

US ethanol subsidy caused corn price surge: study

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A farmer plants corn in Luxemburg, Iowa. US ethanol subsidies pushed up corn prices as much as 17 percent in 2011, according to a study released Wednesday at a time when Washington's policies on biofuels are coming under heightened scrutiny.

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The study by Bruce Babcock of Iowa State University and released by the Geneva-based International Centre for Trade and Sustainable Development, suggests that high gasoline [prices](#) this year may have intensified demand for ethanol, creating a tighter market for [maize](#) than in previous years.

"Under these tight conditions, the added demand incentive from the blender tax credit can have a significant impact on maize prices," said Babcock, a professor of economics at Iowa State University.

"These results indicate the need for more flexible US [biofuel](#) policy," the study said.

"Maize prices in the 2011 calendar year would be about 17 percent lower than they are expected to be under current policies if ethanol subsidies had been eliminated before the beginning of the year."

It blamed part of the high prices on the existing "tight market conditions." "When [gasoline prices](#) are high, as they currently are, demand for ethanol is high, which creates a tight market condition for maize."

The US Senate voted last week to end a \$6 billion subsidy for ethanol in a move that appeared largely symbolic but sends a message about the growing unease over support for the biofuel made mostly from corn.

The Senate approved an amendment to end a 45 cent per gallon credit given for blending ethanol into gasoline and scrap a hefty tariff on ethanol imports.

The outcome for the measure remains uncertain, since the broader bill would need to pass the Senate and the House of Representatives, but lawmakers said a broad coalition supports the move to help curb the massive [budget deficit](#).

Ethanol backers argue that the biofuel helps keep motor fuel prices down and reduce dependence on petroleum imports.

But critics say the [subsidy](#) encourages farmers to divert grain to fuel and

leads to higher food prices in the global market.

The new study suggests however that despite the hefty impact on corn, US ethanol subsidies have not been the main driver of higher overall food costs.

The effects of US ethanol subsidies on the prices of wheat, rice and soybeans were modest, with a 2.8 percent price impact on soybeans in 2008 being the largest impact on other crops, the research concluded.

The impact of US ethanol policies through higher feed costs on consumer prices of eggs, beef, pork and chicken was even smaller.

"These results indicate that US ethanol subsidies during this period had little [impact](#) on consumer prices and quite modest impacts on crop prices," it said.

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