Fueling and Feeding the World

Restaurant chains like Wendy’s have complained to investors, according to the Associated Press, that “people aren’t dining out as much because it has gotten even cheaper to eat at home.” And yet, the oil industry claims the same restaurant as an ally against the Renewable Fuel Standard (RFS), insisting that renewable fuels drive “rising food prices.” So what’s the truth?

The reason food prices go up is simple: they are driven by oil prices. The World Bank demonstrated that there is a near-perfect correlation between oil and food prices since 2000.

Ethanol production, on the other hand, helps drive down energy costs and also results in more feed for livestock. The corn used for biofuel production is feed corn – not the sweet corn humans eat – and a third of every bushel used for ethanol is returned to the market as coproducts rich in protein and fat. Those coproducts are America’s second largest source of animal feed.

Notably, in 2015, U.S. production of distiller’s grains, corn gluten feed and corn gluten meal represented the fourth largest source of grain-based livestock feed in the world behind feed corn production in the U.S., China and Brazil.

As a result, the average U.N. Global Food Price Index in 2016 is lower than it was when the Renewable Fuel Standard was extended in 2007. Corn prices have fallen too, from $4.20 per bushel in 2007 to $3.60 in 2015.

Ethanol also helps to create a more sustainable market for agricultural products, driving investment, innovation, and job creation in regions where volatile commodity prices would otherwise stymie growth. Farmers today grow five times as much corn as they did in the 1930s while using 20 percent less land, giving consumers a more affordable option at the pump.

### FINANCIAL TIMES

“A few years ago the “food versus fuel” debate raged in Washington. ... It is time to revisit that debate. Biofuels refineries have been churning out record volumes of more than 1m barrels a day of corn ethanol. ... Yet last week, corn dropped to $3.01 a bushel, a level last consistently seen before lawmakers enacted the mandate in 2007.”

*The Financial Times*, September 6, 2016

### Bloomberg

“Call it the Great Grocery-Store Giveaway of 2016. ... In a startling development, almost unheard of outside a recession, food prices have fallen for nine straight months in the U.S. It’s the longest streak of food deflation since 1960 – with the exception of 2009, when the financial crisis was winding down. Analysts credit low oil and grain prices, as well as cutthroat competition from discounters. Consumers are winning out.”

*Bloomberg*, September 27, 2016

### THE WALL STREET JOURNAL

“The U.S. is on track this year to post the longest stretch of falling food prices in more than 50 years, a streak that is cheering shoppers at the checkout line but putting a financial strain on farmers and grocery stores. The trend is being fueled by an excess supply of dairy products, meat, grains and other staples.”


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**Oil prices, not ethanol production, driving food costs**

Indexed against base years 2002-2004.

Sources: Global Food Prices – UN/FAO, Crude Oil Prices – Energy Information Administration, U.S. Ethanol Production – USDA/ERS