

Deepak Lal: Biofuels - An Assault on the World's Poor

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Western citizens want to use the limited land to produce ethanol rather than food for the poor.

Food riots in Indonesia, Mexico, Egypt, the Philippines and Vietnam. Price controls and food rationing in Pakistan and China. Are we back to the Malthusian trap as prices of agricultural and food commodities from wheat and corn to dairy products and meat have risen in the last few years to historically unprecedented levels? Or is this another malign byproduct of the current Western obsession with carbon emissions, purported to lead to planet-destroying global warming (as discussed in my columns of June and July 2007)? This is the subject of this column.

Prima facie, there is a Malthusian case. Demand for cereals has risen by 8% between 2000 and 2006, fuelled by rising population and incomes in the Third World, with the normal short-run inelasticity of agricultural supply (supply rises by 1-2% when prices rise by 10%) being worsened by the decade-long drought in Australia. This in turn is blamed on global warming caused by carbon emissions, seemingly strengthening the "carbon warriors" cause. These demand and supply factors have led to a doubling of cereal prices between 2000 and 2008. As food staples form a major part of the consumption bundle of the world's poor, net buyers of food in the Third World have been hit hard. The Malthusian scepter laid to rest with the Green Revolution has reappeared.

But has it? Examining the components of the growth in consumption of cereals in recent years, the International Food Policy Research Institute (IFPRI) finds: "While cereal use for food and feed increased by 4 and 7 per cent since 2000, respectively, the use of cereals for industrial purposes — such as biofuel production — increased by more than 25 per cent. In the US alone, the use of corn for ethanol production increased by 2.5 times between 2000 and 2006" (J von Braun: The World Food Situation, IFPRI, Dec. 2007). So, it is not the Third World's burgeoning and increasingly prosperous population that has caused this recent spike in food prices, but it is a byproduct of the West's obsession to reduce carbon emissions from using fossil fuels.

The EU has mandated biofuels to be 10% of transport fuel by 2020, and the US seeks a doubling of corn-based ethanol use in 2008 and a five-fold increase by 2022 (Free Trade Bulletin No. 31, Cato Institute). This has now set in motion a worldwide scramble for land use between food and fuel. This is doubly ironic for the world's poor. For, as this column has repeatedly emphasised, the West's ascent from poverty was based on the Promethean intensive growth that the Industrial Revolution generated, by allowing an unbounded source of energy in the form of fossil fuels to replace the previous sources of energy-based on the products of land — an indubitably limited resource. So having raised the stock of the world's carbon emissions during their own industrialisation, the West is on the one hand calling 'time out' for the Third World to do the same in the name of saving the planet, whilst at the same time, to keep their SUVs on the road, Western citizens want to use a larger proportion of the world's limited amount of land to produce ethanol rather than food for the world's hungry masses.

In the early 1980s a Brazilian student of mine did a detailed social cost-benefit study of the pioneering ethanol program in Brazil, and found it was socially unprofitable, even at the relatively high oil price prevailing in the early 1980s. Not surprisingly the current moves to shift transport fuel towards ethanol in the US and the EU entail huge public subsidies. It is estimated that US subsidies to biofuel will be 42-55% of ethanol's cost of production.

These massive subsidies are being justified on environmental and geo-political grounds. As ethanol production itself requires more fossil fuels, there is an ongoing and inconclusive debate about the net effect of biofuel use on greenhouse emissions (J Taylor and P van Doren: "The Ethanol Boondoggle", Milken Institute Review, 2007). But they are a costly means to reduce carbon. The International Energy Agency estimates it would cost at least \$250 to remove a ton of carbon from the atmosphere. Moreover, if the alternative solar-based theory of climate change comes to disprove the currently fashionable carbon-based theory, committing Western economies to these costs would be moot. Certainly India and China should have nothing to do with this ethanol bandwagon.

The geo-political argument — that ethanol is needed by the US and EU for energy independence from the politically odious regimes, which currently are their major suppliers of energy — is also questionable. First, the only way these regimes could affect the West's energy security is by raising the price of oil by restricting its supply. For, as pointed out in a previous column, oil is now a globally traded commodity like wheat, and a threat by Hugo Chavez to stop the supply of Venezuelan oil to the US is meaningless. For, like wheat, it is buyers, not sellers, of oil on the NYMEX who determine its ultimate destination. Secondly, as the US department of energy has estimated, the maximum amount of ethanol the US could produce by 2030 would meet only 6% of its transport fuel demand, with at best a marginal effect on world demand and thence the price of oil. Third, the fear that oil provides money for Islamist terrorism is questionable. As Taylor and Doren rightly emphasise, "terrorism is a relatively low-cost endeavor and oil revenues appear to be unnecessary to pay for it." If anything, it is the ill-conceived global "war on drugs", not oil, which has provided the means to fund the Taliban, and the narco-terrorists in the Andes.

The IFPRI has estimated that, *ceteris paribus*, the planned biofuel expansion in the West will lead to a large increase in world prices of foodgrains and a general decrease in calorie consumption in the Third World. Sub-Saharan Africa will be hit the worst, with a projected fall of 8% in calorie availability by 2020. Given this assault on the world's poor, India has chosen the right path: First, by lowering tariffs on imports of foodgrains and thereby the price to net buyers of food; second, by expanding the area sown under GM crops, which will raise domestic production. But, for the Western "good and the great", their academic acolytes and the pop stars grandstanding to save Africa and to end poverty, this latest Western assault on the world's poor by their promotion of biofuels to replace food on the limited land in the world, can only evince contempt.