

## Myths & Facts

### Biofuels and Food Prices

**MYTH:** Ethanol is responsible for driving up food prices?

**FACT:** The primary factors driving up food prices are: skyrocketing oil prices, adverse weather-related events in Australia and elsewhere reducing harvests for wheat and rice, rising demand by a growing middle class in China and Asia, commodity speculation, and the declining value of the dollar.

Ed Lazear, Chairman of the White House Council of Economic Advisors concludes that since corn is only 30% of all the grain produced, and grain is only 20% of all food, “ethanol accounts for somewhere between 2 and 3% of the overall increase in global food prices.”

Higher oil prices are playing a much greater role by increasing prices all along the food chain from the farm to the supermarket. Specifically, higher oil prices have increased the costs of farming and transporting food. According to a recent report by the Federal Reserve Bank of Kansas City, “a 10% gain in energy prices could contribute 5.2% to retail food prices.”

**MYTH:** Ethanol is the reason everything from popcorn to tortillas and beer is costing more.

**FACT:** The production of ethanol has little impact on prices for popcorn, beer, tortillas, wheat or rice. The corn used to produce ethanol is field corn. The only other markets for U.S. field corn are the animal feed and export markets. The corn used for popcorn is not field corn; just like sweet corn that people eat is not field corn. White corn used to make tortillas is also a separate market. The grains to make beer are not used to make ethanol. The wheat market is an international market with very few acres in the US being shifted from wheat to corn. Finally, no corn is grown in rice patties and rice is not used to make ethanol.

**MYTH:** Ethanol is raising the cost of summer holiday barbecues.

**FACT:** The most important factor driving up consumer costs for both gasoline and food are skyrocketing oil prices. 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.” Ethanol is helping keep prices down. The U.S. Department of Energy (DOE) estimates that gasoline prices would be between 20 cents to 35 cents per gallon higher without ethanol and Merrill Lynch estimates the savings at 50 cents per gallon. In other words, consumers are saving between \$200 and \$500 a year in lower gasoline prices because of ethanol. The higher corn prices due to ethanol amount to between \$6 and \$15 per year for the average household.