



9 August 2012

## UN urges US to cut ethanol production

By Javier Blas in London and Gregory Meyer in New York



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The UN has called for an immediate suspension of government-mandated US ethanol production, adding to pressure on Barack Obama to address the food-versus-fuel debate in the run-up to presidential elections.

Most US ethanol is made from corn. The dispute over ethanol promotion pits states such as Iowa that benefit from higher corn prices – and in some cases are swing states in the election – against livestock-raising states such as Texas that are helped by lower corn prices.

The UN intervention will be seized upon by state governors, lawmakers and the meat and livestock industry, who have expressed alarm at surging prices for corn. Members of the Group of 20 leading economies – including France, India and China – have already expressed concern about the US ethanol policy.

The US is poised to divert around 40 per cent of its corn into ethanol because of the Congress-enacted mandate despite “huge damage” to the crop because of the worst drought in at least half a century, José Graziano da Silva, director-general of the UN’s Food and Agriculture Organisation, warned.

“An immediate, temporary suspension of that [ethanol] mandate would give some respite to the market and allow more of the crop to be channelled towards food and feed uses,” he wrote in an opinion piece in the Financial Times.

However, some analysts argue such a suspension could have a lower impact on food prices than expected. Even disregarding the mandate, US refiners need billions of gallons of ethanol to meet environmental specifications for their gasoline. Moreover, ethanol is now a huge component of global energy supplies and the suspension of the mandate could push up oil prices.

Tom Vilsack, US agriculture secretary, raised doubts about the impact of waiving the ethanol mandate, arguing that the US biofuel industry had reduced petrol prices and created jobs. In addition, high corn prices were already curbing ethanol production, he said. Adjusting the mandate “may not do what some people think it will do”, he told the Financial Times in an interview.



The world is braced for a repeat of the 2007-2008 food crisis as the worst US drought in 50 years pushes up the prices of staple commodities

Mr Vilsack, a former Iowa governor, also cited “fairly high” thresholds for a waiver, including serious economic harm to a region. “It’s not going to be an easy decision, clearly, but I think you have to look at this thing more broadly than some have looked at it,” he said.

Amid worries about a food shortage this year, Mr Graziano da Silva said the situation was “precarious” but was not yet a crisis. He added: “Risks are high and the wrong responses to the current situation could create” a crisis.

Corn, soybean and wheat prices have surged between 50 and 30 per cent since June after the US endured the hottest July since temperature records began 117 years ago. The US Midwest farmbelt has also seen little rain for months.

Corn prices surged on Thursday within striking distance of their all-time record as traders bet that the US Department of Agriculture will reveal a huge drop in the country’s crop production in a report on Friday. As America exports nearly half the world’s corn, a third of the world’s soybeans and up to a fifth of the world’s wheat, changes in US supply have a significant impact on global agricultural markets.

“With world prices of cereals rising, the competition between the food, feed and fuel sectors for crops ... is likely to intensify,” Mr Graziano da Silva said.

A coalition of beef, pork, chicken and dairy producers petitioned the US Environmental Protection Agency last month to waive the ethanol mandate in response to rising corn prices. US lawmakers in the House and Senate, many representing states with large poultry and livestock operations, have also lobbied the EPA.

Officials and lobbyists said several governors planned to join lawmakers next week petitioning the EPA, triggering a 90-day legal process that will force the Obama administration to rule whether to waive the ethanol mandate.

The EPA in 2008 denied a waiver request from the state of Texas, the nation’s biggest cattle producer. But hostility towards corn-made ethanol has grown since then and US lawmakers have already cut billion of dollars in subsidies to the sector.