

Coalition for Balanced Food and Fuel Washington, D.C.

Soaring Food Costs Seen Linked To Rapidly Expanding Ethanol Sector

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NEW ORLEANS – April 7, 2008 – Soaring food prices in the United States are caused in part by \$25 billion per year in unnecessary costs imposed on food producers by the federally subsidized ethanol industry, which is itself teetering on the brink of contraction due to rampant over-expansion and higher corn prices, an agricultural economist told food writers meeting here today.

“We simply cannot subsidize our way into long term economic growth and job creation,” warned Thomas Elam, Ph.D., president of FarmEcon LLC. “The policy favoring ethanol and other biofuels over food uses of grains and other crops acts as a regressive tax on the poor.”

The impact on food costs comes from the federal policy of subsidizing the conversion of corn into ethanol, which is then added to gasoline at a concentration of up to 10 percent for use in most vehicles and up to 85 percent for some vehicles. Until the last few years, corn was used mainly to make feed for livestock and poultry, but has increasingly been diverted into ethanol because of hefty federal subsidies. As a result, the price of corn has soared, along with soybeans and other grains and oilseeds also used in animal feed.

“The biofuels policy that is driving higher prices of corn, other grains, and soybeans will cost the U.S. economy more than \$100 billion from 2006 to 2009,” Elam said. “It is inevitable that these costs will be passed along to consumers.”

Elam spoke at a conference of food writers sponsored by the National Chicken Council and the U.S. Poultry & Egg Association. Chicken, turkey and egg producers are all major buyers of corn for animal feed. Elam estimated that as a result of biofuels subsidies, the poultry industry alone is being forced to absorb about \$8 billion in extra costs just this year.

Elam released a new study of the ethanol situation produced by his firm. He said that the ethanol industry has grown rapidly in response to the federal subsidy program – too rapidly, he suggested. Ethanol distilleries already in operation, plus those slated to come on line in the next year, will need up to 5 billion to 5.5 billion bushels of corn per year by 2009, Elam said.

Soaring Food Costs Seen Linked to Ethanol

Page 2

“We will not have nearly that much corn available for ethanol use,” he warned. Crop rotation requirements and higher prices of soybeans will actually reduce the amount of corn available for all purposes in 2008/2009, compared to the current crop year, he said.

Only about 4 billion bushels of corn will be available to the ethanol sector, meaning that it will be able to operate at only 75 percent to 80 percent of its capacity as early as next year, he said. Elam said many ethanol distilleries will have to suspend operations and most will operate at a significant loss.

“Spurred on by subsidies, the ethanol industry has expanded at an unsustainable rate,” he said. “It will be very difficult for the industry to make money even at its current size, even given federal subsidies. At the capacity the industry is building, it will not be able to operate its plants at that capacity in the foreseeable future.”

With the current price of petroleum products, ethanol producers can afford to pay up to \$5.25 per bushel for corn. Corn is already selling for \$5.50 to \$5.75 per bushel on the spot market. Several ethanol companies have recently reported financial difficulties, mostly as a result of higher corn prices. “The subsidies designed to promote ethanol production and use are largely turning out to be large windfall profits for corn and soybean producers,” Elam said.

Society is paying a high price for the government’s policy of subsidizing the conversion of corn into ethanol, Elam added. While the ethanol industry itself estimates that it produced \$12.3 billion in 2007 household income, Elam said, his firm’s study shows that the added cost to the economy in 2007 was about \$24.4 billion.

“In other words, every dollar in extra household income created by ethanol support costs someone else in the economy about \$2. We should expect this outcome from any industry that depends heavily on subsidies for its existence,” he said.

Elam’s study was commissioned by the National Chicken Council, National Turkey Federation, and the American Meat Institute.

For a full version of the study, click on the link below:

<http://www.balancedfoodandfuel.org/ht/a/GetDocumentAction/i/10560>