

Biofuel mandates would make corn shortfall costly, experts say

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Grocery shoppers face hefty price increases if bad weather withers a U.S. corn crop that is now tethered to grain-intensive renewable fuel mandates, a new University of Illinois study warns.

A corn shortage, coupled with surging demand to meet government-ordered ethanol standards, could push cash prices to \$7 a bushel, the study found, squeezing livestock producers and driving up prices for meat, milk, eggs and other farm staples.

Economists Darrel Good and Scott Irwin say federal policymakers need to forge solutions now to cushion the blow of a shortfall that history shows is a matter of when and how severe, not if.

"We believe everybody will be better off with a reasoned, well thought-out response if a crisis would occur rather than rushed, short-term solutions as the crop is burning up," Irwin said.

Irwin and Good, professors of agricultural and consumer economics, analyzed weather and harvest records in key corn-growing states, projecting U.S. yields based on the five best and worst growing seasons since 1960.

The study found that average yields could range from 135.5 bushels per acre with bad weather to 172.5 bushels per acre in peak growing conditions, compared with a trend yield of 156.7 bushels per acre forecast for 2010. If weather turns sour in 2010, for example, the nation

would harvest about 10.9 billion bushels of corn, down more than 2.1 billion bushels from last year's record crop, according to the study.

The shortage could drive daily cash prices to \$7 a bushel and average prices to about \$5.75, up from about \$3.50 today.

Livestock and poultry producers who need corn for feed would bear the brunt of the shortfall because ethanol producers have no wiggle room under federal mandates, and export markets are historically unfazed by short-term price spikes, Good said.

"Those producers have already seen [profit margins](#) shrink in the last couple of years and many would be quick to cut back livestock inventory, netting higher prices for milk, eggs and meat. On average, prices could go up 5, 6 or 7 percent instead of the normal 2 percent that we typically see annually for food costs."

Good and Irwin say the government can ease the impact by developing contingency plans now so that biofuels mandates could be quickly scaled back if summer weather makes a harvest shortfall imminent.

Reducing ethanol-production standards and easing restrictions on imported ethanol would spread the pain of a shortage, propping up livestock producers and holding down price spikes for food, Irwin said.

"Our thinking is it may be the only policy solution that could rein in the damage in any given year," Good said. "Making some cuts in the ethanol sector would prevent forcing all of the cuts on the livestock sector."

The study discounts arguments that advances in seed technology have made the U.S. [corn crop](#) "bulletproof" - capable of strong yields even during hot, dry growing seasons.

Irwin says seed technology has undoubtedly improved, but has yet to be truly tested because the nation's corn crop has faced no widespread drought since the mid-1990s.

Weather patterns over the last half-century show that another drought is inevitable, he says, and putting too much faith in yet-unproven technology is a gamble that leaves livestock producer and consumers at risk.

"No doubt there has been enormous scientific progress, but the question is whether the improvements are so dramatic that we can ignore bad-weather scenarios," Irwin said. "We're persuaded by our modeling that another drought will occur. And even if it's not as bad as our scenarios, it could still be devastating."

More information: The study, Alternative 2010 Corn Production Scenarios and Policy Implications, is available at [www.farmdoc.illinois.edu/marke ... 0-01/mobr_10-01.html](http://www.farmdoc.illinois.edu/marke...0-01/mobr_10-01.html)

Provided by University of Illinois at Urbana-Champaign

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