



# GROCERY MANUFACTURERS ASSOCIATION

## RECOMMENDATIONS FOR THE OBAMA ADMINISTRATION ON BIOFUELS

### *Summary*

The Grocery Manufacturers Association strongly supports the development of second generation biofuels and urges the Obama Administration to support policies that will help commercialize cellulosic and other advanced biofuels and that will reduce reliance on food and feed to produce fuel.

### *Recommendations:*

- **Increase investments in second generation biofuels.** The Obama Administration should increase funding for grants, loan guarantees and other tools that will help bring second generation biofuels to the commercial market. Energy and climate legislation could provide early opportunities to increase financial support for fuels made from crop wastes and other feed stocks that do not pit our energy needs against the need for an affordable food supply or the nation's environmental goals.
- **Restructure biofuel subsidies to accelerate development of second generation biofuels.** The Obama Administration should support efforts to redirect a \$5 billion-a-year tax subsidy for gasoline refiners who blend corn ethanol to a production tax credit for the producers of cellulosic biofuels. Diverting tax subsidies from gasoline refiners to cellulosic biofuel producers would provide significant new resources for the development of second generation biofuels.
- **Restructure advanced biofuels and “food to fuel” mandates to accelerate development of second generation biofuels.** The Obama Administration should restructure mandates to shift the current trajectory more quickly toward second generation biofuels with less reliance on corn ethanol and bio-diesel. For example, federal policy should give priority to second generation biofuels as these fuels reach the marketplace, reduce mandates for conventional biofuels when second generation fuel production exceeds targets, subject all biofuels to tough greenhouse gas emissions standards, and should include a safety valve that automatically reduces “food-to-fuel” mandates when corn and vegetable oil stocks fall too low.
- **Insist on a credible low carbon fuel standard in climate change legislation and regulations.** The Obama Administration should only support a low carbon fuel standard that fairly reflects the impact of biofuels on land use and

that produces significant life-cycle greenhouse gas reductions when compared to gasoline. Policies that are designed to achieve these important environmental goals should also help accelerate the development of second generation biofuels and should not create a lower bar for conventional biofuels.

- **Show global leadership in promoting food and energy security and in climate change by eliminating the biofuels import tariff.** The Obama Administration should demonstrate global leadership by eliminating the tariff on imported biofuels. Such a policy would promote global development of cellulosic and advanced biofuels, help boost the income of developing nations, increase America's energy security and produce significantly greater environmental benefits. The Obama Administration should also reverse long declines in U.S. support for global agricultural development.


## **Background**

Unless we act now to accelerate the development of second generation biofuels and restructure food-to-fuel policies, increased competition for land will contribute to rising commodity and food prices.

A five-fold increase in the production of biofuels from corn since 2000 has contributed to volatile commodity prices and a sustained period of commodity and food inflation. Commodity prices rose dramatically between 2005 and 2008 and remain high.

Although there are many factors contributing to commodity and food inflation—including rising energy prices, weather, commodity speculation, global demand, export restrictions and the value of the dollar—significant factors are food-to-fuel mandates, subsidies and protections. In 2008, one-third of the U.S. corn crop was diverted to make fuel, and experts estimate that approximately 40 percent of the U.S. corn crop and 30 percent of U.S. vegetable oil supplies will be diverted from food and feed to fuel supplies by 2015 unless current policies are restructured.

Rising commodity prices have already contributed to runaway food inflation. Food prices rose by 4.9 percent during 2007—twice as fast as inflation—and food prices are expected to have increased more than 7 percent in 2008. What's more, the price of basic food staples—milk, meat and eggs—rose even faster between 2005 and 2008 and the price of protein is expected to rise dramatically in 2009 in response to higher feed prices.<sup>1</sup>

Historically low levels of commodity stocks will produce a sustained period of commodity price volatility. For example, ending stocks for corn have fallen below 2 billion bushels and are forecast to fall even further. As a result, corn prices are expected to remain volatile.<sup>2</sup> In addition, ethanol policies have linked corn prices to fuel prices, contributing to even greater volatility. 

<sup>1</sup> Elam, Thomas, "Biofuels Support Policy Costs to the U.S. Economy," *FarmEcon LLC*, March 24, 2008.

<sup>2</sup> Wisner, Robert, Impact of Biofuels on Corn and Soybean Prices, Iowa State University, Agricultural Marketing Resource Center, September 2008.