

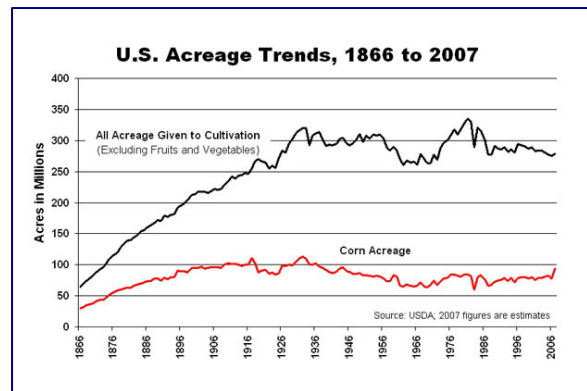
# Ethanol's Impact on Food and Prices



**D**iverting agriculture crops from the table for the fuel tank has been the focal point of critics stirring the “food versus fuel” controversy. Any discussion of corn ethanol, however, must consider two factors: the shifting nature of our country’s crops and the price of corn (specifically, its impact on overall food prices).

In the first instance, it is important to remember that many factors go into planning what crops a farm’s acreage will grow. And while corn acreage has increased in the near term, the trend has not been consistent, nor at a historic high.

The U.S. Department of Agriculture (USDA) tracks corn crop production back to 1866. From that year to the end of the 19th century, U.S. acreage planted for corn increased more than three-fold, from 30 million to 94.5 million acres. In the 20th century, corn acreage peaked at 113 million acres in 1932 and then tapered off, ranging up and down the 70 million to 95 million-acre range for the rest of the century, with a few anomalies such as 60 million in 1983. For the 2007 growing year, an estimated 93.6 million acres of corn were planted.



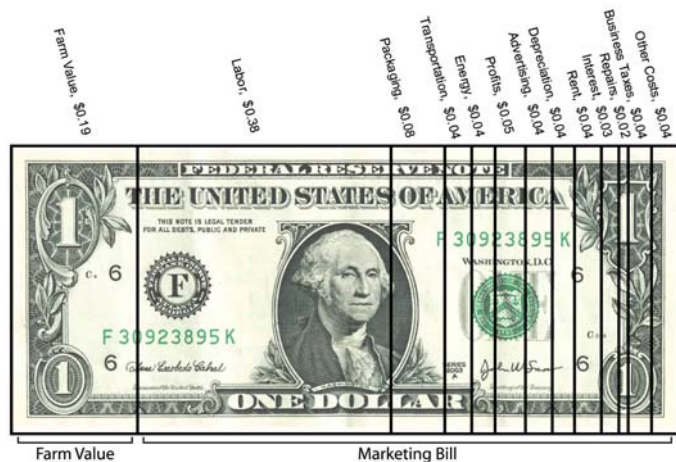
Arguments that the development of farmland for corn is destroying precious “open space” lands not previously used for farming are false. In reality, farming acreage has been trending downward over the past few decades. In 1932, the year that corn saw the highest acreage count, all farmland under cultivation was 320.4 million acres; in 2007 total acreage under cultivation was an estimated 278.1 million. The development of suburban communities in the second half of the 20th century was a major contributor to the decrease of both farmland and parkland acreage.

Far more significant when looking at demands for certain crops and how they are met is crop production. Corn production in particular has increased more than five-fold between 1932 and 2007. The average yield, represented as bushels per acre, went from 26.5 in 1932 to an estimated 153.0 in 2007, and experts believe average yield can increase to 170 or more over the next decade.

## Little Impact on Overall Food Prices

As consumers, we all understand the pinch to our pocketbooks when food prices increase. Grocery-store shoppers (and restaurant diners) need to understand that the cost of food ingredients in products they buy represents less than one-fifth of the price at checkout. Only 19 cents on every dollar spent goes back to the farm. Other factors, especially ones that are energy-related and therefore often petroleum-dependent, have greater impact.

How much of an impact do rising corn prices have on overall food prices? Studies released in the summer of 2007 are shattering the myths about the relationship between the price of corn, ethanol production and food prices. These studies are proof that agriculture can continue to meet the nation’s growing demand for both food and fuel.



Taken together, the reports, from the Center for Agricultural and Rural Development (CARD) at Iowa State University and the Consumer Federation of America (CFA) show that higher corn prices have little effect on either food or fuel prices.

The CARD report repeats the conclusions it had reached in a study earlier in 2007, and demonstrates that a 30 percent increase in corn prices would increase consumer food prices by only about 1.1 percent.

The CFA study includes a stinging criticism of the oil industry for failing to use ethanol as a way to increase supplies of refined gasoline. The study notes increased use of ethanol could actually help reduce food price increases. “High energy prices cause higher food prices,” says CFA director of research Marc Cooper. “The historic corn-crude price relationship will cushion the impact that ethanol production has on food prices.”

The report also said, “Based on the historical relationship between crude prices and corn prices, current prices for corn are lower than one would predict.”

### **Corn Surplus High**

Finally, proof that there is enough corn to go around is evident in the fact that, every year, there is a surplus. Surplus corn for the 2007 season – the amount above and beyond demand – is projected at 1.9 billion bushels, a 45 percent increase over 2006. This surplus is well above the 20-year average and is the fifth-highest level in the last two decades.