

BACKGROUND

Blaming Ethanol for Higher Food Prices is Wrong: The Experts Agree

The debate over the role of biofuels in recent food price increases has often ignored the facts. Biofuel opponents have instead chosen to exploit the plight of those going hungry around the world for political benefit by calling for the repeal of biofuel policies around the globe. Despite evidence to the contrary, biofuel opponents are continuing their attacks on farmers and biofuel producers blaming them for driving up the price of food while ignoring the major factors that are driving food prices higher.

The tens of millions of dollars likely to be spent on smearing farmers and biofuel producers will create a great deal of smoke, but it cannot hide the fundamental fact that biofuels are but a small factor in today's global food crisis.

Biofuels are not a major cause of higher world food prices

Although the Grocery Manufacturers of America (GMA) are conducting a concerted propaganda effort to convince the public and policymakers that biofuels are major cause of higher world food prices, the most important factors that are primarily responsible for driving up food costs are:

- Skyrocketing oil prices
- Droughts and adverse weather in Australia, China and other regions
- Increasing middle class demand for meat and grain in emerging economies
- Commodity speculation
- Declining value of the dollar

According to Marshall Matz, former chairman of the Board of the Friends of the World Food Program from 1995-2008 and former general counsel to the Senate Select Committee on Nutrition and Human Needs,

“The recent debate over the farm bill has left some with the impression that corn-based ethanol is responsible for hunger around the world. It is a great deal more complicated. The impact of corn-based ethanol must be examined, but the dramatic increase in the price of grain is the result of several factors, including the increase in energy costs, low grain stocks worldwide, the rapidly changing diet in China and India and the weak United States dollar. In short, there is a long-term structural problem that goes beyond the use of corn-based ethanol.” – *“Sustainable food supply will help eliminate hunger,” Marshall Matz, Sioux Falls Argus Leader, June 2, 2008.*

Speculators are driving up the price of corn and other commodities

From oil to copper to cocoa and to corn, Wall Street speculators are driving up the price of all commodities. This type of speculation causes prices to rise far above what they otherwise would be in a normally functioning market.

According to Michael W. Masters, Managing Member/Portfolio Manager Masters Capital Management,

“Let’s turn our attention to food prices, which have skyrocketed in the last six months. When asked to explain this dramatic increase, economists’ replies typically focus on the diversion of a significant portion of the U.S. corn crop to ethanol production. 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.” – [Testimony of Michael W. Masters, Managing Member / Portfolio Manager Masters Capital Management, LLC before the Committee on Homeland Security and Governmental Affairs United States Senate May 20, 2008.](#)

Biofuels account for only a small increase in grain and food prices

While greater biofuels production has increased consumption of grain, its impact has been less than what is reflected in the over-blown rhetoric used by ethanol opponents.

- “We estimate that biofuels have been responsible for lifting (world) grain prices by at most 8 percent...” – [New Energy Finance, London, May 2008.](#)
- 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."** -- [Ed Lazear, the Chairman of Council of Economic Advisors, May, 2008.](#)
- **“Increases in energy prices for example exert a greater impact on food prices than does the price of corn.** A 33 percent increase in crude oil prices – which translates into a \$1.00 per gallon increase in the price of conventional regular gasoline – results in a 0.6 percent to 0.9 percent increase in the CPI for food while an equivalent increase in corn prices (\$1.00 per bushel) would cause the CPI for food to increase only 0.3 percent.” - [“The Relative Impact of Corn and Energy Prices in the Grocery Aisle,” John M. Urbanchuk, Director, LECG LLC, June 14, 2007.](#)

Biofuels are not preventing people from obtaining the food they need at a price they can afford.

The fact that hundreds of millions of people around the world can’t afford to buy food is a truly human disaster that is more a function of failed government policies, skyrocketing oil prices and other aforementioned factors than the existence of the biofuel industry.

“Biofuels are not taking the food out of the mouths of people, but we need to make sure that balance is struck.” – [John Holmes, the U.N. humanitarian chief and coordinator of the U.N. task force on food price crisis.](#)

“The world has enough resources and the right technology to produce enough crops to meet the demand for food and biofuel.” - [Hafez Ghanem, FAO assistant director general, June 2008.](#)

Skyrocketing oil prices are having a significant impact on food prices from increasing the cost of farming to transportation and packaging.

A recent Texas A&M study found that corn prices have had little to do with rising food costs. Higher corn prices do have a small effect on some food items. More importantly, said the study, “The underlying force driving changes in the agricultural industry, along with the economy as a whole, is overall higher energy costs, evidenced by \$100 per barrel oil.” – [Texas A&M University, April, 2008.](#)

“A 10 percent gain in energy prices could contribute 5.2 percent to retail food prices.” – [Federal Reserve Bank of Kansas City, March 2008.](#)

Increased use of biofuels is helping to keep gasoline prices lower than they otherwise would be.

“Without biofuels, which can be refined to produce fuels much like the ones made from petroleum, oil prices would be even higher. Merrill Lynch commodity strategist Francisco Blanch says that oil and gasoline prices would be about 15% higher if biofuel producers weren't increasing their output.” – [The Wall Street Journal, March 24, 2008.](#)

According to Fadel Gheit, an analyst with Oppenheimer & Co., “if the recent (June 6) jump in crude oil prices were fully priced into retail gasoline, they would increase about 25 cents a gallon. That hasn't happened because low demand for gasoline, as well as a mandate for refiners to use ethanol, has kept U.S. refining margins weak”. – [Reuters, June 9, 2008.](#)

“...the growth in ethanol production has caused retail gasoline prices to be \$0.29 to \$0.40 per gallon lower than would otherwise have been the case.” - [Center for Agricultural and Rural Development, Iowa State University, April, 2000.](#)

“Just offsetting the biodiesel and ethanol added to the U.S. and European markets since 2005 would require around 1 million barrels a day of additional crude oil supplies to be processed.” - [International Energy Agency, May 12, 2008](#)