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## Why your food is costing more money

Wheat, corn, and soybean prices are surging; is ethanol to blame?

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**MSNBC**

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WASHINGTON - If you're fuming about how high gasoline prices have gotten, why not relax with a nice meal?

Perhaps a few beers and a turkey sandwich? Maybe a chicken Caesar salad?

Well, it's not just the price of gasoline that's going up. That beer, turkey and chicken are also costing more too.

As President Bush noted in his comments on the economy Friday, "Prices are up at the gas pump and in the supermarket."

Food prices increased at a compound annual rate of 4.7 percent for the three months ending in February, according to data released Friday by the Bureau of Labor Statistics.

That increase was far less than the 7.6 percent jump in energy prices for the same period, but it occurred in a financial environment in which investors have been fleeing declining dollar-denominated assets such as U.S. stocks and bonds. Instead, they've been investing in commodities, such as wheat, corn, and soybeans — and it's driving up their prices.

World financial markets may seem remote from you; far away from that turkey sandwich in your hands.

But chew *this* over before you swallow: seventy percent of the cost of raising that turkey in your sandwich was the food it ate. And turkeys eat corn and soybean meal.

### **Tough times for turkey producers**

Turkey producers have been especially hard hit by a recent surge in corn and soybean prices.

But don't say they didn't warn you.

Exactly one year ago National Turkey Federation president Ted Seger told the House Agriculture Committee that the federal ethanol mandate would drive up corn and soybean prices and hurt consumers who eat turkey.

There have long been tax breaks to encourage production of ethanol, and last year President Bush signed a law mandating a substantial increase in the use of renewable fuels, principally ethanol, over the next 15 years.

At the Annual Meat Conference this week, a gathering of retail meat industry, economist Tom Elam reported his estimate that the ethanol mandate would result this year in each chicken raised by an American farmer costing 53 cents more to raise than it would have cost without the mandate. As for turkeys, well, it'll cost the farmer \$3.40 more to raise each one.

As Federal Reserve Chairman Ben Bernanke explained to the Senate Banking Committee last month, "a significant portion of the corn crop is being diverted to ethanol, which raises corn prices."

And he added, there are "knock-on effects. For example, some soybean acreage has been moved to corn production, which probably has some effect on soybean prices. So there is some price effect on foodstuffs coming through the conversion to energy use."

### **Defenders of the ethanol mandate**

But senators and governors from the ethanol-producing states defend the tax incentives and mandates that have led farmers to divert more land to corn, and more corn to ethanol.

Minnesota Gov. Tim Pawlenty, a Republican, said, "What we have now (corn-based ethanol) is going to be viewed as early stage, and what's coming is going to be much better. And what's coming is cellulosic ethanol, where you're going to be able to take not food and make it into fuel, but other sorts of products — it may be corn stalks, switchgrass, woody pulp material, or other things that are not connected to the food chain."

Pawlenty estimates cellulosic ethanol is "probably three to seven years away" on a widely-available market basis.

"The concern about food-based ethanol is one that we're mindful of," he added.

Pawlenty's fellow Minnesotan, Sen. Amy Klobuchar, a Democrat, said Thursday that ethanol is "clearly a piece of it (the food price increase) because there's more demand for corn and soybeans. But that's why in the farm bill we do start with some good incentives to expand into cellulosic. There's an acknowledgment even from the best corn growers that there's only so much corn, and that we're going to have to start expanding into corn stover as well as switchgrass."

Sen. Ben Nelson, D- Neb., said, "I think this (food price inflation) is a short-term phenomenon," because farmers will bring more land into production, causing supply to increase and prices to fall.

He also cited the costs of oil and transportation as contributors to higher food prices. "It's just not right and it's unfair to say it's all about corn-based ethanol," Nelson said.

Sen. Chuck Grassley, a Republican from another big corn and ethanol state, Iowa, said, "The marketplace is responding by having the highest (number of) acres put into corn since 1944. So farmers are showing the ability to produce more, and to moderate any price increases."

### **Price of bread vs. price of water**

Grassley added, "I don't think any consumer ought to be complaining about the price of bread when they're willing to pay four dollars for a gallon of water."

The Iowa Republican said he hasn't yet seen "a mass crusade" of pork and poultry producers in his state complaining about the cost of corn and soybeans, because most Iowa farmers raise corn, soybeans, and livestock.

"I think it has caused an outcry more from people who've gone just to livestock farming, like the factory-type hog producers," Grassley said. "We don't have maybe enough sympathy for them because we see them to some extent driving maybe 25,000 pork producers in Iowa out of business. If you go back 15 years, we had over 30,000 producers and today I think we have under 10,000."

The increase in the price of agricultural commodities and the potential for shortages is being felt in places far from Iowa.

### **Countries curbing exports**

According to Reuters, Argentina, the world's fourth largest wheat exporter, has imposed a ban on wheat exports until April 8, in order to, in the words of the country's Agriculture Secretariat, "keep local supplies from being affected."

Bolivia, Honduras, and Pakistan have banned wheat or corn exports, while China has imposed or increased export taxes on wheat, corn, barley, oats and soybeans, in order to deter exports of those commodities.

"Agricultural commodity prices rose sharply in 2006 and continued to rise even more sharply in 2007," the UN's Food and Agricultural Organization (FAO) reported last month.

The FAO said "what distinguishes the current state of agricultural markets is the concurrence of the hike in world prices of not just a selected few, but...nearly all major food and feed commodities."

The FAO also noted the possibility "that the prices may continue to remain high after the effects of short-term shocks dissipate."

While higher prices for beer and turkey may be an annoyance or even a hardship for some Americans, the situation is worse for some people in places such as Indonesia and Cameroon.

## **Impact on UN food aid program**

Last week, in a speech to the European Parliament Development Committee, Josette Sheeran, the Executive Director of the UN World Food Program, said her agency now faces a \$500 million shortfall “just due to soaring food and fuel costs — up more than 40 percent since (last) June — which will lead to ration cuts unless we receive additional help soon.”

She added that “high food prices have created an urgent situation throughout many developing countries and have directly hit WFP’s ability to respond to those needs.”

Sheeran noted that in some countries food was available, but cost too much for the poor to buy it, or, as she put it “markets full of food with scores of people simply unable to afford it. These conditions have triggered food riots from Cameroon to Burkina Faso to Indonesia to Mexico and beyond.”

Food, she reminded the European Parliament, is a geostrategic issue, just as oil is.

“This challenge may be one of the most critical peace and security issues of our time. Fragile democracies are feeling the pressure of food insecurity; food riots have erupted throughout the globe,” she said.

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