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OPINION

A Mandate to Raise Food Prices

The cause of higher grocery bills isn't the drought. It's the failed federal ethanol policy.

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By ROB GREEN

Nov. 27, 2012 7:10 p.m. ET

Americans should understand that this year's drought—the worst in 50 years—isn't the primary reason for record-high food prices. The drought made things worse, but the leading driver of long-term increases in food costs is a deeply flawed federal mandate.

In 2005, Congress enacted the Renewable Fuel Standard to mandate the use of corn-based ethanol in gasoline. The cost of food commodities immediately began to rise. As a result, Americans have had to deal with some of the highest food prices on record. While the drought will end at some point, the price increases caused by the ethanol mandate will continue unless the government reverses course.

Proponents of ethanol argue that it lowers greenhouse-gas emissions and gas prices, but these findings remain subject to intense debate. The higher food prices all Americans now pay are indisputable.

Under the federal mandate, Americans must use 15 billion gallons of ethanol in gasoline annually by 2015. To meet this goal, 5.3 billion bushels of corn per year—equal to more than 40% of the 2011 corn crop—must be processed and burned as ethanol, not used for food or livestock feed.

The result: higher prices across the entire food chain, from products directly containing corn to protein raised on corn feed and crops that compete with corn for farmland. That includes the bread on the table, the eggs at breakfast, the chicken or steak at dinner, and almost all dairy products.

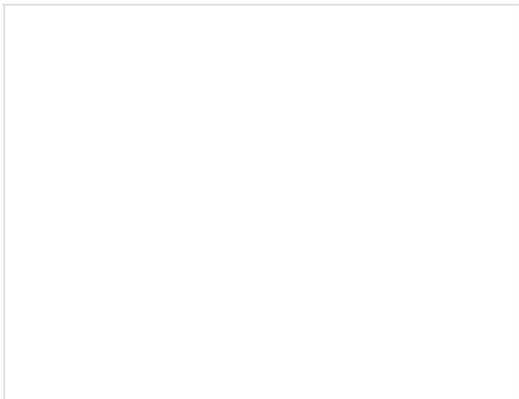
Since the enactment of the ethanol mandate in 2005, the use of corn in ethanol has skyrocketed to more than five billion bushels per year from 1.3 billion. Corn prices immediately began to rise, too, and in each year since they have exceeded the highest price seen between 1976 and 2006. Price increases also spread to other parts of the agricultural sector, as farmers switched to corn from other crops and livestock.

New research by PricewaterhouseCoopers (on behalf of the National Council of Chain Restaurants) finds that by the time the mandate's 2015 goals are met, it will have caused a 27% increase in corn prices. Increased corn prices have already led to higher prices for other commodities, such as soybeans (by up to 16%), pork (by up to 15%) and poultry (by up to 8%).

Chain restaurants rely on these products for the food they serve. According to the PwC study, the federal mandate costs the typical chain restaurant up to \$18,000 per year, per restaurant location. That is money that could otherwise go to building new restaurants, expanding operations or hiring new workers.

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distortionary impact on food prices. But such alternative biofuels aren't yet commercially viable. So the elevated corn and other commodity prices caused by the ethanol mandate will continue into the foreseeable future. The increased costs to the food chain will have to be paid as long as the policy remains in place.

All the while, it isn't clear what good ethanol use will be doing for the environment. This is especially true if the long-run impact of increased corn production is to convert forests into croplands, substitute normal crop rotation with practices that use more fertilizers, and further tax local water resources. If so, any net reductions in greenhouse-gas emissions can disappear altogether.

In exchange for an alleged benefit that is uncertain at best, the ethanol mandate effectively requires that Americans pay a tax on the food they purchase. However laudable the mandate's intended goals, its downsides outweigh any possible benefits.

The chain-restaurant industry isn't anti-ethanol. We simply believe it is time for the ethanol industry to stand on its own, as restaurant owners and operators do every day. Congress and the president should repeal the misguided Renewable Fuel Standard and allow the free market to allocate corn to its most highly valued use—not one imposed by a government that forces food to be burned for inefficient fuel.

Mr. Green is executive director of the National Council of Chain Restaurants.

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John S. Wilson

As a person who directly benefits from the high price of corn, as I own some land in the Midwest which is "in" corn, I am delighted with the higher prices. BUT - as an earlier post notes, only about 1/2 of the "40% of the corn crop" goes to production of corn. The other 1/2 of that production, is made into DDGs (Distillers' Dried Grains) which is animal feed, folks: and the cows eat it like candy. So let's be fair with the facts as we make our arguments.

And my cars run wonderfully, and have done so for years, on the ethanol blends.

Nov 30, 2012



Frank Verhoff

A Mandate to Raise Food Prices

To understand corn prices, one must understand that corn is a world commodity. The United States produces about 40% of the world corn, China 20%, and the rest of the world 40%. Until recently China exported corn in competition with the US and this competition kept world corn prices down. Recently China has become an importer of corn which changed the dynamics of the world corn market driving the price higher. China imports corn because their living standard has risen and hence more meat is being eaten. In addition, China has become very competitive in many products the use corn as a raw material and they export these products to the US e.g. penicillin and vitamin C.

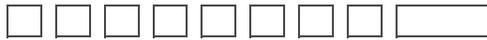
The decline in the value of the dollar has also influenced the price of corn. A corn price rise in USD from \$2.50/bu to \$7.00/bu will translate to different price rises for consumers in other countries. For example, the Australian dollar has gone from \$0.56 to \$1.04 over the past ten years. Therefore for Australian corn purchasers the price of corn has risen from \$2.50 to \$3.75/bu. For the Chinese purchaser the Yuan has gone from 8.27/dollar to 6.22/dollar. This translates into a corn price change for the Chinese of \$2.50/bu to \$5.25/bu.

Corn is composed of three valuable components, carbohydrate, oil, and protein. Of less value is the fiber. For animal feed, corn has an excess of carbohydrate (and fiber) and is deficient in protein. A typical animal diet involves corn supplemented with high protein soymeal from soybeans. Vegetable protein has been driven higher in price also by increased demand for meat in various countries including China. China has become a significant importer of soybeans in the last years. Hence soybean prices have raised also based upon this demand and currency effects.

The production of ethanol from corn only uses the carbohydrate portion (or least valuable portion) of the corn leaving a byproduct called DDGS which competes with other protein sources for animal feed. In fact, the production of ethanol also involves the production of yeast cells which are a good source of vitamins and protein for animal feed. In other words, ethanol production also involves the production of some protein for animal feed in addition to the protein that was originally in the corn. China has become a significant importer of DDGS. As a side point, China's demand for vegetable protein has become so great that they import alfalfa from the US.

Nov 29, 2012
The US does not keep technically competitive in the production of ethanol, the day

may come when the US ships corn to China, China makes ethanol and DDGS and ships the ethanol back to the US and uses the DDGS internally. The US has not kept technically competitive in penicillin, vitamin C, and other products from corn and hence these products can no longer be produced here even at US labor rates lower than the Chinese labor rates.



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