

Statement of Senator Susan M. Collins

**Fuel Subsidies:
Is There an Impact on Food Supply and Prices?**

Committee on Homeland Security and Governmental Affairs
May 7, 2008

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Today we consider whether a change in American agriculture policy aimed at reducing our reliance on imported oil may be having serious, unintended consequences for food supplies and prices.

According to the World Bank, global food prices have increased by 83 percent in the past three years. Here in the United States, an analysis of April 2008 prices shows even more remarkable *one-year* increases:

- **wheat, up 95 percent,**

- soy beans, up 83 percent,
- corn, up 66 percent, and
- oats, up 47 percent.

Such increases in basic commodities naturally work themselves through the food-supply chain. According to the U.S. Department of Agriculture, consumer prices for all foods increased by 4 percent in 2007 – the highest annual rate since 1990 – and the Department projects continued increases.

The consequences reach far beyond data cells on some spreadsheet. They affect families who are forced to cut back on bread, meat, and dairy purchases and to apply their economic-stimulus checks to their grocery bills. The nutritional threat, especially to lower-income families with children or

to senior citizens with limited incomes, is clear. The high prices and shortages also hurt small businesses like the Maine family bakery whose future is less secure due to escalating costs.

The global consequences are also grim. As World Bank President Robert Zellick warned last month, “33 countries around the world face potential social unrest because of the acute hike in food and energy prices. For these countries, where food comprises from half to three quarters of consumption, there is no margin for survival.” The impact of rising prices, food shortages, and export restrictions has devastating consequences for the billion people around the world living in dire poverty.

We need a clearer view of how biofuel policies shape this troubling picture. So I am pleased that the Chairman has agreed to have the Committee carefully examine this issue.

Subsidies for ethanol production, tariffs on ethanol imports, and mandates for ethanol use have certainly had an impact on the U.S. corn crop. In 1997, only five percent of the corn harvest was used for ethanol production. That portion grew to 20 percent of the 2006 harvest. The Department of Agriculture estimates that 24 percent of last year's corn crop is currently being used for ethanol, and that ethanol's claim on the 2008 harvest will climb to 33 percent.

Not surprisingly, increased demand for corn-based ethanol has diverted acreage from crops like

wheat and soybeans to corn and has had ripple effects on the cost of feed for livestock.

The USDA's Long-Term Projections, released in February, note that the strong expansion of corn-based ethanol production affects virtually every aspect of the field crops sector, from domestic demand and exports to prices and allocation of acreage among crops. After 2008, the USDA believes that the high returns for corn crops will lead to still further reductions in wheat and soybean planting. As our witness from a Maine bakery will attest, such changes in the use of distant croplands can have profound local effects.

Certainly, American and European policies that promote corn or other food crops for ethanol are not the only factors in the sharp increase in food prices.

Other factors include higher food demand in developing countries, higher energy and fertilizer costs, and weather events like the drought in Australia.

Many of these factors are beyond the control of mankind, much less governments. By contrast, however, biofuel subsidies and mandates are within the control of governments. And the International Food Policy Research Institute estimates that, globally, biofuels development may account for a quarter to a third of the increased costs of food. We must therefore examine the impact that American biofuel policy is having on the global food crisis and whether our policy needs to be adjusted to mitigate unintended consequences in the United States and elsewhere.

This is not an abstract matter of public policy. It affects the poorest people in our country and our world. It affects our bakeries, markets, restaurants, and family kitchens here and around the world. I look to today's witnesses for assistance in helping us better understand the trade-offs inherent in our current biofuels policy.

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