



United States Senate
Committee on Homeland Security and Governmental Affairs
Chairman Joseph I. Lieberman, ID-Conn.

Opening Statement for Chairman Joseph Lieberman
Homeland Security and Governmental Affairs Committee
“Fuel Subsidies: Is There an Impact on Food Supply and Prices?”
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Good morning and welcome to our hearing today. This is the first of at least two hearings this Committee will hold to examine the rapid increase in the price of food occurring here in the United States and across the globe, and to consider actions the Federal Government should take or change to alleviate the pressure these high prices impose on American families. I want to thank Senator Collins for her suggestion that we hold these hearings on an issue of such real concern to so many Americans.

The specific issue we will examine today is the effect of federal government subsidies for ethanol on the current food crisis. In a couple of weeks, we will ask whether speculators are driving up commodity prices. According to the USDA Economic Research Service, food prices in the U.S. will increase 4 to 5 percent this year, the largest annual increase since 1990, with the increase disproportionately affecting low-income consumers whose food expenditures make up a larger share of their total expenditures. Overall, U.S. households spend 12.6 percent of their income on food, while low-income households spend 17.1 percent on food.

The World Bank reports that global food prices have increased by 83 percent in the last three years, a devastating rate of inflation when you understand that Nigerian families spend 73 percent of their budgets on food, the Vietnamese spend 65 percent, and Indonesians spend half their incomes on food. People have already died in food riots in Somalia, World Bank President Robert Zoellick warns that 33 other nations are at risk of unrest, and one billion Asians are at risk of hunger or malnutrition.

So how did this crisis come to be? In a complex global economy, the domino effect began with lower than expected wheat harvests in the U.S. and Europe last year, prolonged drought in Australia and Eastern Europe, and poor weather in Canada, Western Europe, and the Ukraine. As supplies waned, prices rose, and some major grain producers, such as Argentina and Ukraine, barred exports to control costs at home, further reducing supplies and driving prices even higher. At the same time, global food consumption is increasing as developing nations develop. A rising middle class in India and China is causing increased demand for meat, which requires more feed grains. The record high price of oil increases food production, processing, and transportation costs. And finally, a weak dollar has increased the purchasing power of other countries' currencies that are stocking up on relatively cheap U.S. food exports.

Then, late last year - in an effort to promote American energy independence and help reduce the greenhouse gas emissions that are causing global warming - Congress required a fivefold increase in renewable fuels, which in turn led to an increase in demand for corn, and a further decrease in supplies of wheat and soybeans as farmland that traditionally was used to grow these crops has been converted to the more profitable corn crop.

This confluence of events has had a dramatic impact on food prices as events spin off one another, creating a cycle of rising demand, dwindling supplies, and unstable prices. If you are poor, the effects can be deadly.

The question is how we in Congress can help bring some relief. First, and probably foremost, Congress can and should consider strengthening the food assistance programs on which those Americans who are most at risk rely. Second, Congress is now in the midst of heated debate on a number of policies that will affect future

food prices. The Farm bill, for example, now in conference, would reduce subsidies for ethanol producers. The current 54-cents-per-gallon tariff on foreign imports of ethanol used as fuel is set to expire at the end of Fiscal Year 2009 and Congress could take action to lower it. And third, the Renewable Fuel Standard imposed in last year's energy bill could be reduced.

This Committee has the unique ability to look across the Federal government to assess the range of policies that influence the price and availability of ethanol in the marketplace. The policies we discuss today have the potential to shape future debates on the best way for Congress to respond to this global food crisis, and I am glad to welcome our witnesses who will help us better under this issue.

Andrew Siegel is the owner of When Pigs Fly Bakery, in York, Maine. He will discuss how rapidly rising commodity prices have negatively impacted his business. The Rev. David Beckmann, President of Bread for the World, an organization that works to end world hunger, will talk about how rapidly rising food prices have led to a global food crisis. Dr. Bruce Babcock is a agro-economist from Iowa State University, who contends that passage of the expanded Renewable Fuel Standard was the tipping point in a number of factors that have caused unstable food markets. And Mark W. Rosegrant is Director of the Environment and Production Technology Division of the International Food Policy Research Institute. He will discuss the impact of global biofuels policies on food prices. Gentlemen, thank you in advance for your testimony.