



Renewable Fuels Association

*“The Voice of the Ethanol Industry  
for More Than a Quarter Century”*

One Massachusetts Avenue NW, Suite 820  
Washington, DC 20001  
202.289.3835  
[www.ethanolRFA.org](http://www.ethanolRFA.org)

## **OECD REPORT ON BIOFUELS CONFIRMS HIGHER OIL PRICES LARGEST CONTRIBUTOR TO HIGHER GRAIN PRICES**

RFA REVIEW OF OECD REPORT: “ECONOMIC ASSESSMENT OF BIOFUEL SUPPORT POLICIES”

The data generated in the OECD report do not support the conclusions or policy recommendations made by the Organization for Economic Cooperation and Development (OECD). Nor do the data support OECD officials’ calls for a moratorium on biofuels. Rather, the data support the conclusions that biofuels policies are having a minimal impact on food prices and result in reducing greenhouse gas emissions (GHG).

For instance, OECD credits ethanol produced from corn starch with a 30% reduction in greenhouse gas (GHG) emissions if using natural gas, and a 50% reduction in GHG if the facility is powered by biomass. Based on this finding, a moratorium is not warranted.

In addition, the modeling included in the report suggests that a 28% drop in world oil prices would cause a 12% reduction in world coarse grain prices (\$0.75 per bushel in the case of corn today), underscoring the fact that skyrocketing oil prices are the largest driver behind increasing grain prices. By contrast, removing biofuel mandates like the Renewable Fuels Standard (RFS) would reduce coarse grain prices by just 1% (\$0.06 per bushel of corn). Even abandoning all biofuels policies would only yield an average coarse grain price reduction of 7% (\$0.45 per bushel).

### **Overview:**

The Organization for Economic Cooperation and Development (OECD) recently released a study that estimates the potential worldwide economic impacts of removing all governmental support for biofuels production and use. The report offers a number of recommendations, including a call on world governments to remove tariffs on biofuels and to consider “alternative policy approaches.”

### **Analysis:**

**The report’s recommendations to re-tool existing biofuels policies are not supported by the results of modeling presented in the report.** The modeling outcomes show that elimination of existing biofuels support measures would have only modest impacts on global prices for coarse grains, wheat, oilseeds, and sugar. The modeling results suggest elimination of existing biofuels support programs would reduce global coarse grains prices by an average of just 7 percent in the mid-term (Figure 2.5 in the report). At current prices, this is equivalent to about \$17 per metric ton or \$0.45 per bushel (using corn as an example).

More specifically, removing existing statutory requirements for the use of biofuels (like the U.S. Renewable Fuels Standard) would result in coarse grain price reductions of less than 1 percent, or about 6 cents per bushel. OECD’s model suggests the reductions in wheat and oilseed prices would be similarly

modest. The OECD report fails to assess whether such modest price reductions are worth scrapping the programs that encourage growth of the global biofuels trade and its impact on the oil market.

**In terms of land use issues, the OECD model predicts biofuels policies will have only minor impacts on global crop area.** For example, implementation of the conventional biofuels portion of the Energy Independence and Security Act will increase total crop area in North America by about 0.2%, according to the model. Implementation of EISA is projected to increase world total crop area also by about 0.2%. When lands used to cultivate feedstocks for “second generation biofuels” are considered, EISA and the EU Bioenergy Directive combined are expected to increase global crop area by about 0.75%. (Figure 2.10 of the report). The model also found that elimination of biofuel support policies potentially reduces land under cultivation by 1.9 million acres in North America. This is equivalent to about 0.5% of principal crop area in the United States.

OECD recommends that “...a clear focus needs to be placed on those biofuels that maximize the reduction of fossil fuels usage and GHG emissions.” The report found that corn-based ethanol offers significant GHG reductions. **Corn ethanol has the ability to reduce lifecycle GHG emissions by 30% (when coming from a plant that uses natural gas for combustion) and up to 50% (when the combustion fuel is biomass), according to OECD.**

Another interesting finding of the OECD model is that a 28% decrease in world oil prices would lead to a 12% decrease in coarse grains prices. This implies there is a strong link between oil prices and grain prices and that **the effect of reduced oil prices would be to lower grain prices by about \$30 ton, or 75 cents per bushel (using corn as an example).** This finding, coupled with the models results on biofuels policy impacts, also supports the finding that oil prices have a more pronounced impact on grain prices than do biofuel policy measures.