

The Economics of Biofuels: Lessons for United States' Ethanol Policy

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Biofuels and Food Security

A. Who to blame—corn or oil?

B. Sterile debate

- For 82 LIFD countries, hurts either way
- Highly processed foods vs commodity foods
- Farm incomes up 50 percent in spite of feed, oil costs
- Perception of others
- Diverts attention from the core issue: policy change

What is Food Security?

- A. “access for all people at all times to enough food for an active, healthy life”
- B. U.S. view: self-sufficiency hurts food security; open markets help it
- C. How does US ethanol policy measure up against this criterion?

U.S. Biofuels Policies

A. Two not attracting much attention

- E85 promotion/FFV exception—adds 1 B gallons of oil use
- Cellulosic subsidies costly and scarcely credible

B. Three policies very much in the spotlight

- 51 cent per gallon blender's credit unchanged while oil price quadrupled helps push corn price to \$6
- 54-cent-per-gallon import duty: reflects a comparative disadvantage vis-à-vis sugar; is self-sufficiency bad for food security but good for energy security?

(cont.)

- Escalating mandated use under RFS; LT and ST effects
 - Long term—36 B gallons by 2022 threatens exportable surplus; ramped up plant construction="Importers beware"
 - Short term—switch from 7.5 B by 2012 to 36 by 2022 raised 2008 mandate from roughly 6 to 9B gallons
 - Coupled with blender's credit, more than \$200 per acre to divert corn from food to fuel
 - Wheat/soybean growers must bid against another 2B gallon increase to attract back some of 12 myn acres shifted to corn in 2008

Conclusions

- A. Biofuels policies are undermining food security, now and over time
- B. Proposals on table to enhance food security:
 - Hutchison bill to freeze RFS mandate
 - Bush request not to extend 54-cent import duty
 - Reduction of blender's credit to 45 cents
 - HR 5911 (Ripe Act) to repeal ethanol policies