fill a 50-litre car tank with ethanol. That is enough to feed a child for a year. Last week, the UN predicted "massacres" unless the biofuel policy is halted.

We are all part of this drama whether we fill up with petrol or ethanol. The substitution effect across global markets makes the two morally identical.



A demonstrator eats grass in front of a U.N. peacekeeping soldier during a protest against the high cost of living in Port-au-Prince

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Mr Diouf says world grain stocks have fallen to a quarter-century low of 5m tonnes, rations for eight to 12 weeks. America - the world's food superpower - will divert 18pc of its grain output for ethanol this year, chiefly to break dependency on oil imports. It has a 45pc biofuel target for corn by 2015.

Argentina, Canada, and Eastern Europe are joining the race.

advertisement The EU has targeted a 5.75pc biofuel share by 2010, though that may change. Europe's farm ministers are to debate a measure this week ensuring "absolute priority" for food output.

"The world food situation is very serious: we have seen riots in Egypt, Cameroon, Haiti and Burkina Faso," said Mr Diouf. "There is a risk that this unrest will spread in countries where 50pc to 60pc of income goes to food," he said.

Haiti's government fell over the weekend following rice and bean riots. Five died.

The global food bill has risen 57pc in the last year. Soaring freight rates make it worse. The cost of food "on the table" has jumped by 74pc in poor countries that rely on imports, according to the FAO.

Roughly 100m people are tipping over the survival line. The import ratio for grains is: Eritrea (88pc), Sierra Leone (85pc), Niger (81pc), Liberia (75pc), Botswana (72pc), Haiti (67pc), and Bangladesh (65pc).

This Malthusian crunch has been building for a long time. We are adding 73m mouths a year. The global population will grow from 6.5bn to 9.5bn before peaking near mid-century.

Asia's bourgeoisie is switching to an animal-based diet. If they follow the Japanese, protein-intake will rise by nine times. It takes 8.3 grams of corn feed to produce a 1g of beef, or 3.1g for pork.

China's meat demand has risen to 50kg per capita from 20kg in 1980, but this has been gradual. The FAO insists that this dietary shift is "not the cause of the sudden food price spike that began in 2005".

Hedge funds played their part in the violent rise in spot prices early this year. To that extent they can be held responsible for the death of African and Asian children. Tougher margin rules on the commodity exchanges might have stopped the racket. Capitalism must police itself, or be policed.

Even so, the funds closed their killer "long" trades in early March, causing a brief 20pc mini-crash in grains. The speculators are now neutral on the COMEX casino in New York.

- **Biofuel rules 'could make millions homeless'**
- **Government is taken to court over fuel poverty**
- **BA may still give investors the last laugh**

What about the California state retirement fund (Calpers), the Norwegian Petroleum fund, the Dutch pension giants, et al, pushing a wall of money into the \$200bn commodity index funds?

They have undoubtedly bid up the futures contracts, but the FAO says this has no durable effect on food prices. These index funds never take delivery of grains. All they do is distort the shape of the maturities curve years ahead, allowing farmers to lock in eye-watering prices. That should cause more planting.

Is there any more land? Yes, in Russia, Ukraine, and Kazakhstan, where acreage planted has fallen 12pc since Soviet days. Existing grain yields are 2.4 tonnes per hectare in Ukraine, 1.8 in Russia, and 1.11 in Kazakhstan, compared with 6.39 in the US. Investment would do wonders here. But the structure is chaotic.

Brazil has the world's biggest reserves of "potential arable land" with 483m hectares (it currently cultivates 67m), and Colombia has 62m - both offering biannual harvests.

The catch is obvious. "The idea that you cut down rainforest to actually grow biofuels seems profoundly stupid," said Professor John Beddington, Britain's chief scientific adviser.

Goldman Sachs says the cost of ethanol from corn is \$81 a barrel (oil equivalent), with wheat at \$145 and soybeans \$232. It is built on subsidy.


New technology may open the way for the use of non-edible grain stalks to make ethanol, but for now the only biofuel crop that genuinely pays its way is sugar cane (\$35). Sugar is carbohydrate: ideal for fuel. Grains contain proteins made of nitrogen: useless for fuel, but vital for people.

Whatever the arguments, politics is intruding. Food export controls have been imposed by Russia, China, India, Vietnam, Argentina, and Serbia. We are disturbingly close to a chain reaction that could shatter our assumptions about food security.

The Philippines - a country with ample foreign reserves of \$36bn (Britain has \$27bn) - last week had to enlist its embassies to hunt for grain supplies after China withheld shipments. Washington stepped in, pledging "absolutely" to cover Philippine grain needs. A new Cold War is taking shape, around

energy and food.

The world intelligentsia has been asleep at the wheel. While we rage over global warming, global hunger has swept in under the radar screen.

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E85 does poorly in cost-benefit analysis

Researchers surprised to see diesel score the best

By James R. Healey
USA TODAY

Anything's better than ethanol blend E85, even ordinary gasoline, a new cost-benefit analysis of alternative fuels by researcher John Graham at the Pardee Rand Graduate School finds.

Energy Diesels scored highest, surprising even the researchers. "We were kind of expecting that hybrids would outperform diesels when we went into the study. It's close, but the advanced diesel provides better performance and fuel economy for the price, he says.

Compared to gasoline, a driver could spend as much as \$1,600 more on fuel over a vehicle's life burning E85, a mix of 85% ethanol and 15% gasoline, Graham calculates, while a diesel could save as much as \$2,300.

Diesels are just creeping back into the

USA as automakers introduce clean-burning models that meet new pollution rules. The study, which Graham plans to discuss today at a National Academy of Sciences roundtable in Washington, undercuts E85 at a time Detroit automakers are lobbying Congress for ethanol-supportive legislation and fuel-economy credits for building E85-compatible vehicles.

General Motors and Ford Motor, both pro-ethanol, are among companies that support the Rand school. "They aren't crazy about the results," Graham says.

The study also comes just as ethanol organizations are ramping up promotion of so-called intermediate blends of ethanol fuel, such as E20 — 20% ethanol and 80% gasoline — that they say could safely be used in conventional vehicles. Automakers currently limit regular vehicles to E10 blends, saying heavier concentrations of ethanol could damage fuel systems.

"Do we jump from E10 to E85? That's not a logical leap. That's why we're looking at these intermediate blends," says Brian Jennings, executive vice president at the American Coalition for Ethanol.

Graham's team calculated the individual and societal costs and benefits of conventional gasoline vehicles, gasoline-electric hybrids, high-tech diesels and flex-fuel vehicles burning E85 full time. Conclusion: Unless gasoline prices, averaging \$3.10 a gallon now, rise above \$4 and average \$3.50 or more the next few years, or ethanol prices drop a lot, diesel's the best overall solution; E85's the worst.

Ethanol has less than 70% of the energy of gasoline, so more ethanol in the blend means fewer miles per gallon. Adjusted for lower energy content, E85 averaged about \$3.25, AAA reported Thursday.

Drawbacks outweigh the high marks ethanol gets for adding almost nothing to the cost of a vehicle modified to burn E85 and for energy independence, Graham's team concluded. Ethanol is made from grain, mainly corn.

Graham, dean at school in Santa Monica, Calif., earlier worked at the U.S. Office of Management and Budget and founded the Harvard Center for Risk Analysis.

Rand is a non-profit corporation that researches public policy issues.

11/30/07

USA Today

[OPINIONS & IDEAS]

E.C. PASDUR JR. AND RANDAL R. RUCKER

Ethanol is another pork product

Hailed as an environmentally friendly alternative to fossil fuels and a means of reducing U.S. dependence on Middle East oil, the U.S. ethanol program has mutated into a huge tax-financed boondoggle whose costs far outweigh its benefits.

Like so much else that originates in Washington, the program was sold to the public by overstating its benefits and understating its costs. The myriad unintended consequences — political byproducts that range from higher food prices to environmental damage — were ignored altogether.

President Bush's 2005 energy bill mandated an increase of more than 50 percent over five years in the amount of renewable fuel (mostly corn-based ethanol) added to America's gasoline supply, increasing from 4.7 billion gallons this year to 7.5 billion gallons in 2012.

Although the current mandate represents only a tiny percentage of total annual gas consumption, President Bush has proposed increasing the mandate nearly five-fold over the following five years, pushing it up to 35 billion gallons by 2017. This would comprise about 25 percent of current U.S. annual gasoline consumption.

If corn alone were used to produce the ethanol, an increase of this magnitude would require more corn than is currently produced in the United States.

Even this, however, would do little to reduce petroleum imports or the use of petroleum products in the United States.

One reason is the huge amount of petroleum used in growing, harvesting, and transporting the corn needed to produce the mandated amount of ethanol.

Another is that ethanol has

significantly lower energy content than gasoline, as evidenced by Environmental Protection Agency vehicle mileage estimates. The EPA estimates that overall, vehicles using gasoline get about one-third more miles per gallon than vehicles using E85 (a fuel composed of 85 percent ethanol). Thus, a car or truck using E85 will consume about one-third more gallons of fuel than a vehicle using gasoline to drive the same distance.

Another downside is the costs. The subsidies for ethanol include a 51 cent per gallon tax credit, as well as other incentives to corn farmers and small ethanol producers.

Combined, these total roughly \$1 per gallon. The total subsidy cost this year alone will be about \$5 billion. Even with these huge subsidies, however, the fact that federal mandates are required to increase consumption of ethanol suggests that it is still not competitive with gasoline.

Ethanol producers, of course, have a huge stake in the mandate; some 78 ethanol plants currently are under construction in the United States, with 113 already operating. While agribusiness giant Archer-Daniels-Midland is the largest ethanol producer, many ethanol plants are relatively small and specialized.

These owe their very existence to the subsidies.

Corn-belt land owners are another major beneficiary of the program. With corn prices soaring, land values and land rents are up dramatically. Owners of farmland are receiving windfall gains, while growers who rent land see the benefits of higher prices offset by higher rents.

Meanwhile, by diverting corn

to ethanol production, the mandate is roiling markets for other products.

The U.S. Department of Agriculture estimates that the number of acres planted in corn this year will be the largest since 1944. But more corn for ethanol means less corn and less land for other uses, reducing supplies and pushing up prices of soybeans, oats, sorghum, wheat, and barley. It also raises the price of corn used to feed livestock, make breakfast cereal, and sweeten soft drinks.

In short, while agricultural landlords and ethanol producers gain, consumers lose.

Another unintended consequence of the ethanol mandate is its environmental impact. More land in corn means increased use of fertilizer and pesticides.

It also means more stress on wildlife habitat as more farm land, including idled land and pasture land, is brought back into crop production. And ethanol plants emit pollutants.

Government intervention in one market almost always begets further intervention in other markets. In this instance, subsidies to domestic ethanol markets have been augmented by a 54-cent-per-gallon tariff on ethanol from Brazil to prevent those imports from undermining the U.S. ethanol industry.

When all is said and done, the ethanol program is just another form of political pork that benefits the few at the expense of the many.

E.C. Pasour is a professor emeritus in the agricultural and resource economics at N.C. State University. Randal Rucker is a professor of agricultural economics at Montana State University.

DENNIS AVERY

Ethanol's other costs too high

John Kerry wants to double our ethanol production to five-billion gallons per year. So do President Bush and most of the U.S. Congress. Especially in a presidential election year. Ethanol makes farmers feel all warm and fuzzy, and farmers will vote for both presidential and Senate candidates in closely contested Midwest states this fall. Farm votes could actually swing the White House and the Senate.

Even eco-activists regard ethanol as better for the planet. It doesn't burn significantly cleaner, but it's "renewable."

There's only one problem. Corn takes land. Land good enough to farm is the scarcest resource on the planet. To convert to ethanol we would have to clear most of America's forests and/or drain our wetlands, and still end up with more erosion-prone land used for corn.

An acre of corn produces about 300-gallons of ethanol per year. U.S. vehicles burn about 300 billion gallons of gasoline per year. Cars can burn an 85 percent ethanol blend without engine damage, but we'd need to plant 850-million acres of corn. The United States doesn't have that much cropland. U.S. farmers currently plant only 330-million acres to crops in total, and only 73-million acres of corn.

The additional ethanol plants already being built will demand another 6 to 10 million acres of

corn by 2008. Which state's wildlife habitat will we clear to supply them?

Don't forget that better emissions technology has already cut air pollution per car by nearly 95 percent, and hybrid gas-electric vehicles promise to give us 40 percent more miles per gallon burned.

Remember, too, that American farmers last year harvested the world's largest-ever corn crop — and it wasn't enough to meet the global demand for livestock feed. Grain prices went so high that ethanol plants couldn't bid for corn. World grain stocks went down. Rain forest was cleared for farming in the tropics.

If America seriously tried to burn ethanol, we'd probably start by planting grain on the 32-million acres of high-risk land in the U.S. Conservation Reserve. Much of that land, however, is prone to drought and wind erosion. Worse, its yields would be low.

The most "promising" corn production possibility would be to drain lots of wetlands. They'd produce high yields of corn. But they'd no longer produce lots of frogs, fish, birds and dragonflies.

More important, the world is heading for three times as much feed demand in 2050. The human population will grow by perhaps 1.5 billion before it tops out. China's meat demand is soaring, India's milk demand is soaring, and neither of those densely pop-

ulated countries has any additional cropland available.

Brazil has a lot of pasture and brushland that could be planted to corn, supplying world food and feed demand while America turns its corn into ethanol. But that would give Brazil the profitable part of the corn market. The United States and its taxpayers would spend tens of billions of tax dollars, and the National Research Council says our air wouldn't be any cleaner. Plus, we'd still need fossil fuels for our power plants.

Nor would U.S. farmers be richer; they'd still be selling the same amount of corn.

If we decide we must have an alcohol fuel anyway, we could import it from Brazil's sugar cane fields at half the cost, both economically and environmentally. In fact, cane sugar is the most efficient source of biofuel on the planet. The United States only grows sugar beets. Importing ethanol would help Brazil's economy, but likely increase pump prices significantly for U.S. motorists.

Ethanol is one of the election year standbys. But it is fool's gold that will tarnish the environment and slip money from the pockets of taxpayers, motorists and even farmers.

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