

Monday, February 25, 2008

Ethanol policy threatens to starve the world

By Ernest Istook

Drought. War. Poverty.

These are leading causes of hunger, according to the United Nations. Soon we may add another.

Ethanol.

Across the globe, people are discovering it's a new contributor to world hunger. Led by the United States, governments are paying companies billions to make ethanol from corn and other crops. The result: these crops are diverted from the food supply, creating artificial shortages and higher prices.

Even record harvests haven't suppressed food prices. Instead, prices are soaring to all-time highs.

Corn that traded around \$2 a bushel just two years ago is now well over \$5 a bushel. The impact ripples through the food chain of milk, butter, eggs, flour, pasta and everything else, because dairy cattle, beef cattle, poultry and swine depend on the corn for their feed. When chicken feed doesn't cost chicken feed anymore, then neither does anything else.

Other grains, like wheat, are also at record highs because farmers are planting less wheat and more corn, thanks to the ethanol incentives. Less supply, plus more world demand, means higher prices for wheat products, too, from flour to bread to pasta.

Full-scale food riots may arise in some parts of the world, as more and more grain is diverted into fuel production. The Earth Policy Institute reports that ethanol-related food protests occurred last year in Mexico, Italy, Pakistan and Indonesia. A price-driven stampede killed three and injured 31 at a supermarket in China.

"We are witnessing the beginning of one of the great tragedies of history," the EPI proclaimed in January. "The United States, in a misguided effort to reduce its oil insecurity by converting grain into fuel for cars, is generating global food insecurity on a scale never seen before.

This problem became five times worse in December when the new "energy bill" became law. It dictates that Washington will pay a 51-cent-a-gallon subsidy on 36 billion gallons of ethanol each year, up from the previous 7.5 billion gallon limit.

Even before this incentive expanded, official U.S. Department of Agriculture reports showed that ethanol was "eating up" 20 percent of the corn grown in America in 2006 – up from 6 percent in 2000 – a figure expected to rise in 2008 to 25 percent.

A 2007 report from International Food Policy Research Institute, or IFPRI, concludes that "Biofuel production currently adversely affects the poor through price-level and price-volatility effects." IFPRI's report also noted, "Since the beginning of 2000, butter and milk prices have tripled, and poultry prices have almost doubled."

EPI's president, Lester R. Brown, says, "We're putting the supermarket in competition with the corner filling station for the output of the farm. The result is that more people will go hungry."

As a Purdue University study noted, "This leap in corn prices is leading to an emerging opposition to ethanol subsidies on the part of animal agriculture, export markets and other corn users." Those groups have created a coalition to spotlight the ever-widening costs of ethanol, including a website at <http://www.balancedfoodandfuel.org/>.

As oil prices approached \$100 per barrel, market incentives for producing more ethanol increased dramatically. But that wasn't enough to satisfy the subsidy lobby. Hence they pressed Washington to decree that we must use five times more ethanol and pay them for the privilege. That will raise the annual taxpayer-paid subsidy to over \$18 billion per year, even though they're already profitable thanks to high oil prices. The energy bill converts ethanol manufacturers' simple profits into super-profits, at taxpayer expense. Yet somehow they've escaped headlines – and the outrage – oil profits attract.

Gradually, however, the media are "discovering" that ethanol subsidies are sending the worldwide cost of food through the kitchen ceiling. USA Today reported, "In a bid to reduce oil dependence, many countries are requiring additional use of biofuels, such as ethanol and biodiesel. That, in turn, competes with food destined for the table – and increases the prices of what consumers eat."

Americans won't starve because we have better supplies than the Third World does. But as the Christian Science Monitor recently reported, "As usual, it is the poorest people in the world who suffer most, because food takes up a bigger share of their daily shopping bill than it does for richer people." That prompted the United Nations' Food and Agriculture Organization to issue "warnings about the dangers of turning too much food into fuel." Their conclusion? "The era of cheap food is over."

Ethanol advocates are also promoting other biofuels whose cellulose can be used in place of corn. But the "food vs. fuel" problem isn't solved if farmers remove acreage from corn production to plant these instead. The ethanol lobby claims that the higher costs of food are being pushed mostly by the higher costs of energy. Of course, subsidizing ethanol while suppressing domestic oil and gas drilling and halting construction of oil refineries and nuclear power plants is a big reason why energy costs keep climbing!

As usual, free enterprise offers the best solution. As The Heritage Foundation's Ben Lieberman and others have suggested, we should be repealing the ethanol mandate instead of expanding it.

Taxpayers would save billions that now flow out of the federal Treasury, plus our food would be more affordable. And the Third World wouldn't face as many food shortages.

Ending the subsidy is easier said than done, of course. As the New York Times has noted, the ethanol lobby is now "an entrenched political force." Years of multi-billion dollar subsidies have turned a small group into a wealthy and effective lobby on Capitol Hill.

Washington should give an ear to some common sense instead. But expecting that to happen may be just plain ... corny.