

Biofuels Craze Is a Financial Bubble, Not a Farm or Energy Policy

by Marcia Merry Baker

A national biofuels promotion conference titled, “Advancing Renewable Energy: An American Rural Renaissance,” will take place in St. Louis, Oct. 10-12, co-hosted by the U.S. Departments of Agriculture and Energy. Topics focus on national energy security, and claims of how bio-energy cropping will rejuvenate depressed rural areas. Among the 45 speakers will be Alan Waxman, the managing director of Goldman Sachs, on the subject of “Financing Structures” for biofuels investments; and R. James Woolsey, vice president of Booz Allen Hamilton, and former CIA Director, on “Energy, Security and the Long War of the 21st Century.” Sponsors of the affair include the Chicago Board of Trade, Goldman Sachs, Booz Allen, Chevron, Bunge, Monsanto, and other transnational big names.

What this government/private-sector extravaganza signifies, is that the entire biofuels craze is a financial bubble. It is not at all an energy or farm policy-based “trend.” At the outset, it should be reiterated that, in scientific terms, biofuels—ethanol and biodiesel—are a non-starter for modern transportation, electricity, heating, or any form of power. All of biofuels’ energy-density output is far lower than that required simply to produce, handle, process, and transport the feedstock involved, whether from corn, sugar cane, wood chips, straw, or any other bio-input. But financial swindles have nothing to do with science.

The timing of the current mad dash into biofuels is consistent with two key aspects of the economy today: First, the financial system itself is in breakdown, with insolvencies, unpayable debts, and chain-reaction blowouts. So biofuels are literally looking like a “safe bet.”

Second, the national and state laws passed over the past 18 months that mandate what percentages of liquid fuels must be derived from “renewables” have made the bio-energy sector an overnight hot money target. “Investment safety” is the polite term used by Cargill, in the case of its press release on biodiesel in France, after the 2005 French law decreed target amounts. Under the U.S. Energy Act of 2005, annual gasoline usage must contain 7.5 billion gallons from “renewables” by 2012, up from 4 billion in 2005. This is happening the world over.

So there is a rush to get into ethanol all along the line—from owning distillery plants, to buying shares in R&D companies, to simply engaging in the wild commodity speculation

on the corn futures markets. It’s the same with biodiesel. At present, there are 101 corn ethanol plants in operation in the United States, with another 42 projects of new construction or significant expansion under way.

Corn Belt Hit by Bubble

This spells disaster for what remains of farming systems in many of the still most productive regions of the world. And that automatically spells food supply disaster. Look at the U.S. Corn Belt:

To begin with, farmers themselves have rushed to form cooperatives, throwing their own funds together, to build ethanol facilities, and “finally” make some money. Over the recent decades of globalization, farmers have been consistently underpaid for their production of corn or any other commodity, and have persisted in farming only through off-farm jobs, debt, and whatever else they could muster. Ask them, and the farmers say they would prefer a “sound economy”—with nuclear power, good infrastructure, decent revenues, and profits from farming—but “Washington” seems hopeless. The ethanol schemes seem to offer a “pot of gold.” An estimated 40% of the current ethanol facilities are farmer-owned, and for the moment, they are raking in profits.

But the other side of this end-of-the-rainbow vision for farmers, is that, if and when ethanol prices drop, these farmer-cooperatives will be forced to sell out at big losses, to the cartel and financial syndicates controlling the whole game. Already, there is talk of a “glut” of ethanol on the market. At present, the largest single owner of ethanol capacity in the United States is ADM, Archer Daniels Midland, the global giant in corn and soybean processing. Likewise, in Germany, ADM is the largest owner of biodiesel production, through its subsidiary, Oelmuehle Hamburg AG.

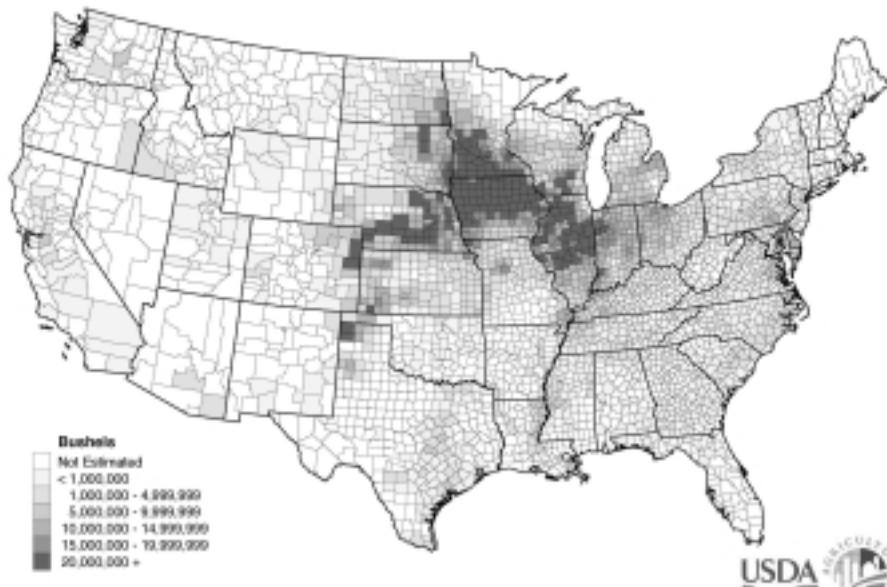
State governments are feeding the frenzy by offering grants, tax relief, and other inducements to new ethanol and biodiesel operations. As of May 2006, Iowa—already the world’s leading corn and ethanol center—has a new package of tax credits. For every gallon of E85 (85% ethanol, 15% gasoline) sold, there is a 25-cent tax credit, until the year 2021.

As a result of the financial rush, infrastructure use throughout farm regions is currently reorienting to the bio-energy craze—from railroads, to highways, to water requirements, and electricity demand—to deal with grain handling,

FIGURE 1

U.S. Cornbelt—Accounting for Nearly Half of World Corn Production—Now Targetted for Bio-Energy Plantations

(Corn for Grain 2005, Production by County)



Source: U.S. Department of Agriculture, National Agricultural Statistics Service.

ethanol hauling and storage, and so on. Coming on top of decades of infrastructure deterioration, this is causing chaos, in particular water shortages.

All this underscores that what is required is an emergency return to national-interest policies of energy and agriculture. Resuming nuclear power development is essential for providing a thorough rail grid, and for needed levels of power, moving to the provision of hydrogen-fueled vehicles, and out of fossil fuel transportation.

Corn for Dinner or Your SUV?

The map (Figure 1) shows how the top corn (maize) producing counties in the United States are concentrated in five Midwestern states—Iowa, Illinois, Minnesota, Nebraska, and Indiana. The corn production in these counties, plus a few outlying areas *accounts for nearly half of the total world annual production of corn*. In 2005, the U.S. corn harvest was 283 million metric tons out of a world total of some 692 million tons. It takes the corn production of the next six nations (including the entire European Union) combined to begin to equal the yearly U.S. output: China (139 mmt), EU-25 (48 mmt), Brazil (41 mmt), Mexico (19 mmt), Indian (16 mmt), and Argentina (15 mmt).

U.S.-produced corn has accounted in recent years for 60 to 70% of all the world corn traded internationally. On the usage side, these U.S. corn exports go into the livestock/meat

chain in Japan, South Korea, Mexico, and other nations. Likewise, within the United States, corn goes into livestock feed. But also, millions of tons of corn are processed for a variety of other uses, including sweeteners (especially for beverages), starch, table “sugar,” vegetable oil, citric acid, and other products—all part of the feed and food chain.

It should be said that the extreme concentration of corn production and processing is not “desirable” for either farmers or nations. It reflects decades of globalization, in which decisions are made by the cartel financial networks.

But the point right now is, what happens to the food chain, if a massive shift of corn goes into ethanol? In 1980, less than a million tons of U.S. corn were distilled into fuel, but as of 2005, some 55 million metric tons went into ethanol distilleries. As a percentage of the total annual U.S. corn harvest, the share used for ethanol was negligible in 1980, but 25

years later it has hit 20%; next year, likely 25%. This is equivalent to the volume of U.S. corn now going into exports. Thus, the question becomes: corn for dinner, or your SUV?

For starters—down with exports. This is the view of the U.S. Department of Agriculture, whose chief economist, Keith Collins, told a Senate hearing Sept. 6, that corn-importing nations should turn away from the United States, and look to Brazil and Argentina to supply their corn instead.

Second, Collins says, expand the U.S. corn area, to “90 million acres in 2010 . . . nearly 10 million more than the average planted during 2005 and 2006.” He sees 4 to 7 million acres coming out of the 35 million acres enrolled in the Conservation Reserve Program, and otherwise, acres will be financially “bid away” from other crops.

But then come proposals for “going all the way,” even if it means turning the entire corn acreage base to biofuels. Sen. Richard Lugar (R-Ind.) told a “Summit for Energy Security,” at Purdue University in Indiana in August, that U.S. ethanol production should go from 4.8 billion gallons this year, up to 100 billion gallons a year by 2025! This would be a rise from 3% of gasoline consumption, to 30%.

Using the U.S. Department of Agriculture’s factor of 375 gallons of ethanol produced from each acre of corn, Lugar’s proposal would require more than three times the entire area of the current Corn Belt shown in Figure 1. You ask, “What is he thinking?” The answer is, “He is not.”