



Much has been said about the impact of U.S. ethanol policy on world food prices. Much of it, although rooted in fact, blossoms into overstated generalizations that do nothing to actually address the issue at hand.

It is an oversimplification to indict U.S. ethanol policy as the sole reason that food prices are on the rise. Unfortunately, this urban legend has taken hold of a well-intentioned public. It's a solution looking for a problem.

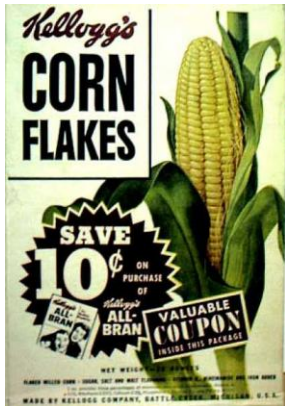
Fiction: High corn prices are the reason food is more expensive.

Fact: Commodity prices impact food prices, but the extent to which this is true is often overstated.

Evidence: While General Mills posted a 51 percent hike in 3Q2009 profits...one of its executives noted low input cost of grain. Don Mulligan, General Mills' chief financial officer, said the public sometimes gets the wrong idea about input costs and supermarket prices. "We have a very wide portfolio of input costs," Mulligan explained. "Grains, for example, which I think people would associate as being a large percentage, is (only) 5 to 10 percent of our input (costs)..." *St. Paul Pioneer Press (9.23.09)*

Throw enough money behind an advertising campaign and it will become the truth. After all, perception is reality. This is certainly the case with the food industry as their trade association, The Grocery Manufacturers Association (GMA), has sought to deflect criticism of their higher prices and smaller packages away from their record profits and toward U.S. corn farmers.

Perspective: It is true that corn prices impact food prices on those items that contain corn and/or ingredients derived from corn. However, even when corn prices quadruple, the value of corn in the average box of corn flakes still only amounts to pennies. For every dollar per bushel change in the price of corn, the value of corn in a 24-ounce box of corn flakes changes about 3 cents.



What's really in a box of corn flakes?

24oz box of corn flakes cost

\$3.85 in June 2007,
\$4.19 in May 2008 and
\$4.79 in November 2008.

Corn value in the box changed:

+ 7.5 cents
- 3 cents

**Corn value in the box went down,
but the food cost went up!**



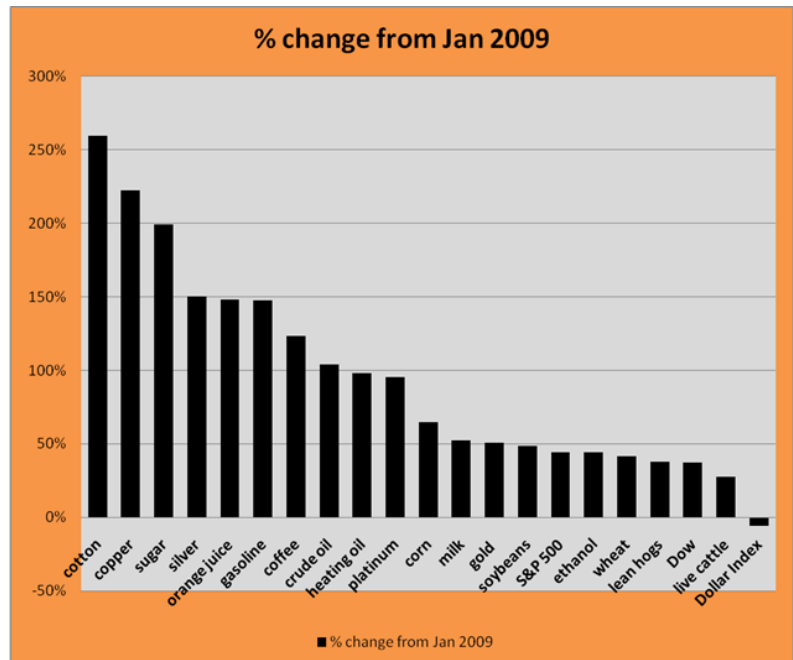
So what's really in a box of corn flakes? **Oil and other energy**, of course. The more those items go up -- as they did in 2007-08, the more it costs to make corn flakes, make boxes for corn flakes and then ship those boxes all across the country. In fact, these costs are much more than the value of corn -- or any other ingredients -- actually in the box!



Fiction: U.S. ethanol policy is the reason that world food prices are higher this year than last.

Fact: U.S. ethanol policy was designed to “green” the U.S. fuel supply and provide market access for a domestic fuel source, corn based ethanol.

Evidence: The world corn price has responded to the increased demand, making the world’s corn farmers more profitable. With corn at a higher price, food processors pay a few pennies more for the corn derived product in their food. However, all commodities have increased in price, not just corn. Sugar had some of the greatest gains, as well as cotton. Cotton, a non-food source commodity, is now competing for the world’s farms that previously supported food crops. Soybeans are also experiencing record gains in value.



Perspective: Ethanol production has increased demand for corn, thereby adding to the price of a bushel of corn, but in the world market, only **3%** of the world’s corn is being diverted to U.S. ethanol production. The price of a barrel of oil is nearing record highs. Pinpointing one U.S. policy as the reason for high food prices only serves as a quick, non-effectual answer to a significant challenge. For those truly interested in understanding food security, a more comprehensive, non-inflammatory approach will most certainly go farther in addressing the world wide need for access to food.

BOTTOM LINE

The bottom line answer to the world’s food prices is about as straight as the line above. There are a multitude of factors that play into the challenge that high food prices bring to the world’s security. Political unrest, infrastructure challenges, localized weather catastrophes, energy prices, oil prices, competing commodities values’, economic growth in China and India, EU renewable energy policy, Brazilian domestic energy policy, and yes, to a certain extent, U.S. renewable energy policy, all play a role in the value of food commodities.

The puzzle is complex and deserves a comprehensive, coalition-type approach to its solution.