A Growing Conflict: Food Or Fuel?

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A "food vs. fuel" feud has emerged as farmers led by the American and state farm bureaus have taken on the Grocery Manufacturers Association (GMA) that planned a media campaign against corn based ethanol which they claimed is the cause for higher food prices, and an effort to reduce the renewable fuel standards passed by Congress in 2007.

Farm leaders feel that it is not appropriate for the grocery companies to blame farmers and ethanol for high corn prices when farmers are the source of the commodities that the grocery companies depend on.

Two agricultural economists have presented their views on ethanol and high corn prices. Wally Tyner, an energy policy economist at Purdue University, asserts that those who blame ethanol for high corn prices need to "dig deeper – oil well deep". Tyner admits that biofuel production is the reason corn prices are going up, but the more important question is why biofuel production is up. He claims that the federal subsidy on ethanol is a small part of the overall picture.

Tyner points out that as the cost of crude oil climbs, corn prices are pulled higher by increased ethanol production. Ethanol production is growing through the combination of consumer demand and federal energy policy.

He concludes that the federal Renewable Fuels Standard that mandates ethanol production and the government subsidy for ethanol indicates that corn price trends have followed crude oil markets. Tyner believes that most of the corn price increase is due to the higher oil price, not the ethanol subsidy. As he sees it, when crude oil went from $40 to $120 a barrel, corn went from $2 a bushel to $6 a bushel, tripling both prices. He points out that about $1 of the corn price increase was due to the subsidy and $3 to the high crude oil price.

Tyner believes that tariffs on imported ethanol could force corn prices lower, especially if the tariffs lead to alternative sources of ethanol. Sugarcane based ethanol is cheaper to produce than corn ethanol at any oil price but the gap widens at higher oil prices. The removal of the tariff on imported ethanol would lead to the biofuel coming from the lowest cost source–sugar cane, which would reduce some pressure on corn prices and provide the U.S. with lower cost ethanol.

University of Nebraska agricultural economist Richard Perrin estimates that ethanol's increasing demand for corn is responsible for about 1.2 percent of the increase in U. S. food prices during last two years. However, he points out that in poorer parts of the world, ethanol's impact on food prices likely is much higher, perhaps as much as 15 percent of rising prices.

Perrin calculates that ethanol is responsible for about 40 percent of grain price increases in the last two years. He also believes that grain prices contribute about 3 percent to the increase in U. S. food prices. So as he sees it, 40 percent of 3 percent is 1.2 percent. The value of grain in U. S. consumers' expenditures constitutes less than one-half of 1 percent of consumer income, Perring points out.

Perrin continues to explore other causes of increasing food prices, which may include increased energy costs, higher demand for food, unusually low world wheat production and speculative purchasing.

Farm Bureau members are being asked to contact such companies as Kraft Foods, Sara Lee, ConAgra, McDonalds, DelMonte and PepsiCo. to oppose any waiver of the renewal fuel standards.

The food industry campaign (led by GMA), supports suspending a U. S. renewable fuels standard (RFS) that directs annual use of 36 billion gallons of biofuels by 2022. Texas has requested a 50 percent waiver of RFS requirements. Some congressional leaders have expressed opposition to any waiver of these standards.

The debate over using corn for food or fuel is really part of a much broader question of what our national energy policy should be in view of rising oil prices and increasing demand for oil from other countries in the world. The issues to be faced in the next few years involve government mandates for increasing fuel efficiency by motor vehicles, expanding drilling for oil in places that are now blocked by environmental interests and Congressional action, developing other economical sources for producing ethanol, expanding power generation with wind power and atomic energy, limiting speculation in oil futures, and other measures that would reduce our dependence on foreign oil imports.

Despite all the rhetoric that will be heard during coming months as we face a national election, both parties have some responsibility for the energy problems that we now face, and who ever is elected as our next president and members of Congress will not have quick or easy solutions to our higher energy prices. Δ

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