

Fact Sheet

Oil Prices and Other Major Factors Drive up Food Prices

According to the U.S. Government, economists and other analysts, the following factors are responsible for most of the increase in world food prices: higher oil and gas prices leading to increased costs of fertilizer, harvest, and transportation; increased demand as developing countries grow and people improve their diets; two years of bad weather and drought leading to poor harvests in parts of the world; and export restrictions imposed by some countries.¹ Other factors include commodity speculation,² the decline in the value of the dollar, and the increase in biofuel production.

Overall Higher Energy Costs Are a Major Cause of Higher Food Prices

Record prices for diesel fuel, gasoline, natural gas, and other forms of energy increase costs throughout the food production and marketing chain. According to a report by the Federal Reserve Bank of Kansas City, “a 10% gain in energy prices could contribute 5.2% to retail food prices.”³ An April 2008 study by economists at Texas A&M University concluded, “The underlying force driving changes in the agricultural industry, along with the economy as a whole, is **overall higher energy costs**, evidence by \$100 per barrel oil.”⁴

96% of Food Price Rise in 2008 Has Nothing to Do with Biofuels

According to the Department of Energy, during the first 4 months of 2008, the all food CPI increased by 4.8 percent, with increased ethanol and biodiesel consumption accounting for only about 4-5 percent of the total increase while other factors accounted for 95-96 percent of the increase. In 2007, 97% of food price increases had nothing to do with ethanol.⁵ Further, ethanol has contributed only 3% of the 45% increase in global food prices, according to the Department of Energy. In terms of increased costs in the supermarket, this amounts to an average \$6 -\$10 increase per household.

Commodity Speculation Helps Increase Corn Prices

Commodities industry expert Michael Masters told a Senate committee that explanations for higher food prices that “typically focus on the diversion of a significant portion of the U.S. corn crop to ethanol production” are incorrect. “What they overlook is the fact that Institutional Investors have purchased over 2 billion bushels of corn futures in the last five years. Right now, Index Speculators have stockpiled enough corn futures to potentially fuel the entire United States ethanol industry at full capacity for a year. That’s equivalent to producing 5.3 billion gallons of ethanol, which would make America the world’s largest ethanol producer.” Such commodity speculation has driven prices higher than they would be under current conditions.

While higher oil prices are a primary factor driving up the cost of food, ethanol is helping families save on the cost of gasoline.

Any marginal increase in spending on food resulting from increased biofuels production are being more than offset by savings at the gas pump resulting from increased ethanol blending. According to a June 2008 analysis led by Merrill Lynch Commodity Strategist Francisco Blanch, “retail gasoline prices would be \$21/bbl higher [50 cents a gallon], on average, without the incremental biofuel supply.” This translates to a \$526 a year savings on gasoline for the average family.⁶

-
- ¹ USDA/DOE Letter to Senator Jeff Bingaman, Chairman of Senate Energy and Natural Resources Committee, June 11, 2008.
- ² Testimony of Michael W. Masters before the Committee on Homeland Security and Government Affairs, U.S. Senate, May 20, 2008.
- ³ “The Factors Behind Higher Food Prices,” Federal Reserve Bank of Kansas City’s *Main Street Economist*, March 2008.
- ⁴ “The Effect of Ethanol on Texas Food and Feed,” David P. Anderson, Joe L. Outlaw, James W. Richardson, David P. Ernestes, J. Marc Raulston, J. Mark Welch, George M. Knapek, Brian K. Herbst, and Marc S. Allison; Agricultural Food and Policy Center, Texas A&M University, April 10, 2008.
- ⁵ USDA/DOE Letter to Senator Jeff Bingaman, Chairman of Senate Energy and Natural Resources Committee, June 11, 2008.
- ⁶ “Biofuels driving global oil supply growth,” Merrill Lynch, June 6, 2008.