



ETHANOL FUELING HIGHER FOOD PRICES

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How is the price of gas connected to the cost of breakfast? Increased demand for ethanol, the fuel being touted as an Earth-friendly solution to the nation's looming energy needs, is raising the cost of cornflakes.

Ethanol, a clear, sugar-based alcohol that can be used as a substitute for oil, is attractive to both consumers and politicians because it can be produced domestically and from renewable sources.

Ethanol producers also claim that the fuel is better for the environment, though some skeptics counter that the ethanol production process actually consumes more energy than it saves.

Turning corn to fuel

Though it can be made from almost any feedstock with an appreciable sugar content, the United States makes most of its ethanol from corn.

The corn is ground and mixed with enzymes and yeast to ferment it and produce ethyl alcohol, or ethanol. The ethanol can be mixed in varying quantities with gasoline to produce a cleaner-burning fuel for cars.

Ethanol has been around for decades but has benefited in recent years from federal support.

The National Energy Bill passed by Congress in 2005 requires refiners to increase ethanol production from the current 4 billion gallons per year to 7.5 billion gallons by 2012.

President Bush highlighted ethanol in his 2007 State of the Union speech as a way for the United States to reduce its dependence on oil from the Middle East.

Effects on cereal, meat and milk

Currently, ethanol production uses about 20 percent of the U.S. corn harvest, three times the amount dedicated to biofuels in 2000. This number is expected grow significantly by the end of the decade.

The increased demand for ethanol is one of several factors (bad weather is another) contributing to higher corn prices: up to \$4 a bushel, nearly double the price in 2005.

This, in turn, has led to a price increase in foods made from corn, including breakfast cereals, which are up 4.2 percent, according to the Consumer Price Index (CPI).

And many livestock feeds are also made from corn, contributing to higher prices of beef (up 5.8 percent) and milk (up 7.5 percent).

More farmers shift to corn

Some farmers are shifting their fields from wheat and soybeans to corn to take advantage of the rising prices and the generous government subsidies for ethanol production.

Lower supply has driven up the price of crops that would have been grown in place of corn, including wheat and soybeans. The CPI reports that the price of wheat bread is up 6 percent.

At the global table

The effects of ethanol on "agflation" are not restricted to the United States.

In Guatemala, where many poor farmers live on a diet of corn tortillas, higher corn prices have been blamed for increased hunger. The benchmark price of corn in Guatemala, much of it imported from the United States, is up 30 percent from a year ago.

"The increase in the price of maize has left this sector of the population much more vulnerable than they were before," Ian Cherret, head of the U.N. Food and Agriculture Organization in Guatemala, told Reuters.

Finding a balance

Creeping food prices are prompting observers to question whether there will be enough corn to support an expanding biofuels industry and a growing population.

"We believe our corn supplies are limited in their ability to support the continued expansion of biofuels," USDA Deputy Secretary Chuck Conner told MarketWatch.

U.S. and international ethanol producers are already investigating alternatives to corn, including prairie grass, miscanthus and switchgrass.

Brazil, the world's second largest ethanol producer, makes most of its ethanol from sugarcane.

Panda Ethanol, based in Texas, makes ethanol out of cattle manure.

"There are literally mountains of manure in the places we put our facilities," Todd Carter, CEO of Panda Ethanol, told Reuters. "We love the idea of taking a renewable fuel to create a renewable fuel."

However, policy makers in the Midwest and Washington have no intention of cutting back on corn ethanol production.

As Republican Senator John Thune of South Dakota told reporters in March, "America's farmers, investors, states in the Midwest and our federal government have spent literally years in developing the American ethanol industry, and now is not the time to undermine it."

-- *Compiled by Christina Satkowski for NewsHour Extra*

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