



DAILY NEWS SUMMARY

Friday, July 1, 2008

RFA Op-Ed

1. Biofuels help meet U.S. energy goals

San Francisco Chronicle

<http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2008/06/30/EDNR11F0AG.DTL>

RFA President Bob Dinneen writes an op-ed for the San Francisco Chronicle. "While demand for energy increases globally, so too does the demand for food. With energy and food prices at record levels, industries heavily reliant on oil or grain are looking for someone to blame for the rising prices consumers confront. Thus began a spate of news stories suggesting that the rise in the development of renewable alternatives to gasoline and diesel - biofuels - is forcing us to compete with our cars for food. Not so. Biofuels are part of the solution to keeping food and energy price rises under control."

National

2. McCain Touts Coal, Nuclear While Decrying 'Playing Favorites'

Bloomberg

http://www.bloomberg.com/apps/news?pid=20601087&sid=aIX_OR5Pkp90&refer=home

"He can rant all he wants about ethanol subsidies, but he's in favor of clean-coal subsidies," said Jerry Taylor, a senior fellow at the free-market Cato Institute in Washington. "It's just a different set of handouts for a different set of industries."

3. USDA reports flooding cuts corn acres

Associated Press

<http://ap.google.com/article/ALeqM5icdx5w6HrbtM5RxjufzJ1Yxj0YPgD91KH2500>

“Farmers will harvest nearly 9 percent fewer acres of corn this year than last year, in part because of Midwest flooding that has damaged a portion of the crop, the government reported Monday.”

4. IMF: Inflation Decreases Stability

The Wall Street Journal

http://online.wsj.com/article/SB121491955744019301.html?mod=rss_whats_news_us

“The surge in fuel and food prices is stoking inflation in developing countries and could trigger external financing shocks without a cooperative effort to limit the impact, the International Monetary Fund said Tuesday.”

5. IEA Sees World Oil Market Tightening

The Wall Street Journal

http://online.wsj.com/article/SB121490783562819031.html?mod=googlenews_wsj

“The world will find itself increasingly pressed over the next five years to produce enough oil to meet surging consumption, the Paris-based International Energy Agency warned Tuesday. In its annual medium-term outlook, which forecasts conditions through 2013, the agency said it sees world oil supplies tightening more than it previously expected due to sluggish growth even though higher oil prices and weaker economic growth are set to trim demand.”

6. Corn Crop Largely Intact, Despite Floods

The Wall Street Journal

http://online.wsj.com/article/SB121483141489415613.html?mod=todays_us_page_one

“The Midwest floods won't shrink the size of the U.S. corn harvest as much as feared, potentially easing some of the pressure on Washington to damp the ethanol industry's appetite for the nation's largest crop.”

7. GOP lawmakers want ethanol requirements reduced

Associated Press

<http://ap.google.com/article/ALeqM5iybC7Vg-hYUTo1JObqHB1KvS0ZpwD91KJ3K00>

“More than four dozen House Republicans asked the Environmental Protection Agency on Monday to reduce required ethanol production this year, saying renewable fuel

standards enacted by Congress will boost already high corn prices in the wake of Midwest floods.”

Regional

8. Corn report eases worries about supply

Argus Leader

<http://www.argusleader.com/apps/pbcs.dll/article?AID=/20080701/NEWS/807010304/1003/BUSINESS>

Summary for Argus Leader, Chicago Tribune, Times News, WTOK-TV, and Star Tribune: “Midwest flooding is taking its toll, but a government report Monday showed farmers planted more corn acres than had been expected this year, news that sent corn futures into a decline while assuring ethanol producers and others about supply. U.S. farmers, including those in South Dakota, expect to harvest 78.9 million acres of corn this year. That's almost 9 percent fewer than last year, in part because of Midwest flooding that has damaged a portion of the crop, the U.S. Department of Agriculture reported. But the figures also showed that farmers had planted more than 1 million more acres of corn than they had expected to plant in March.”

9. Summer could pack 2nd punch for crops

Chicago Tribune

<http://www.chicagotribune.com/business/chi-tue-crop-report-usda-jul01,0,7042598.story>

10. Promise of Biofuel Clouded by Weather Risks

Times News (NC)

http://www.blueridgenow.com/article/20080701/ZNYT01/807010393/1170/NEWS/ZNYT01/Promise_of_Biofuel_Clouded_by_Weather_Risks

11. Food inflation may dodge Midwest flood bullet

WTOK-TV (MS)

<http://ap.google.com/article/ALeqM5icdx5w6HrbtM5RxjufzJ1Yxj0YYPgD91KL0U00>

12. Flood damage to corn crop not as bad as feared

Star Tribune (MN)

http://www.startribune.com/business/22742514.html?location_refer=Business:highlightModules:4

13. WEBA members on ethanol monitoring group

Alexandria Times (VA)

<http://www.alextimes.com/article.asp?article=10311&paper=1&cat=155>

“The Alexandria City Council adopted a resolution to establish an eight-member Norfolk Southern Ethanol Transloading Community Monitoring Group to monitor and keep the community informed about the many issues regarding Norfolk Southern’s ethanol transloading operation. Members of the monitoring group, to be appointed by the Mayor, will include representatives from the Cameron Station and Summers Grove communities, the Alexandria City Public Schools, the West End Business Association, the Eisenhower Partnership, two members of City Council and City staff.”

14. Ethanol not seen to affect corn uses

Valley Free Press (IL)

<http://www.vfpnews.com/articles/2008/07/01/news/news05.txt>

“DeKalb County Farm Bureau President Paul Rasmussen said ethanol production has not taken corn from its other uses. New technologies have increased the average corn yield per acre, he said, and instead of that grain being used for livestock feed, ethanol byproducts are used in the feed chain instead.”

15. UMass studies alternative ethanol sources

The Republican (MA)

<http://www.masslive.com/springfield/republican/index.ssf?/base/news-15/1214900207174281.xml&coll=1>

“Switchgrass, a tall, heavy grass that grows on the Midwest prairies, and Mediterranean herb crambe, a plant related to the mustard family, are being grown at the UMass trial crop farm in Deerfield and at eight privately owned farms in the valley.... Like corn, switchgrass and crambe can be fermented to create ethanol, a liquid fuel that can be used in place of gasoline.”

16. Lining up for ethanol

Argus Leader

<http://www.argusleader.com/apps/pbcs.dll/article?AID=/20080701/NEWS/807010306/1003/BUSINESS>

“South Dakota's congressional delegation hoped to promote blended fuel in a ceremony at a new gas pump Monday in Sioux Falls but moved the event when details didn't work out. The event at Get-n-Go at 2401 S. Louise Ave. was to introduce the city's first 30 percent ethanol pump. Olson Oil, the station owner, postponed it after issues arose late Friday with a gasoline supplier, company president Todd Olson said. Olson did not say what the issues were except that he didn't think they related to politicians being involved.”

17. Kansas Receives \$50,000 Grant to Pursue Clean Energy Research

WIBW-TV (KS)

<http://www.wibw.com/localnews/headlines/22746354.html>

“The National Governors Association Center for Best Practices (NGA Center) has awarded \$50,000 to the State of Kansas as part of the Clean Energy States Grant Program to help achieve greater energy efficiency, conservation and use of clean energy resources.”

18. Ethanol stokes auto-pollution debate

Milwaukee Journal Sentinel (WI)

<http://www.jsonline.com/story/index.aspx?id=767585>

“While state legislators attack reformulated gas in southeastern Wisconsin for its cost and waning effectiveness, something else is brewing in gas pumps in the rest of the state that has the potential, if not a promise, to stir statewide controversy. It's all centered on ethanol.”

Trade Publications

19. Goodlatte Asks EPA to Revise Renewable Fuel Standard

Wisconsin Ag Connection

<http://www.wisconsinagconnection.com/story-national.php?Id=1542&yr=2008>

“Ranking Member Bob Goodlatte and 50 of his Republican colleagues sent a letter to the Administrator of the Environmental Protection Agency asking the Agency to reduce the amount of ethanol mandated by the 2009 Renewable Fuel Standard to help alleviate the pressure on rising corn prices. Corn prices have increased significantly over the last few years and coupled with increased energy prices, livestock producers

throughout the country are struggling under the weight of increased input costs. As a result of the record corn prices, wheat, soybeans, rice, and other food commodities have also seen a dramatic price increase and continue to drive up food costs for American consumers.”

Opinions & Editorials

20. Ethanol not the culprit

The News & Observer (NC)

<http://www.newsobserver.com/print/saturday/opinion/story/1123263.html>

“Regarding the June 23 Point of View piece "Ethanol's burden on N.C.'s livestock," Keith Shoemaker's attempt to demonize ethanol made from corn as a primary cause of increased grain prices is an attempt to provide a simple answer to a complicated problem. The rising costs to the livestock industry are undeniable, but any attempt to blame ethanol production as the sole cause would be undeniably incorrect.”

21. We Can Lower Oil Prices Now

Wall Street Journal

http://online.wsj.com/article/SB121486800837317581.html?mod=googlenews_wsj

“Although most experts agree that financial speculation was not responsible for the surge in the global prices of food and energy, many people remain puzzled about the source of these remarkable price rises. Economics offers a simple supply-and-demand explanation and reason for optimism about the future of commodity prices. In the case of oil, economics also suggests how policy changes today that affect the future could quickly lower the current price of oil.”

Blogs & Websites

22. Prince Charles' car runs on wine

CNN.com

<http://www.cnn.com/2008/WORLD/europe/07/01/royal.wine/index.html>

“Britain's Prince Charles has converted his 38-year-old Aston Martin to run on biofuel made from surplus wine, his office revealed Tuesday. The car was a 21st birthday present from Queen Elizabeth --- and the prince has converted it to run on 100 percent bioethanol as a way to reduce his carbon emissions, his office, Clarence House, said.

The prince has also converted his other cars -- several Jaguars, an Audi and a Range Rover -- to run on 100 percent biodiesel fuel made from used cooking oil, his office added.”

23. Don't Blame Biofuels for High Chicken Prices

U.S. News & World Report

<http://www.usnews.com/blogs/washington-whispers/2008/6/26/dont-blame-biofuels-for-high-chicken-prices.html>

“Congress has raised some questions about the impact of biofuels on consumer food bills, so in response, the website is hosting lawmakers and their aides at a picnic tonight to spell out the benefits of making gas out of corn.”

Biofuels help meet U.S. energy goals

By: Bob Dinneen

Since 1998, just 10 years ago, world oil prices have increased 10-fold, recently hitting an all-time high of more than \$140 per barrel. The impacts of this unabated rise are now coming home to roost.

Everything from Q-tips to cornflakes is costing more. It takes petroleum to produce, process, package, transport and market the items that appear on store shelves. This is especially true of food products. Record oil prices make it more expensive for the farmer to grow the grains that are fed to livestock. And those prices also make it more expensive for big food companies to process, wrap the food in plastic, and ship it to the store in energy-intensive refrigerated containers.

While demand for energy increases globally, so too does the demand for food. With energy and food prices at record levels, industries heavily reliant on oil or grain are looking for some one to blame for the rising prices consumers confront. Thus began a spate of news stories suggesting that the rise in the development of renewable alternatives to gasoline and diesel - biofuels - is forcing us to compete with our cars for food. Not so. Biofuels are part of the solution to keeping food and energy price rises under control.

The Energy Information Administration estimates the increased use of ethanol in the United States, which today represents about 7 percent of the total U.S. gasoline supply, will help reduce petroleum consumption by 330,000 barrels per day for 2008. America is producing well in excess of 500,000 barrels of ethanol daily, equaling the gasoline output of two to three medium-size oil refineries. Additionally, ethanol is displacing gasoline imports at the pump. Even Valero, the nation's largest oil refiner, stated that it sees ethanol use "offsetting gasoline imports to the U.S." And just the other day, the International Energy Agency concluded, "Just offsetting the biodiesel and ethanol added to the U.S. and European markets since 2005 would require around 1 million barrels a day of additional crude oil supplies to be processed."

According to a report prepared by the investment firm Merrill Lynch, biofuels are keeping oil and gasoline prices \$21 a barrel lower than they might otherwise be. At today's prices, that would represent a savings of 50 cents per gallon for gasoline at the pump.

Oil prices are rising because emerging economies in China and India are ravenously devouring energy reserves around the globe. China alone has seen its oil consumption grow 56 percent since 2000. Combined, China and India will consume more oil than

the United States this year. The pressure being put on oil markets is tremendous and the need to find new reserves immediate. But the easy oil has been found.

While demand for energy increases, so too does the demand for food. Expanding middle classes in some of the world's fastest growing economies are acquiring a taste for higher quality foods. As a result, demand for grains to feed livestock has soared, domestically and internationally. Last year, the United States exported a record volume of corn, the majority of it going to feed livestock. This new demand surge, spurred by growing economies and a weak dollar, has put upward pressure on grain prices around the world.

Given the inroads ethanol is making into the nation's motor fuel supply and the fact that livestock producers and food processors can no longer take advantage of America's farmers by purchasing grain below the cost of production, there is little doubt as to why Big Oil and Big Food are pointing their fingers at ethanol.

By keeping oil prices lower than they otherwise would be, biofuel production is helping America's families pay less at the pump. Clearly, ethanol and other biofuels represent the first steps of what promises to be a long journey in reducing our dependence on fossil fuels.

Bob Dinneen is the president and CEO of the Renewable Fuels Association, which represents the nation's ethanol producers. To read the Merrill Lynch biofuels report, go to links.sfgate.com/ZDZG.

Bloomberg
July 1, 2008

McCain Touts Coal, Nuclear While Decrying 'Playing Favorites'

By: Lorraine Woellert

July 1 (Bloomberg) -- As a senator, John McCain has condemned policies that pick market winners and losers, aiming particular criticism at government ethanol subsidies as a taxpayer rip-off.

As a presidential candidate, the Arizona Republican himself is backing specific industries in proposals for relief from high energy prices and foreign oil dependence.

Coal producers and users would benefit under McCain's energy plan from about \$30 billion of government funding for clean-coal technology research. Federal carbon caps and a system for trading emissions credits would create winners and losers depending on how pollution credits are doled out. McCain has promised, without details, to push for construction of 45 nuclear-power plants.

"He can rant all he wants about ethanol subsidies, but he's in favor of clean-coal subsidies," said Jerry Taylor, a senior fellow at the free-market Cato Institute in Washington. "It's just a different set of handouts for a different set of industries."

McCain said his plan seeks to give American companies "new incentives and rewards to seek, instead of just giving new taxes to pay and new orders to follow." The goal, the presumptive Republican nominee said, is to pursue multiple options in an effort to balance long-term energy production, short-term price remedies, and environmental protection.

"I'm not picking winners and losers here," McCain said during a campaign swing yesterday through Pennsylvania. "I think the way we're going to solve this issue is to let a thousand flowers bloom. I'm for federal funding of pure research and development."

Energy Anxiety

Both major-party presidential candidates are trying to tap into voter energy anxiety, as record oil prices soar to more than \$140 a barrel and gasoline for the summer vacation-travel season tops \$4 a gallon. Democrat Barack Obama, a farm-state senator from Illinois, backs ethanol subsidies and has proposed tax credits for development of wind and solar energy, financed by cutting tax breaks for oil companies.

On the campaign trail, McCain often talks about the importance of free markets. ``When the government jumps in and distorts the markets there are unintended consequences," he said May 13 in North Bend, Washington.

McCain devoted a cross-country tour late last month to energy policy, proposing to end restrictions on some offshore oil exploration. Obama attacked that plan as ineffective and risky for the environment, and made light of McCain's idea for a \$300 million prize to encourage development of high-capacity batteries for plug-in cars.

Level Playing Field

When criticizing government interference, McCain's favorite target is the federal subsidy for ethanol-blended vehicle fuel, worth more than \$3 billion last year. U.S. ethanol producers also benefit from import tariffs and crop subsidies for corn, the biggest source of domestic ethanol. On the campaign trail, he says programs to prop up U.S. corn-based ethanol distort energy prices, and promises policies that give the industry some competition from ethanol derived from sugar cane or other sources.

``Instead of playing favorites among the lobbyists, our government must also level the playing field for all alcohol fuels that break the monopoly of gasoline," McCain said June 25 in Las Vegas. ``This can be done with a simple federal standard to hasten the conversion of all new vehicles in America to flex- fuel technology."

McCain's energy plan would spend \$2 billion a year through 2024 in taxpayer support for research and development of clean- coal technologies.

Nuclear Power `Guarantees'

McCain has supported Senate efforts for similar government- subsidized development of new nuclear power plant designs. His presidential campaign's energy program calls for new nuclear plant construction, but doesn't promise taxpayer support. McCain said he would consider government ``guarantees" to encourage nuclear-power development, but declined to provide specifics. ``If we have to provide some guarantees, I'm willing to do that," McCain said yesterday.

``We are basically telling the utilities that they will have some guarantees, that we won't abandon them at some point in time, as we did during the 1970s," McCain said in Riverside, California, on June 24.

McCain policy adviser Douglas Holtz-Eakin said the Republican's plan balances energy and environmental demands and ignores the pleas of special interests.

Ignoring Special Interests

``The plan is not calibrated to make interest groups happy," Holtz-Eakin said.

Indeed, McCain has drawn fire from environmentalists and groups advocating for more exploration of fossil fuels. Conservationists have criticized the Republican for proposing to end restrictions on offshore oil exploration, while pro-development interests say McCain should go farther and permit exploration in some Alaskan wilderness areas.

“He missed an opportunity to talk about where we have an enormous amount of resources” in Alaska, said Bill Koetzle, senior vice president of public policy at the Institute for Energy Research, which supports lifting a federal ban on offshore drilling. “Trying to get the moratorium lifted offshore is important, but it's not enough.”

Ethanol producers have fought this battle before with McCain and they're sitting this one out. Matt Hartwig, spokesman for the Renewable Fuels Association, a trade group that represents ethanol producers, wouldn't comment about McCain's energy plan.

Hartwig did make one observation: “When you talk about the energy business, there is no such thing as a free market.”

Associated Press
June 30, 2008

USDA reports flooding cuts corn acres

By: David Pitt

DES MOINES, Iowa (AP) — Farmers will harvest nearly 9 percent fewer acres of corn this year than last year, in part because of Midwest flooding that has damaged a portion of the crop, the government reported Monday.

But the latest USDA figures also showed that farmers had planted more than a million more acres of corn than they had expected to plant in March, and corn futures prices fell in the wake of Monday's report.

The U.S. Department of Agriculture said farmers expect to harvest 78.9 million acres of corn, down 8.7 percent from the 86.5 million harvested last year.

The report also indicates farmers planted nearly 7 percent fewer acres of corn than last year — 87.3 million acres versus last year's 93.6 million acres.

But the acres planted was still higher than the 86 million acres that farmers had anticipated planting in corn when asked about it in March.

Grain analyst Dan Basse, president of Chicago-based AgResource Co., an agricultural consulting firm, said high corn prices encouraged farmers to find more land to plant in corn.

Even with the anticipated reduction in harvested acres caused by flooding, Basse said a robust corn harvest could soften corn prices.

"They'll weaken with time and I don't see an economic reason why new crop corn futures need to be above 8 or new crop soybean futures need to be above 16 unless we have a drought," he said.

Corn futures, which were about \$6 a bushel in early June, dropped nearly 30 cents to about \$7.25 on the Chicago Board of Trade.

An ethanol industry trade group, Renewable Fuels Association, said the anticipated corn harvest will be enough to satisfy projected needs.

The group said it estimates a harvest of around 11.5 billion bushels, meeting projected demand and leaving about 800 million bushels left over. The USDA said about 4 billion bushels of corn remains in the nation's stockpiles.

"American farmers have once again proven their detractors wrong, demonstrating that they are uniquely capable of meeting the growing demand for feed, food, fiber and fuel," said RFA President Bob Dinneen in a statement. "Despite challenging spring weather conditions and an unprecedented flooding event, farmers have responded to the needs of the marketplace by planting the second largest area of corn since 1946."

Chad Hart, an agriculture economist with Iowa State University, said the report shows that farmers planted more corn than they had anticipated but some of it was washed away in the floods.

"What it means in terms of flooding impact on the area is, I hate to say it, that it was kind of a wash," Hart said. "Farmers were able to get in there and plant more corn but a lot of the surplus planted over March intentions was basically washed away by the floods."

The USDA report said spring rainfall totaled 20 inches or more from eastern Oklahoma into the lower Ohio Valley, disrupting planting and other spring field work. That is at least 150 percent of normal.

"Unfavorable wetness also covered much of the Midwest, hampering corn and soybean planting efforts," the report said.

The planted acres decreased in the 10 major corn producing states — Illinois, Indiana, Iowa, Kansas, Minnesota, Missouri, Nebraska, Ohio, South Dakota, and Wisconsin — in part because of high fertilizer prices, favorable prices for other crops and a return to normal crop rotation, the USDA said.

Illinois saw the largest decline, where farmers planted 12.3 million acres down from the record high of 13.2 million planted last year. Indiana decreased 800,000 acres and Minnesota, 600,000 acres.

Iowa continues to lead the nation in corn planted area with 13.7 million acres, down 500,000 from last year.

Despite the reductions, the planted acres is still the second highest since 1946, behind last year.

Harvest acres, if realized, will be the second highest since 1944, the USDA said.

The report also said planted soybean acres will increase 17 percent from last year to 74.5 million acres.

The planted soybean acres are expected to increase in all states and the planted area for soybeans is the third largest on record, the USDA said.

Nationally, farmers reported 79 percent of the soybean crop had been planted at the time of the survey last week, the lowest since 1996.

July soybeans were trading down 1 1/4 cents at \$15.80.

The report says farmers have changed planting intentions for crops already planted and changed intentions for acres not planted.

Farmers intend to harvest 90.4 percent of their planted acres of corn for grain, down from the estimate of 92.4 percent as indicated in the first two weeks of June.

Hart said land that had been intended for other crops or that may have recently come out of the conservation reserve program were likely planted in corn, resulting in the uptick from earlier expectations.

The USDA reinterviewed 1,200 farmers last week to get the most updated information reflecting the impact of Midwest flooding.

IMF: Inflation Decreases Stability

By: Tom Barkley

WASHINGTON -- The surge in fuel and food prices is stoking inflation in developing countries and could trigger external financing shocks without a cooperative effort to limit the impact, the International Monetary Fund said Tuesday.

In its first broad-based analysis of how rising commodity prices are affecting emerging and developing countries, the fund found an increasing deterioration in inflation conditions and balance of payments. And with oil and food prices expected to ease only gradually, the situation could worsen if governments don't take appropriate action, it said.

"The food and fuel price surges have greatly raised the policy challenges associated with reducing poverty, ensuring food security, and maintaining macroeconomic stability," the IMF said in the report, warning that the world is "in the midst of the broadest and most buoyant commodity price boom since the early 1970s."

The IMF cited the rapid growth of emerging and developing countries as the "main source" of demand for commodities.

The fund said rising demand and a "sluggish" supply response has been the main driver behind the run-up in oil prices. Financial conditions, such as the weak dollar and low real interest rates, have also likely contributed, it said.

However, the IMF found "no compelling evidence" that commodity trading has affected price trends, though it said financial factors such as market sentiment can have a short-term impact.

The oil price rise has also fed into food costs, including the increase in biofuel production, the fund said, noting that corn-based ethanol output accounted for about three-quarters of the rise in global corn consumption in 2006-2007. More recently, in large part in reaction to the food price surge, a growing number of countries have imposed limits on food exports -- exacerbating the global problem, it said.

The fund found that inflation pressures have built up more than expected since the beginning of the year in developing countries, whose fiscal and balance of payment conditions have also worsened. The fund estimated that a further 20% increase in the price of commodities from its April projections -- which has already occurred in the case of oil -- could "severely weaken the external position" of 72 countries.

Thus, the fund said a cooperative approach is needed by donor countries and multilateral institutions to help developing countries cope with the commodity price spike.

Developed countries should re-examine support programs for biofuel production, while limits on agriculture exports should be lifted, it said. A successful conclusion of the Doha round of global trade talks could also help stabilize global food trade, the fund said.

For the governments of the countries themselves, the IMF recommends allowing the price increases to pass through to the economy to avoid disrupting macroeconomic stability, while offering programs to help the most vulnerable of their populations. For central banks, that means additional tightening may only be necessary to ensure that commodity prices don't inflate the price of other goods and services, it said.

Some net importers may need to consider an exchange-rate depreciation to the extent that rising commodity prices are considered permanent, the fund said.

The IMF also urged countries to seek financial support as needed to help with balance of payment issues, and noted that both the fund and the World Bank are devising new programs to help deal specifically with the commodity crisis.

IEA Sees World Oil Market Tightening

By: Natalie Obiko Pearson

LONDON -- The world will find itself increasingly pressed over the next five years to produce enough oil to meet surging consumption, the Paris-based International Energy Agency warned Tuesday.

In its annual medium-term outlook, which forecasts conditions through 2013, the agency said it sees world oil supplies tightening more than it previously expected due to sluggish growth even though higher oil prices and weaker economic growth are set to trim demand.

U.S. oil futures set a new intraday high of \$143.67 a barrel early Monday and have doubled since the IEA's last such report in July last year.

"There is no clear sign of a recovery in crude oil [producing] capacity over the medium term," the energy watchdog said. "Despite a considerable downward revision to our global oil-demand forecast ... structural-demand growth in developing countries and ongoing supply constraints continue to paint a tight market picture."

Current oil prices are an accurate reflection of those gloomy prospects, said the IEA. "Everyone wants a simplistic explanation for high prices. The reality is that there are a multitude of interactions" taking place, some of them involving structural changes in the world economy that have been building for many years, the report said in a new chapter dedicated solely to explaining the rise in prices.

Primary among them is that oil demand is growing robustly in developing nations in Asia, the Middle East and Latin America relative to sluggish supply growth, it said. "There are significant downward revisions for both non-OPEC supplies and OPEC capacity estimates from last year's Medium-Term Oil Market Report," because project delays and decline rates at mature oil fields are expected to hinder growth for the foreseeable future, the agency said.

Global oil-supply capacity is projected to rise to 96.2 million barrels a day in 2013 from 90.4 million barrels a day this year, including crude production capacity from the Organization of Petroleum Exporting Countries, OPEC natural gas liquids and non-OPEC production. However, most of that growth will come early and sharply taper off: between 2011 and 2013, capacity will grow by less than one million barrels a day annually, it said.

Non-OPEC supply growth is expected to fall to "minimal levels" by 2013. OPEC crude supply is expected to grow annually by 2.5 million barrels a day to reach 37.9 million barrels a day by 2013 -- one million barrels a day lower than last year's forecast.

OPEC's usable spare capacity will rise to as high as 4.3 million barrels a day in 2010 but then fall to a one million barrels a day by 2013, the IEA said, from 1.95 million currently. That means that by 2013, if OPEC finds extra oil is needed to offset a disruption or otherwise balance the market, it will only be able to pump an additional amount equivalent to just over 1% of world consumption -- a level the report described as "negligible."

"What we're seeing here is an absence of obvious reaction to price signals," said Lawrence Eagles, editor of the IEA report, noting that it takes time for the impact of prices to filter through, especially on the supply side, where "things move much, much more slowly."

The IEA also cut its demand projections to account for the impact that high oil prices are having on consumption habits: global oil demand is forecast to expand on average 1.5 million barrels a day, or 1.6%, to reach 94.1 million barrels a day by 2013. In comparison, last year's report forecast annual demand growth of 2.2% a year.

That was based on a robust annual global economic growth forecast of 4.4% during the period because developing countries are expected to be more resilient in the face of a U.S. slowdown, which will help sustain demand for crude and other oil products such as diesel, the agency said. "By the end of the forecast period, global oil demand will be almost evenly split between OECD and non-OECD countries," it said. OECD refers to the Organization for Economic Cooperation and Development, which represents the world most industrialized nations.

The bulk of oil-demand growth will come from transportation fuels, the IEA said. Led by China and India, the world's total vehicle fleet may number 1.2 billion vehicles by 2013, up from about 890 million in 2005, it added.

In contrast, demand growth will continue contracting in developed economies. "Given high oil prices, expected to prevail, and the marked U.S. economic slowdown, which is seen lasting at least until 2010, the U.S. is no longer seen as supporting oil [product] demand growth," in industrialized nations, the IEA said.

As for sky-high oil prices, the IEA said that soaring demand for distillate fuels -- such as diesel, jet fuel and kerosene -- and a lack of sufficient refining capacity has played a key role in lifting crude oil prices. "[Tightness] in the distillate market is arguably the single biggest cause of the current run up in prices," the report said. Natural gas shortages, Chinese diesel shortages and tightened European regulations on sulfur levels in diesel have all contributed to the soaring demand for middle distillates, it said.

"While crude oil prices should be determined by the supply and demand for crude oil, if strong demand or tight refining capacity leads to higher product prices overall, refiners would be prepared to pay a higher price for crude oil," the report said.

The IEA also said in its outlook that more than 3.5 million barrels a day of new production is needed each year just to hold world production steady. The global net decline rate of oil production was raised to 5.2% a year from 4% in the previous report.

The IEA sees oil projects on average being delayed by up to 12 months with costs doubling. As a result, the forecast for total OPEC and non-OPEC capacity in 2012 was cut by 2.7 million barrels a day.

The IEA expects biofuels to account for 50% of non-OPEC supply growth by 2013. But they will remain a small proportion of the total oil balance. Meanwhile, ethanol and biodiesel supply growth in the U.S. and Europe have met the equivalent of some one million barrels a day of crude oil output since 2005. However, the agency said it remains cautious about the future prospects of biofuels amid weak profit margins and increasing doubts about their environmental benefits and efficiency.

World refinery capacity is projected to increase by 8.8 million barrels a day during the period -- greater than the projected increase in oil production. However, the IEA said rising costs and other pressures could change that outlook, which could have a significant impact on the availability of oil products and crude prices.

The IEA also weighed in on the debate over whether the flow of investment funds into the oil market have helped drive up prices. It said it recognizes that speculation can have a day-to-day impact on price moves, but believes current prices are justified by fundamentals. One reason it cited was that physical stockbuilding of oil doesn't appear to be occurring, whereas, historically, speculative bubbles have prompted hoarding of supplies in anticipation of higher prices.

Corn Crop Largely Intact, Despite Floods

Estimate Is Raised On More Planting; Futures Prices Drop

By: Scott Kilman

The Midwest floods won't shrink the size of the U.S. corn harvest as much as feared, potentially easing some of the pressure on Washington to damp the ethanol industry's appetite for the nation's largest crop.

Soaring corn prices in May and June prompted farmers to plant more corn than the Agriculture Department originally forecast, helping compensate for fields that were later washed out by heavy rains in early June. Many farmers made room for more corn by planting fewer soybeans than originally projected.

The Agriculture Department said Monday that its acreage surveys of thousands of farmers through late June indicated that growers planted 87.3 million acres of corn, up from the 86 million acres forecast in its March 31 prospective plantings report.

Corn prices plunged in the wake of the agency's report because it prompted economists and commodity analysts to begin re-inflating the corn-harvest forecasts they had reduced amid the June deluge. Prices of some corn-futures contracts plunged by their daily permissible limit of 30 cents a bushel in trading at the Chicago Board of Trade. The price of the nearby July contract sank 4% from Friday to settle at \$7.2475 a bushel Monday.

John M. Urbanchuk, an agricultural economist at LECG LLC., who advises a major ethanol trade group, raised his forecast of the corn crop that U.S. farmers will harvest this fall to 11.58 billion bushels, up 2.5% from the 11.3 billion bushels he was forecasting last week.

Bill Biedermann, senior vice president of Allendale Inc., a suburban Chicago commodity-research concern, said his firm raised its corn-harvest forecast to 11.53 billion bushels from roughly 11.4 billion bushels. Likewise, Dan Basse, president of AgResource Co., said he raised his corn figure to 11.56 billion bushels from 11.2 billion bushels.

Despite the revised forecast, the economic damage caused by the rainy and cold spring on the hardest-hit Midwest farmers is in the billions of dollars. Many analysts had originally expected U.S. corn farmers to produce more than 12.2 billion bushels.

The improvement in the crop outlook from a few weeks ago could work against calls by executives of packaged-food and meat companies for the Environmental Protection

Agency to reduce temporarily the amount of ethanol that must be blended with gasoline. The price of corn has more than tripled in two years amid a doubling of the federally supported ethanol industry's appetite for corn. Roughly one-quarter of last year's corn crop was turned into ethanol.

Texas Gov. Rick Perry, prodded by livestock interests in his state, asked the EPA in April to cut by half the federal mandate that gasoline retailers use nine billion gallons of ethanol in 2008. States can request a waiver of as long as one year. A group of 51 House Republicans said Monday that it sent a letter to the EPA asking it to reduce the amount of ethanol that must be blended with gasoline in 2009.

But it isn't clear how the EPA will act. The ethanol industry is a favorite of President George W. Bush, and political pressure to reduce the mandate might ease if corn prices continue to retreat. Or, the administration might turn to other remedies, such as allowing farmers next year to plant millions of acres of land idled in a conservation program.

An EPA decision on Gov. Perry's request is expected in late July.

Associated Press
June 30, 2008

GOP lawmakers want ethanol requirements reduced

By: Dina Cappiello

WASHINGTON (AP) — More than four dozen House Republicans asked the Environmental Protection Agency on Monday to reduce required ethanol production this year, saying renewable fuel standards enacted by Congress will boost already high corn prices in the wake of Midwest floods.

"The Renewable Fuel Standard (RFS) is a significant factor in the increased cost of commodities, which is causing severe economic harm for low-income Americans and livestock producers," the 51 lawmakers, led by Rep. Bob Goodlatte of Virginia, senior Republican on the House Agriculture Committee, said in a letter to EPA Administrator Stephen Johnson.

"The (Bush) administration can immediately impact the supply of corn that will be used for food and feed and lessen the severe economic harm facing millions of Americans," Goodlatte and the others wrote.

Texas Gov. Rick Perry asked EPA in April to cut by half a requirement in last year's energy law to produce 9 billion gallons of ethanol in 2008 for blending into gasoline. That's 30 percent to 35 percent of the nation's corn crop this year, the Agriculture Department says.

Corn prices have surged more than 80 percent in the past year due to sharp increases in global demand to feed people and livestock and to make ethanol for gasoline blends.

Recent flooding in the Midwest and drought in the South reducing this year's corn crop will only add to the supply pressure. The Agriculture Department reported Monday that farmers will harvest 9 percent fewer acres of corn this year in part because of the flooding.

A 2005 energy law allows individual states to seek a reduction in the renewable fuel standard if they can show it will harm the economy or environment. An EPA decision on Texas' appeal is expected in July.

Corn report eases worries about supply

Despite flooding, acres and expected yield fuel optimism

By: Scott Carlson

Midwest flooding is taking its toll, but a government report Monday showed farmers planted more corn acres than had been expected this year, news that sent corn futures into a decline while assuring ethanol producers and others about supply.

U.S. farmers, including those in South Dakota, expect to harvest 78.9 million acres of corn this year. That's almost 9 percent fewer than last year, in part because of Midwest flooding that has damaged a portion of the crop, the U.S. Department of Agriculture reported. But the figures also showed that farmers had planted more than 1 million more acres of corn than they had expected to plant in March.

Corn acres planted was down - 87.3 million acres compared to last year's 93.6 million - but still higher than the 86 million that farmers had anticipated planting when asked about it in March.

In South Dakota, farmers expect to harvest 4.2 million acres of corn, down from 4.5 million acres last year. In Iowa, the nation's top corn producer, farmers expect to harvest 12.8 million acres this year, down from 13.8 million in 2007.

Officials from South Dakota corn industry trade groups were heartened by the USDA's news.

"It was a more positive report than I expected," said Lisa Richardson, executive director of the South Dakota Corn Growers Association. She said the agency reported that corn on hand has increased 14 percent to 4 billion bushels.

Avoiding early frost vital to robust yield

South Dakota corn officials said that a cold, wet spring delayed some planting, and many farmers opted to plant more soybeans, which take a shorter time to get into fields and turn around for harvest. But things are looking brighter for corn as summer takes hold with hot weather, they said.

"With the grain that is in and the amount of moisture we have, things look excellent for South Dakota," Richardson said. However, a big key is whether Mother Nature cooperates and the state avoids an early frost this year, she said.

Richardson said she is confident U.S. corn farmers will meet market demand for their crop that includes exports, livestock feed and the growing ethanol industry.

Jeff Lutt, vice president of corporate operations at Sioux Falls-based Poet, said he was not surprised by the USDA's report. Despite flooding in the Midwest, "there is still a lot of growing season left," Lutt said. "A question is how much of the acreage affected by the flooding will get replanted" with shorter-day hybrid corn or corn with a quicker growing cycle, he said.

Some farmers turn to soybeans as alternative

Lutt said Poet expects adequate corn supplies to keep all of its plants operating. He said he's convinced that corn prices already have factored in recent weather events, including flooding in parts of the Midwest.

Richardson said that South Dakota farmers have planted 4.1 million acres of soybeans this year, up from 3.2 million last year.

The USDA expects about 4 million acres of soybeans to be harvested in South Dakota this year, up from 3.1 million in 2007.

Out in the fields, Burbank crop farmer Reid Jensen said the weather presented challenges in the spring. But he got most of his corn planted by early May and the rest by the end of the month. He has planted about 900 acres of corn and a similar amount of soybeans.

Jensen said that 10 inches of rain in the two and a half weeks after May 22 created problems in lower areas, but high corn prices were a good incentive.

"We went in to replant those spots," said Jensen, also president of the South Dakota Corn Utilization Council. "Even if the yield is not quite as good, the incentive is there (to replant) to maximize profits."

Corn harvest expected to satisfy needs

Grain analyst Dan Basse, president of Chicago-based AgResource Co., an agricultural consulting firm, said high corn prices encouraged farmers to find more land to plant in corn.

Even with the anticipated reduction in harvested acres, Basse said a robust harvest could soften corn prices.

"They'll weaken with time, and I don't see an economic reason why new crop corn futures need to be above 8 or new crop soybean futures need to be above 16 unless we have a drought," he said.

Corn futures, which were about \$6 a bushel in early June, dropped almost 30 cents to about \$7.25 on the Chicago Board of Trade.

An ethanol industry trade group, Renewable Fuels Association (RFA), said the anticipated corn harvest will be enough to satisfy projected needs.

The group said it estimates a harvest of around 11.5 billion bushels, meeting projected demand and leaving about 800 million bushels left over. The USDA said 4 billion bushels of corn remains in the nation's stockpiles.

"American farmers have once again proven their detractors wrong, demonstrating that they are uniquely capable of meeting the growing demand for feed, food, fiber and fuel," said RFA President Bob Dinneen said. "Despite challenging spring weather conditions and an unprecedented flooding event, farmers have responded to the needs of the marketplace by planting the second largest area of corn since 1946."

Chad Hart, an agriculture economist with Iowa State University, said the report shows that farmers planted more corn than they had anticipated, but some of it was washed away in the floods.

"What it means in terms of flooding impact on the area is, I hate to say it, that it was kind of a wash," Hart said. "Farmers were able to get in there and plant more corn but a lot of the surplus planted over March intentions was basically washed away by the floods."

The USDA reinterviewed 1,200 farmers last week to get the most updated information reflecting the effect of Midwest flooding.

Summer could pack 2nd punch for crops

Heat could push corn up to \$10 per bushel

By: Joshua Boak

If rain last month almost endangered one of the most important corn crops in recent history, a suffocating heat might be its biggest enemy in the month ahead. Corn at an incredible \$10 a bushel could be the consequence.

Many of the corn stalks across the country have shallow roots, since they didn't need to penetrate deeply into the soil for water. Those weak roots could leave budding corn kernels starving in a parched midsummer, analysts said.

"It really boils down to Mother Nature," said Jim Bower, president of Bower Trading Inc., who said the roots this year were the shallowest in his 35-year career.

Weather remains the wild card for corn, which is at record prices and contributing to high food costs. American-grown corn also feeds livestock, sweetens soda, helps fuel cars as ethanol and gets exported around the world.

Prices fell by 4 percent Monday, to \$7.38 a bushel, after reports from the Agriculture Department suggested that flooding in the Midwest was less damaging to the crop than initially believed and that higher prices might be reducing corn use.

The June floods led to anxieties that the coming harvest might not be able to satisfy the demand for corn, recently causing another leap in price.

The Agriculture Department survey found that farmers planted 87.3 million acres of corn, about 1.31 million acres more than a March survey indicated. The additional plantings could offset some of the crops drowned in floods.

"The one thing I will say at this point: People may have exaggerated the flood losses," said Dale Durchholz, an analyst for AgriVisor in Bloomington, Ill.

In order to improve the accuracy of its plantings survey after the flooding, the Agriculture Department reinterviewed 1,200 farmers last week. Analysts said a fuller picture of how the flooding affected the crop will emerge in August, when the agency releases another report.

The Agriculture Department announced that the corn stocks held in reserve increased by 14 percent, to 4 billion bushels, compared with last year. In a sign that people are

rationing corn, the corn stocks beat market expectations by more than 130 million bushels.

"This is bearish," floor traders at the Chicago Board of Trade told each other as the numbers were publicly discussed at an event sponsored by the futures exchange Monday morning.

The drop in price that followed the reports may be short-lived. Hot weather in August and July could decimate cornfields, lowering the yield below 149 bushels an acre.

"You can't underestimate the impact of it," said Dan Cekander, a grains analyst for the brokerage Newedge. "With the shallow root system, you could push that yield down to somewhere around 140 bushels an acre. You've got \$10 corn."

That could make it hard to reach the harvest of 11.5 billion bushels estimated by the Renewable Fuels Association, a pro-ethanol trade group that argues the country's farmers can meet the foreseeable corn needs.

Other crops increased in price, reflecting the complex dynamics at work in food inflation. The market expected that American farmers would harvest more acres of soybeans than the 72.1 million predicted by the Agriculture Department.

Prices jumped by 23 cents, to \$16.05 a bushel for July, a move that amounts to a plea that Brazil grow more soybeans in the winter, Bower said.

"The market is telling the world, we need more soybean acres," he said.

Promise of Biofuel Clouded by Weather Risks

By: Jad Mouawad

The record storms and floods that swept through the Midwest last month struck at the heart of America's corn region, drowning fields and dashing hopes of a bumper crop.

They also brought into sharp relief a new economic hazard. As America grows more reliant on corn for its fuel supply, it is becoming vulnerable to the many hazards that can damage crops, ranging from droughts to plagues to storms.

The floods have helped send the price of ethanol up 19 percent in a month. They appear to have had little effect on the price of gasoline at the pump, as ethanol represents only about 6 percent of the nation's transport fuel today.

But that share is expected to rise to at least 20 percent in coming decades. Experts fear that a future crop failure could take so much fuel out of the market that it would send prices soaring at the pump. Eventually, the cost of filling Americans' gas tanks could be influenced as much by hail in Iowa as by the bombing of an oil pipeline in Nigeria.

"We are holding ourselves hostage to the weather," said John M. Reilly, a senior lecturer at the Massachusetts Institute of Technology and an ethanol expert.

"Agricultural markets are subject to wide variability and big price spikes, just like oil markets."

Three years ago, Americans discovered that the vicissitudes of the weather could have a powerful effect on energy prices when two hurricanes struck the Gulf Coast. Hurricanes Katrina and Rita interrupted a quarter of the nation's oil production and closed dozens of refineries for weeks. Lines formed for the first time since the 1970s as gasoline spiked above \$3 a gallon, a record at the time. The nation's increasing dependence on crops for motor fuel adds another level of vulnerability from the weather.

It is still too early to estimate damage to corn crops from the recent floods, or their impact on ethanol output. Iowa, the biggest corn state, may have lost as much as 10 percent of its harvest, according to preliminary estimates.

But concerns that the floods could tighten corn supplies this year have pushed up both corn and ethanol prices. Ethanol, which was already rising before the floods, has nearly doubled from its low of \$1.50 a gallon in September.

Unexpected interruptions in oil supplies have been a factor driving oil prices above \$140 a barrel lately. Given the tight oil market, there is little untapped capacity that can be brought online to make up for sudden supply interruptions, whether of oil itself or of the biofuels that are increasingly substituting for oil.

In the 1980s, the oil capacity cushion peaked at around 20 percent of global consumption. Today, it represents only about 2 percent — less than Iran's petroleum exports. Analysts have warned that such record-low levels of spare capacity pose unprecedented risks to the stability of oil markets and introduce a significant premium in the price of oil.

“There is now a vulnerability to perfect storms, not just in a metaphorical sense, but increasingly in a literal sense,” said Daniel Yergin, the chairman of Cambridge Energy Research Associates, a consulting firm. “In addition to geopolitical risks, you must now add weather risks.”

While storms, torrential rains and hurricanes have always been a part of energy production, the areas where most of the nation's new oil and ethanol supplies are coming from — the corn belt and the Gulf of Mexico — are especially vulnerable to hazardous weather.

“Our energy policy is like playing Russian roulette with every chamber loaded,” said Lawrence J. Goldstein, an energy analyst at the Energy Policy Research Foundation, a group backed by the oil industry. “We've doubled up on the weather risk.”

Both the government and the ethanol industry recognize the risks of tying fuels to crops. The secretaries of energy and agriculture, in a joint letter to the Senate, recently said: “If we assumed a supply disruption of ethanol, we would expect a fairly large increase in the price gasoline until ethanol supply were re-established or new market equilibriums were achieved.”

Backers of biofuels contend that growing ethanol supply is keeping gasoline prices from rising even higher than they have, by anywhere from 35 cents to 50 cents a gallon, in their estimation. They also point out that the government's ethanol mandate, which requires oil companies to blend ethanol into motor fuel, can be suspended in an emergency. Finally, they say that future ethanol supplies will be derived from materials like switchgrass or wood chips that are resistant to bad weather.

Bob Dinneen, the president of the Renewable Fuels Association, the industry's main trade group, said only two out of 160 ethanol refineries nationwide shut down because of the storms. Both will reopen soon, he said.

“There is a lot of overblown concern that is not really justified by the facts on the ground,” Mr. Dinneen said. “Certainly the weather is going to have an impact on all sorts of industries. It had an impact when Katrina wreaked havoc on the refining industry. It has an impact on ethanol production, but it has been minimal.”

In recent years, corn ethanol has been one of the few sources of supply growth in transport fuels. Indeed, biofuels have become the single biggest source of new fuels produced outside of countries belonging to the Organization of the Petroleum Exporting Countries.

Production worldwide is expected to grow by 330,000 barrels a day this year, to 1.4 million barrels a day, according to the International Energy Agency.

In the United States, bipartisan public policies have driven the rise of the ethanol industry. Congress has set rising requirements for oil companies to blend ethanol with gasoline, backed with generous subsidies that should total \$12 billion this year, according to estimates by Barclays Capital.

The ethanol mandate is set at nine billion gallons for 2008 and is scheduled to rise to 36 billion gallons a year by 2022. By various estimates, that would represent 20 to 25 percent of the nation's gasoline consumption by then.

Corn ethanol is capped at 15 billion gallons from 2015 onward. The rest is supposed to come from advanced biofuels. They would not require food crops, but bringing them to market depends on perfecting techniques that are still experimental.

Farmers who support the government's ethanol policy argue that truly disastrous weather in the corn belt does not happen often.

"The last time we had real weather problems in the corn belt was 1988," said Tom Buis, the president of the National Farmers Union. "That's pretty rare."

Emerson D. Nafziger, a professor of agronomy at the University of Illinois, said farmers still had time to recover this year, to some degree. But he said this year's storms were the first real test for the nascent ethanol industry.

"We may end up feeling we dodged a bullet this year," he said. "We've had a run of fairly favorable weather in recent years. But there is no guarantee it will stay that way."

Food inflation may dodge Midwest flood bullet

By: David Pitt

DES MOINES, Iowa (AP) — Midwest floods may not contribute as much to food inflation as was feared.

Corn prices fell Monday after the government surprised traders, reporting farmers tried to cash in on soaring corn demand for ethanol by planting more acres of the crop than the market expected.

That could be good news for shoppers, although food prices still have to contend with rising costs for distribution and for fuel.

Farmers will harvest nearly 9 percent fewer acres of corn this year than last year, in part because of Midwest flooding that has damaged a portion of the crop, the government reported.

But the latest USDA figures also showed that farmers had planted more than a million additional acres of corn than they had expected to plant in March, which may remove some of the inflation potential out of the floods. Corn futures prices fell in the wake of Monday's report.

The U.S. Department of Agriculture said farmers expect to harvest 78.9 million acres of corn, down 8.7 percent from the 86.5 million harvested last year.

The report also indicates farmers planted nearly 7 percent fewer acres of corn than last year — 87.3 million acres versus last year's 93.6 million acres.

But the acres planted were still higher than the 86 million acres that farmers had anticipated planting in corn when asked about it in March.

Grain analyst Dan Basse, president of Chicago-based AgResource Co., an agricultural consulting firm, said high corn prices encouraged farmers to find more land to plant in corn.

Even with the anticipated reduction in harvested acres caused by flooding, Basse said a robust corn harvest could soften corn prices.

"They'll weaken with time and I don't see an economic reason why new crop corn futures need to be above 8 or new crop soybean futures need to be above 16 unless we have a drought," he said.

Corn futures, which were about \$6 a bushel in early June and rose to about \$7.60 as recently as last week, dropped nearly 30 cents to about \$7.25 on the Chicago Board of Trade.

An ethanol industry trade group, Renewable Fuels Association, said the anticipated corn harvest will be enough to satisfy projected needs.

The group said a harvest of around 11.5 billion bushels will meet projected demand and leave about 800 million bushels left over. The USDA said about 4 billion bushels of corn remain in the nation's stockpiles.

"American farmers have again proven their detractors wrong, demonstrating that they are uniquely capable of meeting the growing demand for feed, food, fiber and fuel," said RFA President Bob Dinneen in a statement. "Despite challenging spring weather conditions and an unprecedented flooding event, farmers have responded to the needs of the marketplace by planting the second largest area of corn since 1946."

Dan Cekander, an analyst for Chicago-based Newedge USA, said grain prices are likely to have less of an impact on food inflation than other factors. Food costs climbed about 4 percent in fiscal 2007 which ended in July and Cekander said they could climb to as high as 6 to 7 percent.

"It's more of a function of distribution and energy and other factors...," he said.

Grain analyst Jim Bower, Lafayette, Ind.-based Bower Trading Inc. said corn prices will be highly dependent on the remaining growing season.

"Whatever the weather does between about July 10 and Aug. 15 is which way that corn market will probably go. If the weather is bad and we keep reducing the yield down, we go up. If the weather is good, it's mild like it has been in the last 10 days or so, then probably we may have seen the highs," he said.

Soybean stocks reported at 676 million bushels were slightly lower than expected and yield-reducing weather problems also could have a major impact on soybean prices, he said.

July soybeans were trading just above 6 cents higher Monday at \$15.88.

Ron Litterer, who planted 1,000 acres of corn and 500 acres of soybeans in north central Iowa near Greene, said everyone seemed surprised that flooding hadn't damaged more of the corn crop.

"The emotion with the flooding was probably overplayed a little bit on the corn production in Iowa," said Litterer, the National Corn Growers Association president. "Everybody was looking at the worst case scenario coming into the report and now it

puts a little reality back into the market. We do need to have good weather the rest of the growing season."

The USDA report said spring rainfall totaled 20 inches or more from eastern Oklahoma into the lower Ohio Valley, disrupting planting and other spring field work. That is at least 150 percent of normal.

The planted acres decreased in nine of the 10 major corn producing states — Illinois, Indiana, Iowa, Minnesota, Missouri, Nebraska, Ohio, South Dakota, and Wisconsin — in part because of high fertilizer prices, favorable prices for other crops and a return to normal crop rotation, the USDA said.

Illinois saw the largest decline, where farmers planted 12.3 million acres down from the record high of 13.2 million planted last year. Indiana decreased 800,000 acres and Minnesota, 600,000 acres.

Iowa continues to lead the nation in corn planted area with 13.7 million acres, down 500,000 from last year.

Kansas farmers planted 4.1 million acres up from 3.9 million in 2007.

Despite the reductions, the planted acres are still the second highest since 1946, behind last year.

Harvest acres, if realized, will be the second highest since 1944, the USDA said.

The report also said planted soybean acres will increase 17 percent from last year to 74.5 million acres.

The planted soybean acres are expected to increase in all states and the planted area for soybeans is the third largest on record, the USDA said.

Nationally, farmers reported 79 percent of the soybean crop had been planted at the time of the survey last week, the lowest since 1996.

July soybeans were trading 24 1/4 cents higher at \$16.06.

The USDA reinterviewed 1,200 farmers last week to get the most updated information reflecting the impact of Midwest flooding.

A government update on crop progress will come from the USDA on Aug. 12 and will be based on a survey of 9,000 farmers from mid-July, said Carol House, chairwoman of the Agriculture Statistics Board.

Flood damage to corn crop not as bad as feared

By: Matt McKinney

Floods and heavy rains last month washed away about 2 percent of the nation's corn crop, a serious blow to national agriculture but not as bad as some had feared.

The loss, most of it on the plains of Iowa, was reported Monday by the U.S. Department of Agriculture.

Fears that soaring corn demand --for food and biofuels -- would go unmet as a result of the floods pushed corn futures above \$8 a bushel -- four times the 30-year average price of corn -- in trading on the Chicago Board of Trade in June.

Those fears cooled Monday -- and prices fell back below \$8 -- as the latest reports showed that farmers planted more corn than expected when first surveyed in March.

The heavy rains that sent floodwaters cascading through the Mississippi River Valley compounded an unusually late planting start caused by cold, wet weather. Farmers as recently as early May had planted just half as much corn as is typical for that time of year, but a spell of agreeable weather allowed them to catch up.

"It's really astounding what can be planted in short amounts of time," said Nick Kouchoukos, an analyst with Lanworth, a Chicago grain forecasting service.

He said the 2 percent loss amounts to 1.5 million acres. "It's significant," he said.

"The large majority of that is in Iowa on plains between the river valleys where the fields had an extraordinary amount of water dumped on them."

Iowa corn toll: \$1.5 billion

The flood toll for Iowa's corn farmers amounts to about \$1.5 billion in lost revenue, according to a report Monday from the Iowa State University extension service.

Farmers nationwide expect to harvest 78.9 million acres of corn, a 8.8 percent drop from last year, according to the U.S. Department of Agriculture. Farmers planted 87.3 million acres of corn this year, meaning that about 9.6 percent of the plantings have been lost, and about 2 percent of that loss comes from last month's rains and floods, according to the report.

Farmers surveyed in March said they planned to plant about 86 million acres of corn. The increase in planted acres will ease any food inflation brought on by bad weather so far this year.

Minnesota's farmers planted 7.8 million acres of corn this year, an area six times larger than the Boundary Waters Area Canoe Wilderness, according to figures released Monday. That's still 7 percent less than last year's record acreage.

The state corn crop, with 71 percent rated in good or excellent condition as of Sunday, looks much better than in Iowa, where just 53 percent of the crop met those ratings.

Minnesota's soybean acres stand at 7.1 million, up 13.6 percent from last year. Wheat acres, at 1.8 million, are 6 percent higher than last year.

Government reports also noted on Monday that the amount of corn in reserve nationwide stands at 4.03 billion bushels, a 14 percent jump from a year earlier.

That's nearly twice the 2.3 billion bushels used last year for ethanol, which has been blamed, in part, for rising food prices and global food shortages. The ethanol industry used 18 percent of domestic corn production last year, according to the Renewable Fuels Association.

Reserves of two other major crops have fallen, however, with soybean stocks down 38 percent from a year ago and wheat stocks down 33 percent.

Minnesota reported the largest one-year drop in soybean supplies on record: 41 percent. The state's wheat stockpile was down 33 percent, the lowest on record. Corn supplies on June 1 stood at 460 million bushels, the same as last year.

WEBA members on ethanol monitoring group

The Alexandria City Council adopted a resolution to establish an eight-member Norfolk Southern Ethanol Transloading Community Monitoring Group to monitor and keep the community informed about the many issues regarding Norfolk Southern's ethanol transloading operation.

Members of the monitoring group, to be appointed by the Mayor, will include representatives from the Cameron Station and Summers Grove communities, the Alexandria City Public Schools, the West End Business Association, the Eisenhower Partnership, two members of City Council and City staff.

Since first being notified, Mayor William D. Euille and the Alexandria City Council have objected to Norfolk Southern's unilateral decision to locate and operate a bulk ethanol transloading terminal in Alexandria.

Mayor Euille says, "This operation presents a serious threat to our residents, businesses, and the people who travel our streets and the nearby highways and the City will do everything that can be done to shut this facility down." Mayor Euille continued, "In the interim, the City will act to protect the health and safety of the City's residents from any dangers posed by this operation. This community group is essential for discussing and monitoring activities at the Norfolk Southern facility."

Ethanol not seen to affect corn uses

By: Dana Herra

SYCAMORE -- DeKalb County Farm Bureau President Paul Rasmussen said ethanol production has not taken corn from its other uses. New technologies have increased the average corn yield per acre, he said, and instead of that grain being used for livestock feed, ethanol byproducts are used in the feed chain instead.

“Those are actually better, because they're higher in protein than the unprocessed corn was by itself,” he said.

The county's soybeans are worth another \$44 million, while hogs bring in \$39 million and cattle \$28 million, according to the bureau's director, Greg Millburg.

“You may drive down the road and ask, ‘Where did all the livestock go?’ Well, they're there,” Millburg said.

Millburg also covered the costs of farming in his presentation. An average 1,000-acre farm that raises no livestock requires about \$383,000 a year in annual input costs, he said.

“I'm not going to say agriculture has not been good to us this year, because it's been wonderful,” he said. “It's not wrong to make a profit, but when your profit can be here one year and gone the next year, you have to manage that very carefully.”

Agriculture has a total impact of more than \$950 million in the county. Millburg said June 24 at a business roundtable hosted by the DeKalb County Economic Development Corp.

Millburg told attendees at the agriculture-based presentation that the total value of the county's ag products comes in at \$319 million - most of that in corn. When factors - such as job creations and expenses - are included, farm bureau officials estimate that agriculture has about a \$957 million impact on the county.

“Corn is king in DeKalb County,” he said. “Roughly three-quarters of the acres in production in DeKalb County is in corn production.”

While the price of corn has been rising, it is not directly related to higher prices shoppers are seeing at the grocery store, Millburg stressed. About 12 percent of the nation's corn supply is used for human food and industry, while 51 percent is used for livestock feed, 18 percent is processed into ethanol and 19 percent is exported overseas, he said.

He noted that high energy prices have a greater impact on prices on the store shelf because of their impact on processing and transportation costs.

UMass studies alternative ethanol sources

By: Stan Freeman

AMHERST - With corn prices rising and corn shortages growing around the world, ethanol made from corn - viewed just a year ago as the preferred substitute for gasoline - has rapidly fallen from favor.

In hopes that ethanol can still offer a way out of the energy crisis, this spring in the Pioneer Valley, University of Massachusetts researchers are field testing alternatives to corn that can be grown on land that offers poor support for food crops, such as on roadsides and hillsides and in rocky or dry soils.

Switchgrass, a tall, heavy grass that grows on the Midwest prairies, and Mediterranean herb crambe, a plant related to the mustard family, are being grown at the UMass trial crop farm in Deerfield and at eight privately owned farms in the valley.

"We don't want to use land on which we could grow food crops. And both these crops could be grown on marginal land," said Stephen J. Herbert, a professor of agronomy in the UMass Department of Plant, Soil & Insect Sciences who is leading the research along with Om Parkash, an assistant professor in the department, and Randall G. Probst, a weed specialist with the UMass Extension.

Like corn, switchgrass and crambe can be fermented to create ethanol, a liquid fuel that can be used in place of gasoline. The rush to use corn for ethanol has been blamed for soaring global food prices and food shortages.

According to Herbert, switchgrass can produce five to nine tons of plant material, or biomass, per acre in a single growing season. This translates into more than 400 gallons per acre of biofuels, similar to the amount produced by corn grain.

In 2006, UMass researchers experimented with different types of switchgrass and crambe to find those varieties that would grow best in normal soils in Massachusetts. The current field test is to find out how much biomass the winners from that group produce on land unfit for food crops, Herbert said. The results should be known this fall.

"These are key factors in determining whether these crops can be used to make biofuels at a reasonable price, since producing biofuels has to be competitive with traditional petroleum products, and other crops that farmers could grow," he said.

Switchgrass has the advantage of being a perennial that only has to be planted once every dozen or so years. It also requires little maintenance in between plantings, Herbert said.

Although it has to be planted annually, crambe has the advantage that it produces seeds that contain an oil that can be harvested to create a fuel like diesel, said Parkash.

In addition, he said, "After removing the oils, crambe seed meal has a high protein content, and has been approved by the (U.S. Department of Agriculture) for blending with some animal feed."

Lining up for ethanol

Congressional delegation backs midlevel blend in Sioux Falls visit

By: Jon Walker

South Dakota's congressional delegation hoped to promote blended fuel in a ceremony at a new gas pump Monday in Sioux Falls but moved the event when details didn't work out.

The event at Get-n-Go at 2401 S. Louise Ave. was to introduce the city's first 30 percent ethanol pump. Olson Oil, the station owner, postponed it after issues arose late Friday with a gasoline supplier, company president Todd Olson said. Olson did not say what the issues were except that he didn't think they related to politicians being involved.

"It was pretty unfortunate. We were disappointed we had to do that," Olson said Monday night. "I suppose it could be the second week of July before we get it figured out. There were issues we had to work out with our supplier. We didn't talk to each other like we should have."

VeraSun plans to supply the ethanol to mix with the gasoline.

"It's been postponed as Olson Oil works through some issues with their gasoline supplier," said Melissa Ullerich, VeraSun vice president of communications. "We remain confident these issues can be resolved in a timely manner, and we'll unveil the pump at that time."

A Sioux Falls pump selling 30 percent blend would be VeraSun's first in South Dakota. "This was going to be a pilot pump for us to do a test marketing to see what the consumer acceptance was for it," Ullerich said from Brookings.

The event instead became a news conference at the American Coalition for Ethanol. A 30 percent blend would be triple the ethanol in the typical 10 percent blend now at most service stations, but less than half the concentration in the E-85 some vehicles use.

South Dakota now has about 20,000 vehicles licensed to use flexible fuels with the higher content. That's 2 percent of the state's 855,000 vehicles.

Promoters want auto makers to produce more vehicles to run on a blend of greater than 10 percent, but such a change implies that more stations would sell the fuel.

"It's a chicken and egg thing," Democratic U.S. Rep. Stephanie Herseth Sandlin said. "We think it's good business for Detroit to require flex-fuel technology on every vehicle sold in the United States. It does not add substantially to the cost of the vehicles."

She estimated the cost increase would be \$100 on a \$20,000 vehicle.

Sen. John Thune, R-S.D., said fuel prices would be 50 cents higher without ethanol in the market.

"I don't see any end in sight," he said of rising gas prices. "When the president went to Saudi Arabia, they told him to go pound sand. We don't have any leverage."

"We can't drill our way out of this problem," said Sen. Tim Johnson, D-S.D.

Ethanol is taxed less than gasoline. Promoters hope expanded use would improve the marketplace.

"Freedom of choice makes America the envy of the world, yet for fuel consumption Americans don't have enough choices," said Brian Jennings, executive vice president of the American Coalition for Ethanol.

WIBW-TV (KS)
June 30, 2008

Kansas Receives \$50,000 Grant to Pursue Clean Energy Research

The National Governors Association Center for Best Practices (NGA Center) has awarded \$50,000 to the State of Kansas as part of the Clean Energy States Grant Program to help achieve greater energy efficiency, conservation and use of clean energy resources.

“Kansas is a leader in helping America secure a clean energy future,” said Governor Kathleen Sebelius, Co-Chair of the NGA Center’s Securing a Clean Energy Future Initiative. “From our rapidly expanding wind energy industry, to our new efficiency partnerships with utilities, to our first-in-the-nation ethanol plant, the fuel for the future is right here in the Heartland.”

Grant assistance will go towards research, analysis, training, outreach and other efforts to develop and advance clean energy in Kansas. The grants will be facilitated by the Energy Programs Division of the Kansas Corporation Commission.

The clean energy grants are made possible by generous support from American Electric Power, Dominion Resources, The Ford Motor Company, The Rockefeller Brothers Fund and the NGA Center. Additional funding from the Emily Hall Tremaine Foundation will help support a technical assistance workshop for states to be held in Washington, D.C. this fall.

Kansas was selected through a competitive process open to all states and U.S. territories and chosen by a group of independent reviewers.

For more information on the National Governor’s Association’s Clean Energy States Grant Program, please visit www.nga.org/ci.

For more information on the Energy Program Division of the Kansas Corporation Commission please visit <http://www.kcc.state.ks.us/energy/index.htm> or contact Ray Hammarlund at r.hammarlund@kcc.ks.gov or 785-271-3179.

Ethanol stokes auto-pollution debate

Corn-based fuel mixed with regular-grade gas increases pollutants

By: Raquel Rutledge

While state legislators attack reformulated gas in southeastern Wisconsin for its cost and waning effectiveness, something else is brewing in gas pumps in the rest of the state that has the potential, if not a promise, to stir statewide controversy.

It's all centered on ethanol.

The Wisconsin Department of Natural Resources warned three years ago that blending 10% ethanol into the state's regular-grade fuel supply — without making other changes to the gas — would pollute the air as much as a 350-megawatt coal-fired power plant.

The warning came in response to a bill in the state Legislature in 2005 mandating that all regular-grade gas be blended with ethanol. Backers said the bill would boost corn farmers and the ethanol industry, and decrease dependence on foreign oil.

Opponents cautioned that higher corn prices could have crippling ripple effects and force other industries to take stiffer and costly pollution control measures.

The bill stalled. But that wasn't the end of ethanol-blended gas.

Fast forward to June 2008. About 85% of all regular-grade gasoline in Wisconsin is now blended with 10% ethanol.

The federal Energy Independence and Security Act, signed by President Bush in December 2007, contains a renewable fuels standard that requires the use of 36 billion gallons of renewable fuels by 2022.

The standard essentially created a de facto federal mandate for E-10, or a 10% ethanol blend, industry experts say.

Most of the major oil companies have switched or are in the process of switching their entire stocks to E-10, said Erin Roth, executive director of the Wisconsin Petroleum Council, which represents oil refiners and suppliers.

“We don't have any choice,” Roth told Public Investigator. “We have to meet those goals.”

The fuel is not reformulated and causes an increase in emissions of nitrogen oxides and volatile organic compounds, both major players in the formation of ground-level ozone.

The EPA is studying the impact of the widespread addition of ethanol. But if the earlier projections hold true, the agency is sure to find problems, experts say.

“We’ll have to compensate for that,” said Larry Bruss, chief of regional pollutants and mobile sources at the DNR. “It will have to be offset.”

Ethanol has long been used in the reformulated gas in southeastern Wisconsin but doesn’t present the same pollution problems, in part because the gas is tweaked to lower the evaporation point.

But simply mixing ethanol into conventional gas leads to more smog-causing emissions.

The DNR is in the midst of creating a plan to submit to the EPA outlining how the state will meet ozone standards, but Bruss said the details haven’t been worked out yet. A public hearing will be held next year before the plan has to be submitted in September.

“I’m not sure exactly what we’re going to do,” Bruss said.

Scott Manley, environmental policy director for Wisconsin Manufacturers & Commerce, said E-10 is “certainly a concern.” The DNR often turns to industry to reduce and offset increases in air pollution.

“When you dump a fuel on the Midwest that is known to increase ozone pollution, what are manufacturers supposed to do?” Manley said. “We would hope that the EPA would take into account that the federal fuel policy is potentially affecting air quality in Wisconsin and we should be given consideration.”

Goodlatte Asks EPA to Revise Renewable Fuel Standard

By: USAgNet

Ranking Member Bob Goodlatte and 50 of his Republican colleagues sent a letter to the Administrator of the Environmental Protection Agency asking the Agency to reduce the amount of ethanol mandated by the 2009 Renewable Fuel Standard to help alleviate the pressure on rising corn prices. Corn prices have increased significantly over the last few years and coupled with increased energy prices, livestock producers throughout the country are struggling under the weight of increased input costs. As a result of the record corn prices, wheat, soybeans, rice, and other food commodities have also seen a dramatic price increase and continue to drive up food costs for American consumers.

"The recent flooding in the Midwest has created devastating crop losses and these record corn prices will continue to climb. There are many factors that have increased the price of corn, but the only factor that we can immediately control is the amount of the corn supply that must be dedicated to meet the RFS," said Ranking Member Goodlatte. "Our livestock producers and the American consumer have been hit hard in the pocket books. I urge the Administration to reduce the government mandated RFS so we can lessen the economic harm facing millions of Americans."

There are a variety of factors contributing to high commodity prices including export restrictions, energy prices, and global demand. Recently, adverse weather conditions in the U.S. have further exacerbated shortages in and increased prices on the commodity market. Nearly one-third of the U.S. corn crop is projected to be used to meet the increased RFS of 9 billion gallons of ethanol in 2008.

Currently, the EPA is reviewing the waiver request sent by Governor Rick Perry of Texas seeking a 50% reduction in the RFS. States can request waivers for up to one year and may ask for the waiver to be renewed at the discretion of the Administrator.

Ethanol not the culprit

By: Terry Ruse

Regarding the June 23 Point of View piece "Ethanol's burden on N.C.'s livestock," Keith Shoemaker's attempt to demonize ethanol made from corn as a primary cause of increased grain prices is an attempt to provide a simple answer to a complicated problem.

The rising costs to the livestock industry are undeniable, but any attempt to blame ethanol production as the sole cause would be undeniably incorrect.

The supply of corn and soybean meal has continued to grow right alongside the increase in ethanol production, so the livestock producer on a net basis has not been negatively affected by expanded ethanol production.

At the heart of the issue is the near perfect storm of high energy prices, a weakened dollar and an increase in worldwide demand for protein as developing nations change dietary habits.

Higher grain prices reduced the federal support price payments by \$8 billion last year, half of which would arguably have been a direct transfer of taxpayer money to livestock producers, since they use roughly 50 percent of the grain grown in the United States.

I can sympathize with Shoemaker's plight, but he clearly distorts the facts surrounding ethanol production and its effect on world grain prices.

Terry Ruse

Raleigh

We Can Lower Oil Prices Now

By: Martin Feldstein

Although most experts agree that financial speculation was not responsible for the surge in the global prices of food and energy, many people remain puzzled about the source of these remarkable price rises. Economics offers a simple supply-and-demand explanation and reason for optimism about the future of commodity prices. In the case of oil, economics also suggests how policy changes today that affect the future could quickly lower the current price of oil.

We all know that rising incomes in China, India and the Gulf states have increased the demand for oil and many other commodities. But how could the modest, one-year rise of these demands lead to 100% increases in the prices of oil and other commodities? Let's take a look first at perishable agricultural commodities.

In the short run, there is little scope for increasing the supply of corn in response to a global increase in demand. For demand and supply to balance – for the market to clear – the price of corn must rise.

If the demand for corn were very price-sensitive, a relatively small increase in price would reduce global demand by enough to offset the initial rise in demand. However, since demand is actually quite insensitive to price in the short run, it takes a very large price rise to bring global demand into line with supply.

Here is a simplified picture of what happened in the past year. The quantity of corn demanded by high-growth countries rose gradually, increasing eventually by an amount equal to, say, 10% of the previous total global level of corn consumption. Since the supply of corn did not increase, the price had to increase enough to reduce corn consumption in other countries by 10%. If it takes a 10% increase in the price to reduce the quantity of corn demanded in the first year by just 1%, it would take a 100% increase in the price of corn to offset the initial 10% rise in the quantity of corn demanded.

In reality, the picture is complicated by the substitution in both supply and demand among different agricultural commodities, and by the role of the corn ethanol program. But the basic explanation holds: With a very low short-run price sensitivity of demand and little scope to raise supply in the short run, even a relatively small increase in corn demand by the high-growth economies can lead to a very large short-run rise in the price of corn.

Fortunately, the price sensitivity of both demand and supply will increase with time. This implies that the rising demand from China and other countries may eventually be accommodated with a price lower than today's level.

The situation for oil is more complex, but the outcome for prices is potentially more favorable.

Unlike perishable agricultural products, oil can be stored in the ground. So when will an owner of oil reduce production or increase inventories instead of selling his oil and converting the proceeds into investible cash? A simplified answer is that he will keep the oil in the ground if its price is expected to rise faster than the interest rate that could be earned on the money obtained from selling the oil. The actual price of oil may rise faster or slower than is expected, but the decision to sell (or hold) the oil depends on the expected price rise.

There are of course considerations of risk, and of the impact of price changes on long-term consumer behavior, that complicate the oil owner's decision – and therefore the behavior of prices. The Organization of Petroleum Exporting Countries (the OPEC cartel), with its strong pricing power, still plays a role. But the fundamental insight is that owners of oil will adjust their production and inventories until the price of oil is expected to rise at the rate of interest, appropriately adjusted for risk. If the price of oil is expected to rise faster, they'll keep the oil in the ground. In contrast, if the price of oil is not expected to rise as fast as the rate of interest, the owners will extract more and invest the proceeds.

The relationship between future and current oil prices implies that an expected change in the future price of oil will have an immediate impact on the current price of oil.

Thus, when oil producers concluded that the demand for oil in China and some other countries will grow more rapidly in future years than they had previously expected, they inferred that the future price of oil would be higher than they had previously believed. They responded by reducing supply and raising the spot price enough to bring the expected price rise back to its initial rate.

Hence, with no change in the current demand for oil, the expectation of a greater future demand and a higher future price caused the current price to rise. Similarly, credible reports about the future decline of oil production in Russia and in Mexico implied a higher future global price of oil – and that also required an increase in the current oil price to maintain the initial expected rate of increase in the price of oil.

Once this relation is understood, it is easy to see how news stories, rumors and industry reports can cause substantial fluctuations in current prices – all without anything happening to current demand or supply.

Of course, a rise in the spot price of oil triggered by a change in expectations about future prices will cause a decline in the current quantity of oil that consumers demand.

If current supply and demand were initially in balance, the OPEC countries and other oil producers would respond by reducing sales to bring supply into line with the temporary reduction in demand. A rise in the expected future demand for oil thus causes a current decline in the amount of oil being supplied. This is what happened as the Saudis and others cut supply in 2007.

Now here is the good news. Any policy that causes the expected future oil price to fall can cause the current price to fall, or to rise less than it would otherwise do. In other words, it is possible to bring down today's price of oil with policies that will have their physical impact on oil demand or supply only in the future.

For example, increases in government subsidies to develop technology that will make future cars more efficient, or tighter standards that gradually improve the gas mileage of the stock of cars, would lower the future demand for oil and therefore the price of oil today.

Similarly, increasing the expected future supply of oil would also reduce today's price. That fall in the current price would induce an immediate rise in oil consumption that would be matched by an increase in supply from the OPEC producers and others with some current excess capacity or available inventories.

Any steps that can be taken now to increase the future supply of oil, or reduce the future demand for oil in the U.S. or elsewhere, can therefore lead both to lower prices and increased consumption today.

Mr. Feldstein, chairman of the Council of Economic Advisers under President Reagan, is a professor at Harvard and a member of The Wall Street Journal's board of contributors.

Prince Charles' car runs on wine

LONDON, England (CNN) -- Britain's Prince Charles has converted his 38-year-old Aston Martin to run on biofuel made from surplus wine, his office revealed Tuesday. Prince Charles, pictured with Camilla, Duchess of Cornwall on a visit to a whiskey distillery in Northern Ireland last month.

Prince Charles, pictured with Camilla, Duchess of Cornwall on a visit to a whiskey distillery in Northern Ireland last month.

The car was a 21st birthday present from Queen Elizabeth --- and the prince has converted it to run on 100 percent bioethanol as a way to reduce his carbon emissions, his office, Clarence House, said.

The prince has also converted his other cars -- several Jaguars, an Audi and a Range Rover -- to run on 100 percent biodiesel fuel made from used cooking oil, his office added.

Details of the prince's biofuel use were made public Monday in his household's 2008 Annual Review, which details the prince's income and activities over the past year.

The report says Charles and his household reduced their carbon footprint by 18 percent last year after switching to green electricity supplies and reducing their travel-related emissions.

Charles, 57, has a strong interest in environmental issues and rural affairs. He is active in environmental charities, and his food company, Duchy Originals, uses ingredients produced at his organic farm in Cornwall, southwestern England.

The biofuels are converted and provided by Green Fuels Limited, a British company that previously provided biodiesel to power the royal train, Clarence House said.

The wine used for the bioethanol comes from current vintage that remains after English wine producers reach the EU limit for annual wine production, a spokesman for Green Fuels said.

The prince uses wine from a vineyard close to his Highgrove Estate, the spokesman said.

Don't Blame Biofuels for High Chicken Prices

Washington Whispers By: Paul Bedard

It's a smear against corn farmers, they say. So the New Fuels Alliance and FoodPriceTruth.org are mounting a campaign to push back on charges in the media and on Capitol Hill that biofuels that use corn and other agricultural products are the reason food prices are up. "The biggest reason food prices are through the roof is because gas prices are through the roof," says Brook Coleman of New Fuels. Is it a vicious circle? Well, sure, but Coleman is working overtime to get everyone to stop pointing at farmers. So today the groups unveiled a website and posted a typical July 4th menu that suggests other reasons are to blame for higher supermarket prices. Take the skyrocketing price of chicken. We all see it, and Coleman also says we see the reason: Gas prices are high, and chicken is shipped in from rural states. Fruit prices are up, but not because apples are going into our gas tanks. Coleman cites a shrinking labor force and higher diesel prices. Read the campaign's release to Washington Whispers [here](#).

Congress has raised some questions about the impact of biofuels on consumer food bills, so in response, the website is hosting lawmakers and their aides at a picnic tonight to spell out the benefits of making gas out of corn.
