

# American Farm Bureau Federation Facts on Food Prices and Biofuels

*May 16, 2008*

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## **Opening points:**

- Like everyone else, farmers are concerned about higher food prices. We're paying them, too. We take pride in providing our neighbors with a safe, abundant, and still affordable food supply. It is costing farmers a lot more this year to put their crops in the ground.
- Consumers are noticing food price increases more these days because prices are rising at a faster rate than they have in the past 15 years, due to several complex economic factors.
- The major reasons are: record energy prices; a weak U.S. dollar; higher labor costs; and strong international demand brought about by improved diets in developing nations. Droughts in Europe and Australia have also impacted food production.
- There's a tendency to want to blame ethanol production for increased food prices. However, a number of recent studies show that high commodity prices, due to increased ethanol production and the flood of speculative money into commodity markets, have only a slight impact on consumer food prices.
- For the record, the farmer's share of the food marketing bill at the grocery store or restaurant is 19 percent on average, smaller for more highly processed items.

## **Specific points:**

### **Short term causes:**

- Weather related shortfalls around the world,
- Plummeting stock levels,
- Increased fuel costs,
- A changing structure of food demand,
- Biofuels and agricultural commodities, and operations of financial markets.

### **Long term solutions:**

- Adopt more productive approaches to agriculture around the world—don't turn our backs on biotechnology and increase funding for research and extension.
- Implement technologies that can significantly improve yields, reduce pesticide needs and provide for better output traits.
- Other countries need to put policies in place that will open their economies to market signals.
- Farmers and consumers need to be able to see the true value and cost of their food.

## **Record-High Energy Prices**

- Crude oil prices topped \$100 per barrel for the first time in history in February.
- Diesel fuel prices have soared to more than \$4 per gallon.
- These rapid energy cost increases have a ripple effect throughout the economy and food chain, raising production costs, decreasing profit margins, and forcing food companies to respond.
- A \$1 increase in motor fuel prices has three times the impact on consumer prices as a \$1 increase in corn prices.
- It's important that we continue to produce renewable fuels like ethanol which helps stretch out our motor fuel supply and keeps those dollars at home.

## **Weak Dollar**

- The value of the U.S. dollar has been slipping since 2002, but it has hit historically low levels. The reasons are complex and include lower interest rates, slow growth, the credit crisis, and the U.S. trade deficit.
- A weak dollar makes imported foods like bananas, coffee, beer, wine, chocolate, fish, shellfish, apple juice, and cashews more expensive.
- U.S. food imports are estimated to hit a record \$76 billion this fiscal year.
- A weaker dollar means Americans pay more for imported energy.

## **Higher Labor Costs**

- Labor is the biggest component of the food marketing dollar.
- For every dollar we spend on food at a grocery store or restaurant, 40 cents pays for wages throughout the food chain.
- Food manufacturing wages have risen 3.1 percent in the past year.
- The federal minimum wage went up 14 percent last year to \$5.85. It will go up 12 percent this year to \$6.55 and another 11 percent next year to \$7.25 an hour.
- Nearly three in four workers earning the minimum wage or less in 2007 were employed in service occupations, mostly in food preparation and service jobs.

## **Strong International Demand**

- A weak dollar makes U.S. food cheaper in the international market, driving up demand for commodities like corn, soybeans, pork, and dairy.
- U.S. agricultural exports are forecast to top \$100 billion this year for the first time ever.

## **Wheat and rice**

- World wheat production is poised to set a new record, up 7 percent from last year and 3 percent above the 2004/05 record.
- Wheat production is expected to exceed consumption for the first time in four years. U.S. wheat production is expected to increase about 13 percent in 2008.

## **Rice shortages and forecast:**

- Reports of rice shortages come in the face of three consecutive years of slowly growing world rice production.
- Production for the coming year is expected to rise by 1.8 percent. Also estimated world ending stocks of rice have been essentially unchanged over that period of time.
- Actual rice shortages in some areas of the world have been caused by countries hoarding supplies and withholding traditional exports to try to mitigate domestic inflationary pressures.
- Major rice exporters like India and Vietnam are restricting exports.

## **Food expenditures**

- The Consumer Price Index (CPI) for food and beverages increased by 4 percent for 2007. The increase for 2008 is expected to come in between 3.5 percent and 4.5 percent.
- The food CPI already has started to grow at a somewhat less torrid pace than occurred at the end of last year. Like wheat prices, the food CPI may be at the peak in this cycle
- Farmers receive 19 cents from every dollar consumers spend for food at home and away from home, according to the latest USDA Economic Research Service report.

## **Food prices changes relative to rest of economy**

- The Commodity Research Bureau Foodstuffs index (an index based on the prices of hogs, steers, lard, butter, soybean oil, cocoa, corn, Kansas City wheat, Minneapolis wheat and sugar) at the end of March 2008, was up 24 percent from March 2007 levels.
- The overall Continuous Commodity Index (including energy, precious metals and other broad components) was up 27 percent from year earlier levels.
- A rise in the foodstuffs index began as far back as early 2000, about the same time global wheat stocks hit their last peak.

## **Ethanol and food prices**

- Several independent think tanks place biofuels' contribution to the food cost increase on a global basis at somewhere between 10 and 30 percent.
- A University of Wisconsin study suggests ethanol demand has increased corn prices by only 41 cents per bushel over levels that would have otherwise existed. Corn prices have actually increased by \$1.22 over the same period studied by the Wisconsin researchers, suggesting other factors are contributing to higher commodity prices.
- Exports also have increased corn prices, but the Wisconsin researchers suggest a significant effect coming from speculative trading by outside investors.

## **Suspension of Renewable Fuel Standard**

It is unlikely that waiving the renewable fuel standard (RFS) requirements would cause any reduction in corn prices, let alone working all the way through to food costs.

Following are points to keep in mind:

- Corn exports have increased significantly, despite the corn price increase.
- The U.S. dollar has weakened sufficiently to keep corn exports flowing.

- A good portion of the corn freed up by an RFS waiver – a fourth to a third of the crop – would likely be snapped up by the export markets. The price response would probably be limited to 10 to 20 cents per bushel.
- Corn prices mainly affect consumer prices through livestock production, and price effects would take several months, even years, to work their way through to the consumer.

## **Ethanol and gasoline prices**

Ethanol is limiting the run-up in gasoline prices.

- Multiple studies show that oil and gasoline prices would be as much as 10-15 percent higher if biofuel producers were not increasing their output.
- Without the expansion of biofuel production and use in the U.S., Brazil and elsewhere, world oil demand would increase and so would the price.
- Ethanol is saving the consumer more than \$50 billion in lower fuel costs.

## **Ethanol - does it use more energy than it creates?**

No. USDA reports that renewable fuel has a positive energy balance of 67 percent.

- Taking everything into account, ethanol provides 67 percent more energy than it takes to produce it. Further, American ethanol facilities are using less water and less energy than five years ago while producing more ethanol.
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- We are not clearing forests or other virgin land to plant ethanol feedstock on here in the United States.

## **Ethanol's effect on the economy and rural America**

Ethanol has brought about rural revitalization. The annual local economic impact of an ethanol plant, using a 40-million-gallon-per-year plant, is as follows:

- Economic base expansion = \$110.2 million
- Additional household income = \$19.6 million
- Jobs created = 694 permanent new jobs throughout the entire economy
- New tax revenues = \$1.2 million

## **Tariffs**

- Ethanol is being imported today directly from countries like Brazil and other countries in the Caribbean.
- These Caribbean countries actually have duty-free access to the United States, but are not filling their allowed levels because ethanol prices are higher in other markets.
- Historically high crude oil prices are far more responsible for high gasoline prices than existing trade laws.
- Eliminating the tariff would result in U.S. taxpayers essentially subsidizing Brazilian ethanol.