



Discussion Topic

December 2006

A monthly resource for the Community Action Groups of Michigan Farm Bureau

QUESTIONS

1. In your experience, how have farmers adjusted to changing market conditions before? Has it hurt or helped them in the long term?
2. Why should concerns over world food stocks slow the push toward bio-based fuels?
3. How long do you think it will take to convert fuel feed stocks from corn and soybeans to other sources, such as switch grass, wood fiber and other non-food crops?

Will corn for fuel leave us with no corn flakes?

American agriculture is on the verge of yet another historic event. For the first time in history, a huge surplus will have been reduced in large part because of one new market – ethanol, and not because of a short crop.

While it alarms some of the nation's leading alarmists, many agricultural economists say if the market is left alone to work things out, the transition of millions of bushels of corn from food - mostly animal food – to fuel will be relatively smooth.

Obviously, there are winners and losers when something new comes along. Not only will cash croppers gain premium prices offered by ethanol markets, but food crops will be priced higher because of increasing demand.

People who buy corn to feed livestock will see another input increase, but as more corn is planted to take advantage of higher prices, soybean plantings will fall, and prices will rise. Farmers will adjust, as they have in the past.

The idea that the world's demand for an alternative fuel will take corn out of hungry children's mouths isn't too likely to happen, according to Jim Hilker, agriculture economist with Michigan State University.

"In the long term, this won't mess with food supplies," he said. "Any starving scenarios are still due to dysfunctional distribution, not supplies. Food prices may be shocked, especially if we get a short crop of corn, soybeans and wheat all in one year, but in the United States, food prices are such a small percentage of our personal budgets that it won't make much difference."

Also, Hilker said, 2012 government requirements of corn for fuel will likely be reached by 2008, so there will be no shortage of any type of corn.

"In 10 to 15 years, we may get our biofuel from somewhere else besides corn and soybeans, because biomass fuels are not temporary," he said. "Maybe we'll invent a corn variety specifically for ethanol. And while my crystal ball is cloudy, the world will start making acreage shifts."

In spite of such opinions, Lester R. Brown of the Earth Policy Institute recently wrote in the Washington Post that an "epic competition between the world's supermarkets and its service stations" ... could bring about "the same fate that brought down great civilizations of the past."

Such an opinion ignores some basic facts, said Bob Boehm, manager of the commodities and marketing department at Michigan Farm Bureau.

"Remember that the statistics on corn use for feed – which goes mostly to animal feed – does not count DDGs as feed use, and cattle can eat more DDGs," he said. "Feed costs may go up, especially for swine and poultry, which can't use DDGs as much, but corn will be readily available."

Besides, Hilker said, the price of a box of corn flakes includes only about 15 cents to 20 cents for the corn it contains.

"We could double the price of corn and it will never be reflected in the price of a box of corn flakes," he said.