

**Summary of testimony by Gawain Kripke, Oxfam America
on “The Renewable Fuels Standard: Issues, Implementation, and Opportunities”, May 6, 2008**

The international food price index increased by 9% in 2006, but accelerated to a 40% increase in 2007. Food prices have continued this dramatic rise in the first three months of 2008. The confluence of price spikes for nearly all major food and feed commodities means there is no safety valve for consumers seeking cheaper alternatives. There are also indications that these high prices may be sustained over time

While the large majority (75%) of the world’s poor people are food producers, they are all food consumers. Higher agricultural prices can help some poor people by offering more money for their products. But, on balance recent food price increases have been bad for poverty and hunger. The World Bank estimates that recent food price increases will increase absolute poverty by 4.5%, or more than 100 million people. Humanitarian agencies are experiencing serious strains and making difficult decisions to reduce food rations or cut off recipients.

Poor people in developing countries may spend 50-80% of income on food. For these households, food price increases will require changes in behavior such as reduced food consumption; switching to less nutritious food; reduced consumption of other needs like health care or education; the sale of assets – like livestock or land; or some combination of these actions.

Diversion of corn to ethanol is playing a significant role in reducing corn supplies for food and feed. In 2008, the US will convert approximately one-quarter (23.7%) of our corn production into biofuels. That's an increase from 20% last year and 14% the year before. For about 1.2 billion people around the world, corn is the preferred staple cereal. Consider that the US produces more than 40 percent of the world's corn supply. Dedicating 3.1 million bushels of corn for ethanol this year will take more than one-tenth of the global corn supply off the market for food and feed.

While the current situation around corn-based ethanol raises concerns about the impact on food prices and poor people, there are ominous clouds on the horizon. The 2007 Energy Independence and Security Act, mandates 15 billion gallons of corn ethanol. This would double current corn ethanol production and implies a much larger diversion of corn from food and feed. The potential for truly disastrous shortages in food supply with accompanying price inflation is very real.

Oxfam America recommends the following:

1. *Fulfill humanitarian needs:* Whatever the causes of the food price increases, the impacts could be devastating for vulnerable people in this country, and especially in developing countries. Congress should fulfill appeals by humanitarian agencies. For example, the UN World Food Program has estimated that it will need an additional \$775 million to fulfill its mandate this year, otherwise it will be forced to reduce rations and cut recipients from food assistance.
2. *Review the impact of policy and make appropriate modifications:* Oxfam believes that Congress needs a more objective and sophisticated analysis of the inter-relation between biofuels mandates and subsidies, environmental performance, energy security, and food prices. We call upon Congress to create an impartial body – perhaps a panel of experts or blue-ribbon commission – to study the issue and make recommendations for actions.
3. *Respond to the current food price crisis:* If the experts tell us that current policies to encourage corn-based ethanol production are driving food prices and exacerbating hunger and poverty, then Congress should consider freezing or rolling back the renewable fuels standard to avoid larger diversions of corn or other food supplies from the market.
4. *Make biofuels fair:* If the US decides to proceed with mandating use of biofuels for transportation fuels, the policy should be implemented fairly and openly; new market opportunities could help developing countries benefit from higher agricultural commodity prices.
5. *Proceed cautiously with new technology and commitments:* Cellulosic ethanol and other “second-generation” biofuels technologies have advantages over current biofuels technologies, including using non-food feedstocks. But the experience with corn-based ethanol should teach us caution before implementing ambitious production mandates and subsidies.



Statement of

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before the

Subcommittee on Energy and Air Quality

hearing on

**“The Renewable Fuels Standard:
Issues, Implementation, and Opportunities”**

May 6, 2008

Good morning Chairman Boucher, Representative Upton and the members of the Subcommittee. Thank you for holding this hearing and for inviting Oxfam America to appear. We sincerely appreciate the opportunity to bring our concerns and perspectives before you on this important issue.

Introduction

I am here today representing Oxfam America, a non-profit international aid and

development organization working to reduce poverty and hunger in more than 120 countries around the globe. Oxfam America takes no US government funding—our support comes from American citizens and organizations that care about global poverty.

State of the world on hunger

While we are here today to discuss the renewable fuels standard, I hope you will permit me to say a few words about hunger.

After a very long and steady decline over the course of decades, the number of people facing chronic hunger globally took a disappointing turn upwards in the last few years. The reasons for this are various, but include the predictable causes: wars, unfair access to resources, failed governments.

It might seem obvious that lack of food is the cause of hunger. And while that's true, it's actually much more complicated. The truth is that the world does not lack for food. Globally, we produce more than enough calories and nutritious food to sustain humanity. While there are droughts and other circumstances that create acute food scarcity, more usually hunger is caused by other factors.

The most important cause of hunger is poverty. Approximately 1 billion people – one-eighth of humanity -- survives on an income of less than \$1 a day. More than 2.5 billion people scrape by on less than \$2 a day. This is a vast pool of vulnerable people, spread out across the world. For these people and their families, hunger is a constant worry and a looming possibility. Approximately 850 million are malnourished, For those who are not, hunger could be just one bad harvest away or a health crisis that requires expensive medicines or rising prices for food.

While the large majority (75%) of poor people are food producers, they are all food consumers. Higher agricultural prices can actually help many poor people by offering more money for the products they are involved in producing. But higher food prices can also drive people deeper into poverty if they are net consumers of food. The World Bank recently studied the issue and found that, while recent food

price increases have diverse impacts, in general they are negative for poverty. Overall, the study finds that the recent food price increases will increase absolute poverty by 4.5%. Projected across the globe, this is an increase of more than 100 million people in poverty.ⁱⁱ

Policy-makers actually have a very limited set of tools available to help these people. Food aid, for example, is critically important, but only reaches about 100 million people a year, less than one-eighth the number of those who are malnourished people.

This is why I believe this hearing today is so important. We have a deep responsibility to carefully assess the impact of our policies on those who face poverty and hunger and to take actions to make the lives of poor people less difficult. Life should not be a constant battle for survival, but an opportunity to enjoy sustainable livelihoods and the benefits they provide.

The shock of price increases

The recent spike in food prices has caught the world by surprise. It was not long ago when low commodity prices were viewed as the bigger challenge and food prices were expected to decline steadily.

For example, as recently as 2006 the US Department of Agriculture's Economic Research Service (ERS) was saying that "Retail food prices are projected to increase less than the general inflation rate," and the ERS projected farm income to decline.ⁱⁱⁱ Likewise, international market observers expected low and even declining agriculture commodity prices. The UN Food and Agriculture Organization said, "Farmers and countries that depend on commodity exports have to contend with the long-term decline and short-term volatility of real commodity prices on international markets."^{iv}

Instead, agriculture commodity prices have risen steadily over four years, and accelerated dramatically in the last year. The international food price index increased by 9% in 2006, but accelerated to a 40% increase in 2007.^v Food prices

have continued this dramatic rise in the first three months of 2008.

Price volatility in agricultural commodities is not uncommon. What is unusual, however, is the confluence of the hike in world prices of nearly all major food and feed commodities. This means there is no safety valve for consumers seeking cheaper alternatives. There are also indications that these high prices may be sustained over time – meaning the prices are flowing through the production and value chain to reach consumers in the form of higher prices for both basic and processed foods.

High food prices threaten to cause hunger and increased poverty. Where incomes are not rising at the same rate as food inflation, high food prices seem certain to cause an increase in food insecurity and pose risks of widespread food crises in many developing countries.

Some of the first warnings about the high food price crisis came not directly from people facing food insecurity, but from the humanitarian agencies trying to assist them. In January, the UN World Food Program (WFP) put out a special appeal for Afghanistan noting that millions of Afghans could no longer afford to buy the wheat that is a staple in that country. Since November 2007, price of bread in Kabul increased from \$0.11 to \$0.21, an increase of over 90%. As a result, 1.4 million people in rural areas and 1.1 million in urban areas have been pushed into high risk for food insecurity.

Later, the UN WFP made an emergency appeal for an additional \$775 million, saying that high food prices had made it impossible to fulfill its 2008 plan to provide food assistance to 73 million people in need. The WFP's original budget was \$2.9 billion. Although new pledges have been made, the appeal has not yet been met. The WFP has recently announced that it will suspend a school feeding program for 450,000 children in Cambodia in May, unless additional funding is found.^{vi}

Other humanitarian agencies are experiencing similar strains and making similar difficult decisions. Last week, World Vision International announced it has discontinued feeding programs for more than 1 million people due to increased food

costs and lack of funding.^{vi} CARE has cut the size of its rations in Somalia.^{viii}

Price increases are affecting markets across the world increasing the costs of staples and generating spontaneous protests and some civil unrest. Dozens of countries have experienced “food riots” in recent months.

While higher agricultural commodity prices are affecting industrialized and developed countries, and rich and poor, alike, the impact of higher food prices is different. Two factors tend to moderate the impact of higher agricultural commodity prices on consumers in the US, and conversely magnify their impact for poor people in developing countries.

First, most American consumers don't buy agricultural commodities. American consumers rarely buy wheat, for example. In fact, most households buy wheat flour only occasionally. Instead, we buy bread. And although bread may be made of wheat, the value of the raw commodity in the final product is actually quite small, perhaps 20 percent. So, even dramatic increases in wheat prices, will translate into relatively modest increases in bread prices.

This contrasts with poor consumers in developing countries, who often buy food in much less processed forms, as wheat flour or maize kernels. For these consumers, commodity price increases are felt more directly in their purchasing power.

The second factor that tends to moderate the impact of high agricultural commodity prices for American consumers is the fact that we're the wealthiest country on Earth. For the average American household, food makes up around 10 percent of our expenditures. For poor American households, food can make up as much as 25 or 30% of expenditures. Increased food prices may cause American to change their grocery list, buying less expensive foods and skimping on ingredients. But increased food prices would not be expected to drive large numbers of people into poverty or to increase US hunger rates substantially.

By contrast, food makes up a larger portion of household income in most other countries. Poor people in developing countries may spend 50-80% of income on

food. For these households, food price increases will require changes in behavior such as reduced food consumption; switching to less nutritious food; reduced consumption of other needs like health care or education; the sale of assets – like livestock or land; or some combination of these actions.

These are the awful choices that many poor people are being forced to make today as high food prices are impacting how they live and, in some cases, their nutrition.

The causes of food price increases

Many experts have noted that there are several forces driving food prices upward. I won't spend time discussing them here except to mention a few:

- rising demand for higher-protein foods in fast growing developing countries like India and China;
- changing weather patterns and production problems for some commodities and some regions, notably wheat;
- high energy costs which raise food production costs and food transport costs;
- possible speculation emerging from a large movement of investor capital out of equities and into commodities futures and related instruments;
- growth in biofuels production and consumption.

While experts argue about their relative importance, each of these factors appears to be having an impact. But for this hearing, I will focus my comments on the diversion of agricultural commodities, particularly corn, to fuel production.

Diversion of corn to ethanol is playing a significant role in reducing corn supplies for food and feed. In 2008, the USDA estimates that 3.1 million bushels of US corn will be used to produce biofuels. That's an increase of nearly 50% over 2.1 million bushels last year (2007) and close to twice the 1.6 million bushels of 2006.

What do these figures mean? It means that in 2008 the US will convert approximately one-quarter (23.7%) of our corn production into biofuels. That's an increase from 20% last year and 14% the year before. In short, we're rapidly diverting larger portions of our corn supply to fuel, leaving less for food.

This conversion of corn to fuel appears to be having an impact, not just in the US, but globally. For about 1.2 billion people around the world, corn is the preferred staple cereal. Consider that the US produces more than 40 percent of the world's corn supply.^{ix} Dedicating 3.1 million bushels of corn for ethanol this year will take more than one-tenth of the global corn supply off the market for food and feed.

It's important to recognize that the US is a massive exporter of corn, the largest supplier in the world. We export nearly twice as much corn as all the other exporters combined. So, reduced supply and/or higher prices in the US corn market have significant implications for the rest of the world.

Although ethanol mandates and subsidies directly impact on corn prices, they also have cascading impacts on other agricultural commodities. This is because higher corn prices are encouraging farmers to commit more acreage and agricultural inputs to corn production. This leaves less acreage and agricultural inputs available for other crops, especially soybeans, which are often planted in alternate years with corn. As a result, production for other commodities like soybeans is lower and prices are higher.

Higher corn prices also lead consumers to choose other, cheaper cereals to substitute for food or feed. Over time, this increased demand increases the prices for other commodities.

The general consensus among economists and observers is that the growth in demand for biofuels – especially ethanol – is indeed a major contributor to the spike in food prices. Last month, the World Economic Outlook identified increased biofuels consumption as a major driver of food price increases.

“Rising biofuels production in the United States and the European Union has boosted demand for corn, rapeseed oil, and other grains and edible oils. Although biofuels still account for only 1.5% of the global liquid fuels supply, they accounted for almost half the increase in the consumption of major food crops in 2006-7, mostly because of corn-based ethanol produced in the United States. Biofuel demand has

propelled the prices not only for corn, but also for other grains, meat, poultry and dairy through cost push and crop and demand substitution effects”^x

The International Food & Policy Research Institute (IFPRI), one of the premier organizations tracking food and hunger issues, estimates that biofuels will drive up corn prices by between 27% and 72% by 2020, depending on the scenario analyzed. Other commodities (oil seeds used for biodiesel) would rise by 18% to 44%. IFPRI stated, “In general, subsidies for biofuels that use agricultural production resources are extremely anti-poor because they implicitly act as a tax on basic food, which represents a large share of poor people's consumption expenditures and becomes even more costly as prices increase...”^{xi}

While the current situation around corn-based ethanol raises concerns about the impact on food prices and poor people, there are more ominous clouds on the horizon. The 2005 Energy Policy Act mandated 7.5 billion gallons of renewable fuels to be mixed into gasoline by 2012. Actual ethanol production is at least four years ahead of that schedule, with expected production of more than 7 billion gallons this year. But this is just the beginning of the planned expansion of corn ethanol. The 2007 Energy Independence and Security Act, mandates 36 billion gallons of biofuels by 2022. While the majority of this amount is meant to be “advanced biofuels”, 15 billion gallons would be corn ethanol. This would double current corn ethanol production and implies a much larger diversion of corn from food and feed. The potential for truly disastrous shortages in food supply with accompanying price inflation is very real.

It's impossible to predict the future, and higher commodity prices are likely to induce a “supply response”, i.e. increase agricultural production to meet the demand. This may actually offer some opportunities to poor people and developing countries. However, in order to respond to these price signals, developing countries and poor people will need access to new investment, agricultural inputs, credit, and markets. All of these factors require a financial and physical infrastructure that will take time and resources to build. Helping developing countries make these investments is a very important element in resolving the current crisis posed by high food prices and should be a key component of a global response. In the meantime, the world is

likely to experience an imbalance between supply and demand with high prices prevailing.

Oxfam America recommends the following:

1. *Fulfill humanitarian needs:* Whatever the causes of the food price increases, the impacts could be devastating for vulnerable people in this country, but especially in developing countries. Congress should pay close attention to humanitarian agencies when they are making appeals for assistance, and take urgent action to fulfill these appeals. At this time, the UN World Food Program has estimated that it will need an additional \$775 million to fulfil its mandate this year, otherwise it will be forced to reduce rations and cut recipients from food assistance. Likewise, the US Agency for International Development has requested \$350 million in supplemental funds for this fiscal year. But that request was made months ago. In the meantime, food prices have spiked upwards. USAID now estimates it will need an *additional* \$260 million just to maintain existing commitments – due to food price increases and the depreciation in the dollar. Last week, President Bush announced a \$770 million package to address the high food prices, which is a welcome step. Congress should take up this proposal urgently and consider other emergency measures to address the potential humanitarian crisis. The Farm Bill, currently in conference committee offers an important vehicle to address these international hunger concerns.
2. *Review the impact of policy and make appropriate modifications:* Oxfam believes that Congress needs a more objective and sophisticated analysis of the inter-relation between biofuels mandates and subsidies, environmental performance, energy security, and food prices. We call upon Congress to create an impartial body – perhaps a panel of experts or blue-ribbon commission – to study the issue and make recommendations for actions. Since we face an urgent situation, the workplan should be completed before the end of the year for action early in the new year.
3. *Respond to the current food price crisis:* Any benefit from biofuels – for the

environment or energy security – must be balanced against the burdens that higher food prices place on poor people. US policy should not put food security, environmental concerns, and energy security at odds. If the experts tell us that current policies to encourage corn-based ethanol production are driving food prices and exacerbating hunger and poverty, then Congress should consider freezing or rolling back the renewable fuels standard to avoid larger diversions of corn or other food supplies from the market. Without changes, current law will mandate large additional diversions of corn or other food supplies from the market and could contribute to a true disaster.

4. *Make biofuels fair:* If the US decides to proceed with mandating use of biofuels for transportation fuels, the policy should be implemented fairly and openly. If biofuels offer benefits for the environment and energy security, why shouldn't developing countries be able to compete to supply the US market? Many developing countries are potentially competitive producers of biofuels. Currently, the US uses tariff protection to deny other countries access to the US market. New market opportunities could help developing countries benefit from higher agricultural commodity prices.

5. *Proceed cautiously with new technology and commitments:* While cellulosic ethanol and other “second-generation” biofuels technologies have advantages over current biofuels technologies, including using non-food feedstocks. In addition, they hold the promise of improved efficiency over current technologies. However, they are as yet unproven and could have similar problems in diverting agricultural land and resources away from food production. It makes sense to invest in research and development to explore their potential, but the experience with corn-based ethanol should teach us caution before implementing ambitious production mandates and subsidies.

Conclusion

Food price increases have delivered a shock to consumers and governments around the world and were, largely, unpredicted. Nonetheless the impact of these prices is

now being felt and is creating significant turmoil, especially in developing countries that depend on food imports and with large, vulnerable populations. We expect to see added stress on poor households throughout the world, and a likely increase in poverty and hunger.

Although convergence of factors has contributed to the spike in food prices, the diversion of large amounts of US corn production is a significant driver.

Given growing questions regarding the potential environmental benefits of corn ethanol, and in light of the apparent negative impacts that ethanol mandates may be having on food prices, it makes sense to step back and consider a course correction.

I thank you for your time and attention and would be glad to answer any questions.

ENDS////

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iv UN FAO, “*The State of Agricultural Commodity Markets, 2004*”. See: <http://www.fao.org/docrep/007/y5419e/y5419e00.htm>

v “*Rising Food Prices: What Should Be Done?*”, Joachim von Braun, International Food Policy Research Institute, April 2008. <http://www.ifpri.org/pubs/bp/bp001.asp#read>

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viii “Hunger stalks globe as aid groups forced to cut”, Missy Ryan, Reuters, May 2, 2008.

ix “World Agriculture Supply and Demand Estimates”, USDA (WASDE-457), April 9, 2008.

x World Economic Outlook, April 2008. International Monetary Fund. P. 60. See: <http://www.imf.org/external/pubs/ft/weo/2008/01/index.htm>

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