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**On Behalf of the
Grocery Manufacturers Association**

Before the Senate Committee on Environment and Public Works

On

**“Environmental Protection Agency Oversight: Implementing the Renewable Fuel
Standard”**

July 10, 2008

Thank you for the opportunity to testify on the implementation of the Renewable Fuel Standard by the Environmental Protection Agency.

Food and beverage companies strongly support the development of sustainable bio-fuels that contribute to America’s energy security and that do not pit the nation’s energy needs against the needs of the hungry or the environment. We are working with a broad coalition of industry, farm, labor, anti-hunger, consumer, minority, and environmental organizations to urge Congress to revisit our food-to-fuel policies in light of runaway food inflation and new questions and concerns regarding the environmental costs of food-to-fuel production.

While there are many factors contributing to the sharp increase in US and global food prices – including poor weather, export restrictions, rising demand for food globally, the weak dollar, higher energy prices, and changes in commodities markets -- the most significant new factor and the *only* factor affecting food and feed prices that is *under the control of the Congress*, is the sudden and significant increase in food-to-fuel production. I have attached analyses by the World Bank,¹ IMF,² UN FAO,³ CRS,⁴ USDA-ERS,⁵ IFPRI,⁶ Oxfam⁷ and by former USDA Chief Economist Keith Collins⁸ which document the combination of factors contributing to US and global food prices and the significant role of food-to-fuel production. In general, the rapid expansion of corn ethanol and bio-diesel production has increased demand for corn and vegetable oil, increased the price of products which use corn and vegetable oil as ingredients, and increased the price of other crops that compete with corn and soybeans for land.

Commodity prices are rising at dramatic rates. Since the 2005 crop year, farm-level corn prices have increased more than 200 percent, and farm-level soybean prices have increased more than 135 percent.⁹ Although there are many factors contributing to increases in commodity prices, the recent surge in ethanol production is one of the most significant factors. Between 2006 and 2008, US corn ethanol production accounted for 75 percent of the growth in global demand for coarse grain and 50 percent of the growth in demand for all grains.¹⁰ Collins estimates that corn ethanol could be responsible for as much as 60 percent of the expected increase in corn prices between the 2006 and 2008

¹ "Rising Food Prices: Policy Options and World Bank Response," World Bank, April 2008.

² International Monetary Fund, "World Economic Outlook, Globalization and Inequality," October 2007.

³ UN FAO, Soaring Food Prices: Facts, Perspectives, Impacts and Required Actions, June 2008.

⁴ CRS, High Agricultural Prices: What are the Issues?, May 6, 2008.

⁵ USDA, ERS, Global Agricultural Supply and Demand: Factors Contributing to The Recent Increase in Food Commodity Prices, May 2008.

⁶ Von Braun, Joachim. "Biofuels, International Food Prices, and the Poor." International Food Policy Research Institute (IFPRI). June 12, 2008.

⁷ "Another Inconvenient Truth: How biofuel policies are deepening poverty and accelerating climate change," Oxfam International, June 26, 2008.

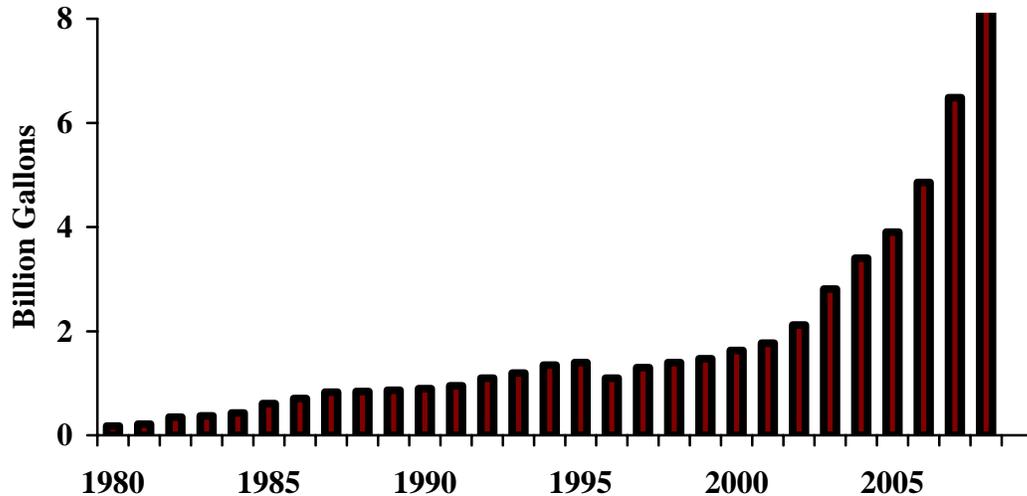
⁸ Collins, Keith. "The Role of Biofuels and Other Factors in Increasing Farm and Food Prices," prepared for Kraft Global Food, June 2008. (Hereinafter "Collins")

⁹ USDA, World Agricultural Supply and Demand Estimates, June 2008.

¹⁰ Id.

crop years.¹¹ As Collins notes, “the increase in corn demand due to ethanol is rising faster than growth in corn yields per acre. So long as that situation continues, corn will have to attract acreage from other crops to meet its expanding demand. This shift will mean higher prices for all crops that compete, directly or indirectly, for acreage with corn.”¹²

U.S. Ethanol Production 1980-2008



Food prices are now rising at twice the overall rate of inflation. Because the price of basic commodities has dramatically increased, domestic food prices rose by 4.9 percent during 2007 – twice as fast as inflation and the largest increase in 17 years. Food prices for the previous three months have increased at a seasonally adjusted annualized rate of 6.3 percent, and studies predict that annual food price inflation will average 9 percent between 2008 and 2012 as the impact of rising commodity prices are slowly reflected in retail prices.¹³ Although there are many factors contributing to food price inflation, the rising cost of commodities – driven in large measure by growing food-to-

¹¹ Collins. Collins finds that ethanol could account for 60 percent of the expected increase in corn prices between 2006/07 and 2008/09 when market demand and supply are inelastic with respect to price – that is, a period when stocks are very low, feed use is slow to respond, export demand is strong due to foreign agricultural policies, and acreage is very constrained.

¹² Id.

¹³ Advanced Economic Solutions, *Rising Commodity Prices and their Impact on US Food Inflation*, June 2008.

fuel production – is expected to cause food prices to rise 23 to 35 percent faster than historical increases in food prices.¹⁴ In particular, the price of animal products will continue to rise dramatically in response to higher feed prices.¹⁵ Between May 2005 and May 2008, food-to-fuel production contributed to increases in the costs of basic staples like eggs (62.8 percent), whole milk (17.2 percent), and whole chicken (13.5 percent).¹⁶

Rising food prices fall most heavily on the poor. These price increases fall most heavily on the poorest 20 percent of Americans who spend roughly one-third of their after-tax income on food and on the global poor who spend as much as 70 percent of their income on food. Rising commodity prices have pushed global food prices up 83 percent over the last three years¹⁷ - and by 57 percent in the last year – pushing 50 million people into poverty in 2007 alone, according to the UN FAO. In combination, rising prices and declining commodity stocks have forced global food aid programs to ration food, and have contributed to food riots and protests in more than 30 countries. Rising food inflation in the developing world is not merely a food security issue, but is a national security issue. The World Bank warns that 33 nations are at risk of social unrest because of the rising price of food.¹⁸

Rising food prices pose significant budgetary challenges. Although potential outlays are difficult to estimate, government spending will increase significantly as food prices rise. Many federal programs linked entirely or in part to the Consumer Price Index (CPI), including anti-hunger assistance programs and child nutrition programs. The CPI is often used to adjust federal payments, determine program eligibility, and to provide

¹⁴ Collins. If food-to-fuel production accounts for 60 percent of the expected increase in feed grain and oilseed product costs between 2006/07 and 2008/09, and these increases are passed on to retail consumers, these increases would increase baseline US expenditures on food by 1.8 percent over a 2-3 year period. This increase is significant in light of the fact that long-term annual average food inflation is about 2.5 percent. Thus, the increase in retail food prices due to biofuels is estimated to be 23-35 percent above the normal increase in food prices that would occur over 2-3 years.

¹⁵ Elam, Thomas, “Biofuels Support Policy Costs to the U.S. Economy,” *FarmEcon LLC*, March 24, 2008 (Hereinafter “Elam”)

¹⁶ Consumer Price Index – Average Price Data (retrieved for most requested statistics), Bureau of Labor Statistics, available at <http://www.bls.gov/data/home.htm>.

¹⁷ Bob Davis and Douglas Belkin, Food Inflation, Riots Spark Worries for World Leaders, “Wall Street Journal, April 14, 2008. A1.

¹⁸ “The World Food Crisis,” *New York Times*, Editorial, April 10, 2008.

cost-of-living adjustments to millions of workers. Overall, the CPI affects the income of about 80 million people, including 51.6 million Social Security beneficiaries, 21.3 million food stamp recipients, about 4.6 million military and civil service retirees or survivors, and more than 2 million workers impacted by collective bargaining agreements. In particular, changes in the CPI affect the cost of school lunches for 28.4 million children.¹⁹ Rising food prices will impact federal outlays in three ways: by automatically increasing federal expenditures on programs linked all or in part to the CPI; by reducing the number of households and students that can be served by programs, such as the national school lunch program; and by forcing appropriators to reduce discretionary spending for other programs to address shortfalls.

Rising feed prices are causing severe economic harm for livestock producers.

Although some crop farmers have benefited from high commodity prices, many more livestock producers are facing unprecedented losses. The higher costs of corn and soybean meal²⁰ have translated directly into higher feed costs for all livestock producers.²¹ Feed costs climbed by over \$15 billion between 2005 and 2008 due to higher prices for corn and other grains.²² Moreover, feed costs will continue to remain well above historic levels through 2017 as food-to-fuel mandates are fully implemented.²³ In 2008-09, for example, food-to-fuel mandates are estimated to increase the cost of

¹⁹ BLS, at http://www.bls.gov/dolfaq/bls_ques1.htm

²⁰ Elevated corn prices in response to increasing biofuels demand also contribute to the historically high prices of soybeans because soybean cropland must compete with corn for cropland. Indeed, the price of soybeans has risen even though stockpiles of soybean oil are also at near record levels. USDA reported that the price of soybeans per bushel was \$6.43 in 2006/2007, but shot up to \$9.00 in 2007/2008. USDA Projections, at 35 (Table 7). Prices of soybeans and soybean-derived products (*e.g.*, soybean meal and soybean oil) are projected to increase and remain well over 2006/2007 levels over the long-term due to continued increased demand for biofuels, with even greater price increases likely as a result of the strengthened biofuels mandates enacted by Congress in 2007. USDA Projection, at 23 and 41 (Table 13).

²¹ Food and Agricultural Policy Research Institute, *2008 U.S. Baseline Briefing Book* (March 2008) (hereinafter "FAPRI Report"), at 3, available at http://www.fapri.missouri.edu/outreach/publications/2008/FAPRI_MU_Report_03_08.pdf.

²² FAPRI Report, at 60.

²³ FAPRI Report, at 60. *See also* USDA Projections, at 4, 49 and 60. In fact, USDA acknowledges that its own projections likely underestimate the anticipated increases in costs of animal feed because, although they account for the biofuels mandates created by the Energy Policy Act of 2005, they do not account for the strengthening of those mandates by Congress in December 2007, which has added to the unprecedented demand for corn. USDA Projections, at 23.

livestock production by as much as \$17.7 billion.²⁴ Ultimately, the increased cost of feed will be passed on to consumers in the form of higher food prices. As feed costs rise, meat and poultry production will decline and many livestock farmers will be forced out of business. Producers at greatest risk of failure are poultry, dairy, hog and beef producers who do not produce their own feed grains.²⁵

Historically low commodity stocks pose severe economic consequences.

Global stocks of several major commodities are at or near historic lows – particularly when measured as a share of total usage.²⁶ For example, global end-of-year stocks for coarse grains and wheat are projected to drop by mid-2008 to the lowest levels since 1977, while ending stocks of total grains will fall to the lowest levels since 1981. In particular, a rapid increase in the production of ethanol combined with a decline in corn plantings will likely result in the second lowest level of corn stocks relative to consumption in 49 years. Increasing the use of corn for ethanol by 33 percent in 2008 will contribute to a 40 percent reduction in the corn inventory.²⁷ For most commodities, annual prices tend to have a strong negative correlation with the ending stocks-to-use ratio.²⁸ Reduced yields in 2008 caused by a wet spring and flooding combined with surging ethanol production and low commodity stocks are already resulting in dramatic increases in crop prices.

Food prices will continue to rise as more and more corn and soybean oil are diverted to our fuel supplies. Unless the Congress and the Administration act this year to revise federal food-to-fuel mandates, commodity prices will continue to rise as more and more food is diverted to our fuel supplies. In 2008, roughly one-third of U.S. corn supplies will be diverted to produce fuel. In the coming years, 40 percent or more of the U.S. corn crop and as much as 30 percent of U.S. vegetable oils will be diverted from our

²⁴ Elam at 28,

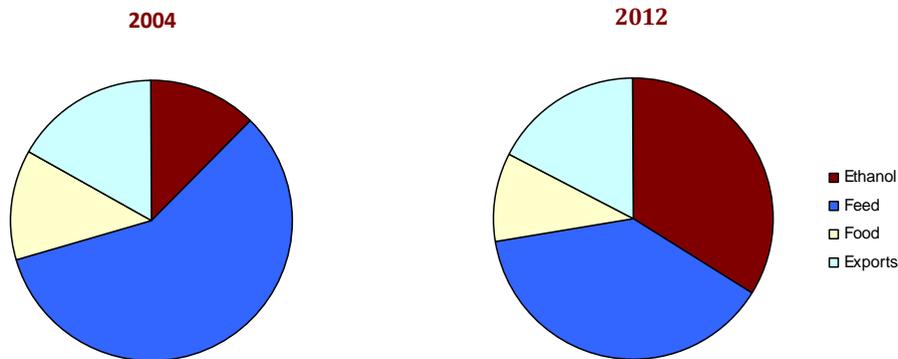
²⁵ Elam at 28. *See also* FAPRI Report, at 42 (suggesting that beef producers will experience financially difficult times in the next few years as they face high and rising input costs); *see also* FAPRI Report, at 50 (stating that higher feed costs have contributed to increases in the costs of producing milk).

²⁶ CRS, High Agricultural Prices: What are the Issues?, May 6, 2008.

²⁷ USDA-ERS, *Feed Outlook*, May 13, 2008.

²⁸ CRS, High Agricultural Prices: What are the Issues?, May 6, 2008.

food supplies to our fuel supplies. Because commodity prices will remain high in response to these mandates, food prices are expected to increase by 9 percent annually between 2008 and 2012.²⁹



Because ethanol displaces a small fraction of the US gasoline supply and a tiny fraction of global crude supplies, food-to-fuel mandates currently have no impact on gasoline prices. Overall, ethanol production in 2007 displaced less than 4 percent of the nation’s gasoline supplies in 2007, when relative energy values are considered. Consequently, freezing the mandate at the levels blended in 2007 – that is, reducing the mandate from 9 and 10.5 billion gallons to levels produced in 2007 – would not increase gasoline prices. In fact, failure to revise food-to-fuel mandates could marginally increase gasoline prices under some scenarios. Eventually, rising demand for corn to produce ethanol will increase the cost of producing ethanol and result in higher prices at the pump.³⁰

Recommendations

We urge the Committee to revisit and restructure our food-to-fuel policies to accelerate the development of fuels that do not pit our energy needs against the needs of the hungry and the environment. In particular:

²⁹ Advanced Economic Solutions, *The Impact of Rising Commodity Prices on Food Inflation*, June 2008

³⁰ Elam, Thomas, “Biofuels Support Policy Costs to the U.S. Economy,” *FarmEcon LLC*, March 24, 2008.

Congress should freeze food-to-fuel mandates. In light of crop reports and perilously low commodity stocks, Congress and the Administration should act now to reduce the federal food-to-fuel mandate for 2008 and 2009 to production levels for 2007 and should revisit and revise food-to-fuel mandates, subsidies and tariffs to reflect changing economic conditions and new questions regarding the economic and environmental costs of fuels made from food crops. Freezing the mandate would result in immediate reductions in the price of corn. A recent study by FAPRI estimated that implementation of the RFS increased corn prices by 19 percent.³¹ A separate study by IFPRI concluded that a freeze of biofuel production at 2007 levels would reduce global corn prices.³² What's more, these studies do not take into account significant declines in yields in 2008, which are amplifying the impact of increased ethanol production on corn prices.

Congress should carefully evaluate the environmental impacts of food-to-fuel policies. Diverting food crops to our fuel supplies has artificially increased the price of commodities, accelerating the conversion of pasture and forest lands to crop production at home and around the globe. Current and expected conversion of pasture and forest lands will release carbon into the atmosphere and reduce the availability of carbon "sinks" that help sequester carbon. In addition, increased production of row crops has increased water pollution, compounded water shortages, and contributed to the loss of habitat for wildlife. In particular, increased fertilizer use associated with expanded crop production has increased the amount of nitrogen and phosphorous being washed into rivers and bays, including the Chesapeake Bay and the Gulf of Mexico, and will increase ground-level ozone in some regions. Increasing the use of distiller's grain – a byproduct of ethanol production that is fed to animals but has less nutritional value than feed - increases the amount of phosphorous reaching waterways.

In particular, Congress should freeze food-to-fuel mandates to carefully assess the life-cycle emissions caused by bio-fuels. Reducing emissions from

³¹ FAPRI-MU, The Energy Independence and Security Act of 2007: Preliminary Evaluation of Selected Provisions, January 2008.

³² Rosegrant, Biofuels and Grain Prices: Impacts and Policy Responses, May 5, 2008.

transportation fuels involves the consideration of numerous factors, including a common set of accounting principles and the ability to verify emissions reductions. Because the development of these accounting principles and verification methods are still underway, Congress should freeze our food-to-fuel mandates to ensure that EPA and other policymakers and experts have ample time and resources to adequately assess and verify potential emission reductions from bio-fuels. Significant questions regarding the life-cycle environmental effects of biofuels, including the significant effects of land cultivation, remain unresolved.

Congress should accelerate the development of advanced and cellulosic bio-fuels. Congress should revisit and reform food-to-fuel mandate schedules, subsidies and tariffs to gradually reduce our reliance on food as an energy feedstock. In particular, Congress should accelerate the development of cellulosic and advanced bio-fuels derived from fuel feedstocks that do not increase food or fiber prices and that improve the environment. Many of these fuels can be produced from feedstocks that do not compete with food crops, provide significant reductions in emissions when compared to gasoline, can be distributed through existing infrastructure, and could displace a significant share of our gasoline supplies. To accelerate the development of such fuels, Congress should eliminate the tariff on imported bio-fuels, should consider reforms to federal tax credits to reward the production of sustainable bio-fuels, and should adopt a technology neutral standard for life-cycle reductions in emissions that applies to all fuels, including all corn ethanol and bio-diesel produced regardless of the date of plant construction. Setting a lower bar for conventional bio-fuels – by setting lower emissions requirements or by exempting production from emissions requirements altogether – creates a competitive disadvantage for advanced and cellulosic biofuels that should be addressed.

Congress should accelerate global agricultural development. Congress should take steps to expand hunger assistance programs to help address the impact of food-to-fuel policies on food inflation at home and abroad. What's more, Congress should also provide new funds to increase the productivity and sustainability of agricultural lands in the developing world. Between 2003 and 2007, global usage of coarse grains like corn

grew by 3.4 percent. At the same time, annual growth in agricultural productivity is slowing. Between 1970 and 1990, production rose by an average of 2.2 percent per year. Since 1990, the growth rate has declined to about 1.3 percent. Projections for US and world agriculture see the rate declining to 1.2 percent per year between 2009 and 2017.³³

In conclusion, we urge Congress to revisit the food-to-fuel policies in light of dramatic increases in food prices and new questions about the environmental costs of fuels derived from food crops. Although there are many factors contributing to record food inflation – including increasing global demand, export restrictions, poor weather, commodity speculation, and higher energy prices – a significant new factor and the *only* factor affecting food and feed prices that is *under the control of Congress* is food-to-fuel mandates and subsidies diverting food into our fuel supplies.

³³ USDA, ERS, Global Agricultural Supply and Demand: Factors Contributing to The Recent Increase in Food Commodity Prices, May 2008.