

Testimony of Scott Faber
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before the
Senate Committee on Environment and Public Works

**“Oversight Hearing on Domestic Renewable Fuels:
From Ethanol to Advanced Biofuels”**

April 13, 2011

Good morning. My name is Scott Faber. I am Vice President for Federal Affairs for the Grocery Manufacturers Association.

Thank you for the opportunity to testify this morning.

The Grocery Manufacturers Association represents more than 300 food, beverage and consumer product companies who directly employ 1.7 million Americans in more than 30,000 communities.

When I appeared before this Committee in July 2008, tightening supplies of basic commodities and rising and volatile food prices were contributing to unrest in 31 countries and food inflation at home.

Unfortunately, tightening supplies of basic commodities are once again contributing to food inflation.

Overall, food at home prices are expected to increase by 3.5 to 4.5 percent in 2011, with even higher prices expected for basic staples like milk, meat and eggs.¹ The same factors that caused a “perfect storm” in 2008 are once again contributing to rising food and food ingredient prices, including strong global demand, poor weather, rising energy costs, commodity speculation and trade restrictions.²

One difference between 2008 and 2011 is that *even more* of our food and feed is being diverted to produce fuel.

In 2008, one-quarter of our corn crop was diverted from food and feed to fuel.³ Today, nearly 40 percent of U.S. corn production is diverted from food and feed to produce more than 13 billion gallons of corn ethanol.⁴ During the same period, corn yields increased by less than six percent.⁵

¹ U.S. Department of Agriculture, *Food CPI and Expenditures: CPI for Food Forecasts* (2011), <http://www.ers.usda.gov/Briefing/CPIFoodAndExpenditures/Data/cpiforecasts.htm>.

² Robert Trostle, USDA Economic Research Service, *Global Agricultural Supply and Demand: Factors Contributing to the Recent Increase in Food Commodity Prices* (May 2008).

³ Derived from Food and Agricultural Policy Research Institute- Iowa State University data, <http://www.fapri.iastate.edu/tools/outlook.aspx> (last visited Apr. 10, 2011).

⁴ USDA, *World Agricultural Supply and Demand Estimates*, WASDE-493 at 13 (2011).

⁵ *Id.*

As a result, corn stocks are at or near record lows, contributing to high prices and extreme volatility.^{6,7}

Rather than allowing the market to ration tightening supplies, ethanol mandates and subsidies continue to automatically divert more and more food and feed to our fuel supplies, and trade barriers continue to limit the importation of less costly fuel alternatives.

As you know, the price of food – especially meat, poultry, dairy and eggs – is closely linked to the price of feed and food ingredients. On average, feed costs represent 70 percent of the cost of producing meat and poultry and a smaller, but significant, share of processed foods.^{8,9} While food manufacturers are reluctant to pass these costs of production onto consumers, higher commodity prices often result in higher retail food prices, especially for basic staples.

Many experts have confirmed the link between our food-to-fuel policies and higher food prices, including researchers at the International Food Policy Research Institute.¹⁰

As the Congressional Budget Office (CBO) reported in 2009, corn ethanol production contributed 10 to 15 percent of the increase in retail food prices between April 2007 and April 2008.¹¹ In the same report, CBO estimated that corn ethanol production added \$600 million to \$900 million to the cost of federal feeding assistance programs in FY 2009.¹²

While our food-to-fuel policies have certainly contributed to higher food prices, our food-to-fuel mandates, subsidies and trade protections have so far failed to bring to commercial scale advanced fuels that could help reduce food price inflation and volatility. As you know, slightly more than 2 million gallons of cellulosic or advanced biofuels will be produced in 2011 – or one thousandth of one percent of the fuel used in commerce.^{13,14}

Recommendations

Now is the time to revisit and reform our food-to-fuel policies. In particular, we urge Congress to:

Freeze the Corn Ethanol Mandate

Congress should freeze the amount of corn ethanol that must be blended into gasoline to provide advanced fuels more time to reach commercial scale, to permit changes to engines unable to safely operate with higher ethanol blends, to complete assessments of the impacts of higher blends on engines and the environment, and to allow corn yields to “catch up” with the artificial demand created by the

⁶ *Id.*

⁷ Corn prices are currently nearing \$8/bushel, a record high.

⁸ Geoffrey Becker, Congressional Research Service, *Livestock Feed Costs: Concerns and Options* (2008).

⁹ Patrick Canning, USDA Econ. Res. Svc, *A Revised and Expanded Food Dollar Series: A Better Understanding of Our Food Costs*, Report No. ERR-114 (Feb. 2011).

¹⁰ Shenggen Fan et al., *Urgent Actions Needed to Prevent Recurring Food Crises*, IFPRI Policy Brief 16, Food & Agric. Pol. Res. Inst. (Mar. 2011).

¹¹ Congressional Budget Office, *The Impact of Ethanol Use on Food Prices and Greenhouse-Gas Emissions* at 6 (2009).

¹² *Id.* at 11.

¹³ Food & Agric. Pol. Res. Inst., University of Missouri, *US Baseline Briefing Book: Projections for Agricultural and Biofuel Markets*, FAPRI-MU Report #02-11 (Mar. 2011).

¹⁴ Derived from Energy Information Administration Short Term Energy Outlook, available at <http://www.eia.doe.gov/steo/> (last visited Apr. 10, 2011).

Renewable Fuel Standard. Some experts predict a 13 percent increase in yields between 2011-2020.¹⁵ In addition, Congress should also reform the Energy Independence and Security Act of 2007 to require a mandatory reduction in the corn ethanol mandate linked to corn availability.

Invest in Advanced Biofuels, Not Corn Ethanol

In addition, Congress should immediately end the Volumetric Ethanol Excise Tax Credit (VEETC) and instead invest in advanced fuels.

Immediately ending the VEETC would save taxpayers \$4.8 billion and would have minimal impact on corn ethanol production.¹⁶ Economists at the Congressional Budget Office, Government Accountability Office, and at leading universities have concluded the VEETC is a costly redundancy to the corn ethanol mandate.^{17,18} A July 2010 report from Iowa State University found a one-year extension of the ethanol subsidy and tariff would add just 427 additional direct domestic jobs at a cost of almost \$6 billion, or \$14 million per job.¹⁹ A separate study by Advanced Economic Solutions found that the VEETC will only induce 400 million gallons of new production and 296 new jobs in 2011 -- at a cost of nearly \$20 million per job.²⁰

Congress should reject proposals to redirect the VEETC to corn ethanol infrastructure. Until advanced fuels reach commercial scale, investments and policies designed to bring higher ethanol blends to the market place will divert 50 percent or more of the US corn crop and will cost more than \$9 billion.^{21,22} More than 90 organizations -- including organizations representing animal agriculture, environmental advocates, religious leaders, anti-hunger advocates, and fiscal conservatives -- have joined together to oppose new federal investments in corn ethanol infrastructure.²³

Instead, Congress should invest in advanced fuels that convert crop waste, food waste, solid waste and other fuel feed stocks that do not pit our energy security needs against our food security needs.

¹⁵ Food & Agric. Pol. Res. Inst., *supra* note 14.

¹⁶ Bruce A. Babcock et al., *Costs and Benefits to Taxpayer, Consumers, and Producers from U.S. Ethanol Policies*, Staff Report 10-SR 106, Iowa State University Center for Agricultural and Rural Development (2010).

¹⁷ Congressional Budget Office, *Using Biofuel Tax Credits to Achieve Energy and Environmental Policy Goals* (2010).

¹⁸ Government Accountability Office, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (2011).

¹⁹ Babcock, *supra* note 17.

²⁰ Advanced Economic Solutions, *An Economic Analysis of the Impact of the Removal of the Ethanol Blender Tax Credit* (Nov. 2010).

²¹ Adv. Econ. Solns., *Implications for US Corn Availability Under a Higher Blending Rate for Ethanol: How Much Corn Will Be Needed* (June 2009).

²² Sheila Karpf, *Locking in Corn Ethanol Locks Out Alternatives*, Environmental Working Group (Apr. 2011).

²³ Letter from ActionAid US et al. to Majority Leader Reid and Minority Leader McConnell (Mar. 1, 2011).