



NEWS RELEASE

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Press Contact: Matt Hartwig
202-289-3835

Ethanol *FYI*: It's Factors Other Than Grain Commodities Driving Up the Price of Food

Experts Tell Diane Rehm that Growing Middle Class in Asian and Latin American Countries, Oil and Low Dollar Have Bigger Impact

Washington, DC – During the October 2nd nationally syndicated radio broadcast of the Diane Rehm Show (<http://wamu.org/programs/dr/07/10/02.php#13742>), three experts – Wall Street Journal reporter Lauren Etter, Washington Post special correspondent Dan Morgan, and Iowa State economics professor Bruce Babcock – identified the major factors driving up food prices in the supermarket. Surprise – the increasing prices for corn and wheat were minor factors compared to growing worldwide demand, high oil prices and other costs. Below is an excerpt from that broadcast:

DIANE REHM – We've been talking about the rise in corn prices, production of ethanol and the extent to which farmers are benefiting from that kind of production but I wonder about the increase in food prices Lauren and to what extent can that be attributed to a rise in number of people who are both willing and now able to pay higher prices for food -- people in developing countries for example?

LAUREN ETTER: This is obviously a major component and this has been a very hot topic of debate – people on ethanol side saying its unfair to blame corn prices and ethanol on rising food prices largely because there is this growing middle class in countries across Asia and Latin America that are becoming more affluent. So as they become more affluent they are consuming more meat more milk which takes grain –A beef cow roughly it takes roughly six pounds of grain to take on one pound of weight so literally **with the livestock population tripling over the last few years that translates into an increase in demand and also with low dollar right now makes our exports more attractive. So you have a lot of factors going on that are contributing to increased food costs.** (emphasis added)

DIANE REHM: Dan Morgan.

DAN MORGAN: Just to put food price increase in perspective, have to remember that commodity prices in this country haven't increased much really over the last 20 years. If adjusted for inflation would be lower than they were 20 years ago. We're seeing a little bit of what we saw in oil market – a resetting – finding a new level – It's not at all surprising. Also we have to remember that the commodity share of food goods we buy in the stores declined drastically in last 15 or 20 years. When you buy a loaf of bread how much wheat is really in that loaf of bread or how much corn is in the coca cola we drink– corn syrup goes into coca cola? **How much is really chargeable to the commodity and how much due to packaging costs and transportation costs and all these other things? That's [commodity percentage] actually decreased from 33% to 20% over the last fifteen years.** (emphasis added)

DIANE REHM – Bruce Babcock – what about the price of oil? To what extent is that contributing to the overall price in food prices?

BRUCE BABCOCK: I did a couple of calculations -- crude oil prices are up about 60% over the last two years, gasoline prices up 50% diesel up more than 50% and if you look at the share of the retail food dollar accounted for by energy prices relative to commodity prices, I think that energy prices would probably have a greater share – **so if you actually increase energy prices by 50% or 60% that's going to have a bigger impact on the price of food than higher commodity prices.** And I agree with Dan that the **share that commodities account for in terms of consumer food dollar is a relatively low number** – higher with meat and dairy products – but most of the fruit and vegetables, beverages, things like that the share is small – energy, labor, marketing, retail, rent – all those account for much more than commodity prices. (emphasis added)

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For more information, visit the Renewable Fuels Association website at: www.ethanolRFA.org.