



Latest volley fired in food-versus-fuel battle

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The latest volley in the ongoing debate over food-and-feed-versus-fuel battle focuses on high energy prices as the primary culprit. In a conference call with reporters last Thursday that was organized by the Renewable Fuels Association (RFA), John Urbanchuk, a director with LECG LLC, a global consulting firm, said **rising energy prices have twice the impact on the Consumer Price Index (CPI) for food than the price of corn.** “Energy costs have a much greater impact on consumer food costs as they impact every single food product on the shelf,” said Urbanchuk. “Energy is required to produce, process, package and ship each food item. Conversely, corn prices impact just a small segment of the food market as not all products rely on corn for production. While it may be more sensational to lay the blame for rising food costs on corn prices, the facts don’t support that conclusion. By a factor of two-to-one, energy prices are the chief factor determining what American families pay at the grocery store.”

According to the analysis, a 33% increase in crude oil prices – the equivalent of \$1.00 per gallon over current levels of retail gasoline prices – would increase retail food prices measured by the CPI for food by 0.6 to 0.9%. An equivalent increase in corn prices – about \$1.00 per bushel over current levels – would increase consumer food prices only 0.3%. The report says corn and energy prices both affect consumer food prices, but because corn price hikes are limited to a relatively small portion of the overall CPI for food, an increase in corn prices resulting from higher ethanol demand or a supply disruption such as a major drought is expected to have about half the impact of the same percentage increase in petroleum and energy prices. RFA President Bob Dinneen accused “critics of ethanol, including those in the animal feeding and oil industries” of **“engaging in baseless scare tactics to convince Americans that ethanol production will irreversibly increase their grocery bills.”** He said that while ethanol production “is creating a real market-driven price for corn, this report clearly presents the undeniable facts: energy prices, not ethanol, are responsible for much of the increase in the price of food.”

Last month, Iowa State University Economist Bruce Babcock made a presentation on behalf of the American Meat Institute, the National Cattlemen’s Beef Association and other groups affected by higher corn prices. Babcock’s study, from ISU’s Center for Agriculture and Rural Development, used multiple scenarios to measure the economic impact of increased biofuel production on crop markets, the livestock and poultry sectors, exports, and grain-based wholesale and retail food prices. The study estimated that retail food prices

have risen by \$47 per person since corn prices rose from \$2 per bushel in mid-2006 to around \$3.50 at the time of the study. Corn was trading near \$4.00 bushel on Tuesday.

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