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Myth Buster #32

An ongoing Land
Stewardship Project
series on ag myths
and ways of
deflating them.

Updated: Sept. 2011

Myth: Using crops to produce biofuels does not raise food prices.

Fact:

This summer, former U.S. Secretary of Agriculture John Block wrote a newspaper commentary that dismissed as an “urban myth” the claim that making more of our crops like corn into biofuels has raised food prices. Wrote Block: “There just isn’t any statistical evidence that increased ethanol production results in rising food prices...”

This is just the latest in a long line of responses to concerns that there is a connection between food-shortage-fueled political unrest in places like Egypt and Algeria, and making food crops into biofuel. Much of the nay-saying that there is little or no connection comes from groups like the Renewable Fuels Foundation, which is “dedicated to meeting the education, research and strategic planning needs of the U.S. fuel ethanol industry,” according to its website.

For example, Block bases his commentary mostly on a study conducted recently by Informa Economics, a market research firm that specializes in agricultural commodities. Not surprisingly, Informa was paid by the Renewable Fuels Foundation to conduct its latest biofuels study.

According to the Informa study, higher corn prices are not a major driver of higher food prices because corn accounts for only 11.6 cents out of every food dollar Americans spend on food. In addition, according to Block and Informa, weather disasters, the declining U.S. dollar and strong demand for livestock feed are combining to raise corn prices to record levels (it’s selling for well over \$7 a bushel at this writing, and \$8 corn is not out of the question later this fall).

Informa is correct: higher food prices are the result of a number of factors — wild speculation on the part of traders willing to cash in on uncertainty and fear being one of them — and no one single element can take all the blame. But there is plenty of evidence that higher corn prices play a bigger role in grocery store

inflation than some would have us believe.

A paper by Purdue University agricultural economists Corinne Alexander and Chris Hurt argues that there is often a very direct connection. And that connection often has its roots in one major factor: when more corn or other crop is planted for the biofuels market, that leaves fewer acres available for other food crops.

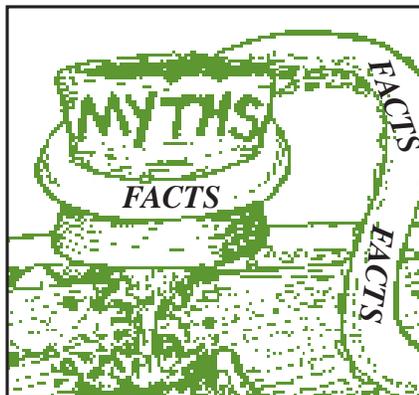
When wheat acreage, for example, is replaced by corn, it’s inevitable the price of flour will go up. And replacing soybean acres with corn means the resulting higher prices for soybean oil can affect the price of everything from salad dressings to cooking oils and margarine. (Indeed, the USDA reported this summer that when U.S. ethanol production increased from 1.6 billion gallons to 10.8 billion gallons annually between 2000 and 2009, harvested corn acreage increased by roughly 10 percent. That increased corn acreage came at the expense of, among other things, soybean plantings.)

On the local level, inflated land values caused by high corn prices makes it difficult for producers of fruits, vegetables or other specialty crops to come up with the money to rent or buy even a few acres. That means such products must travel more expensive miles to get to your supper table.

Alexander and Hurt estimate that in 2007, higher prices for commodities such as corn increased food inflation by \$22 billion annually. About two-thirds of that increase, or around \$15 billion per year, was related to biofuels.

“While the fear of hyper-food inflation similar to the early 1970s is vastly overblown, food price increases in the early years of the biofuels boom will likely be the largest in over 15 years,” conclude the Purdue economists.

It’s been argued that food price volatility is being caused by increased demands for grain and oilseed



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LSP Myth Buster #32: Using crops to produce biofuels does not raise food prices.

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from a rapidly expanding middle class in places like China and Asia. In particular, the higher demand for meat means more of these crops are being diverted to feed use.

But this summer an interesting study emerged from the United Nations' Committee on World Food Security that cast serious doubt on this theory. It found that in recent years there has been barely any change, and in fact a bit of a slow down, in the rate of grain consumption in China and India, which combined make up 40 percent of the world's population. And use of grains and oilseeds for feed in countries where meat production is going up has, with the exception of the Soviet Union, been slowing down.

So why so much food price volatility? The UN report points the finger at biofuels as one major cause. It found that using grains like corn and wheat to produce ethanol has added 0.5 percentage points to the growth in world cereal grain demand, pushing it from 1.3 percent annually to 1.8 percent. The use of vegetable oils in Europe to make biodiesel has had an even larger impact. The processing of these oils for food

slowed down between the 1990s and 2000s—from 4.4 percent to 3.3 percent annually. But from 2000 to 2010 alone, industrial use (much of that for biofuels) of vegetable oils more than doubled from 11 percent to 24 percent of world use.

There is a growing call for countries to take a second look at national mandates and subsidies for biofuel production. For example, the U.S. Congress has mandated that biofuel use must reach 36 billion gallons annually by 2022 (that's almost triple the 13 billion gallons that are used annually today). Currently, encouraged by subsidies, nearly 40 percent of the corn grown in this country already goes to make biofuel.

The food price volatility caused by using cereal grains and oilseeds to make fuel should also be an incentive to make options such as cellulosic biofuels—producing energy from perennial grasses, etc.—more economically viable, say economists. Perhaps some of the money being pumped into corn ethanol subsidies could be re-directed to researching how prairie grass can be part of a locally based, sustainable bioenergy future.

→ More Information

- To read the UN report, "Price volatility and food security," see www.iatp.org/files/HLPE-price-volatility-and-food-security-report-July-2011.pdf.
- Purdue University's "Biofuels and Their Impact on Food Prices" paper is at www.ces.purdue.edu/extmedia/ID/ID-346-W.pdf.

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