

Dr. Jacques Diouf

DirectorGeneral

Food and Agriculture Organization

Viale delle Terme di Caracalla

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Dear Dr. Diouf and gathered world leaders:

There is no question that the escalating prices for food require serious attention and action by the world's leaders. It would be highly precipitous, however, for the United Nations or other international bodies to single out biofuels as the major cause for escalating food prices and take actions that might lead to even higher food prices.

The recent 10-year projection published by the Food and Agriculture Organization (FAO) and the Organization of Economic Cooperation and Development (OECD) is at best a guess at what might happen ten years from now. **The report includes a number of questionable and/or confusing assumptions that call into question the validity of the findings. The study's baseline oil price assumptions are based on an outdated OECD report from December 2007. Oil prices have increased some 40% since December.**

Moreover, many recent long-range projections show future oil prices at much higher levels (one has oil prices rising to \$150 per barrel by the end of this year) than the report's assumed average of \$90 per barrel in 2008 rising to \$104 per barrel by 2017. The report fails to incorporate the renewable fuel requirements outlined by the Energy Security and Independence Act of 2007 (EISA) nor the proposals for a new EU Renewable Energy Directive.

It is also important to recognize the severe limitations of econometric models that are based on rigid assumptions. Ten years ago, neither FAO nor OECD predicted \$135 per barrel of oil or the escalation of food prices in 2008. **Econometric models used to project future scenarios are useful in examining potential impacts, but not for forecasting how the world will look. This report, for example, does not account for a rapid increase in grain productivity in countries whose arable land is not in production, which with the right policies and investment, can grow crops at a rate much greater than projected. Relying on flawed assumptions provides an inaccurate picture of the impact of biofuels.**

Almost everyone understands there are multiple causes for the rapid rise in world food prices. These include weather events such as droughts and destructive storms, changing dietary habits, skyrocketing oil and fuel prices, commodity speculators, the declining value of the US dollar, and failed international agricultural policies. According to the Ed Lazear, Chairman of the White House Council of Economic Advisors, the production of corn starch ethanol is responsible for just 3% of the 43% rise in world food prices, hardly the driving force that some would have everyone believe.

Furthermore, many have recognized the significant economic damage caused by daily record high prices for crude oil. These prices affect the cost of producing and transporting food worldwide, not to mention the processing and packaging of these items.

A US Government Accountability Office (GAO) concludes that food aid organizations spend 65% of their budgets on transportation. As a result of the unabated rise in crude prices, the cost per food mile worldwide has soared as early June diesel fuel prices have shot up from \$1.32 per gallon in 2002 to \$4.72 today in the US. In Italy, diesel prices have risen from EUR0.82 a litre in 2002 to EUR1.52/litre in 2008. An equally strong price increase is

quoted for nitrogen fertilizer, going up 350% since 1999 largely due to fuel costs. Clearly, a highly constrained supply of crude oil and petroleum products is wreaking havoc on all countries and markets across the globe, especially with respect to food.

The International Energy Agency (IEA) recently reported that more than 1 mln barrels of additional crude oil would be required to replace the volume of biofuels currently in the world marketplace. Without biofuels, this new crude demand would force prices significantly higher, further exacerbating the food crisis and stretching food aid budgets ever thinner. One estimate by a London-based commodities specialist from Merrill Lynch estimated that without biofuels, world oil prices would rise by an additional 15%. On balance, the benefits gained from lower oil prices exceed the minimal costs associated with increasing biofuel production from grains.

Stronger global commodity prices are triggering a market response from farmers worldwide creating new opportunities for rural areas in developing countries. Higher grain prices are already providing farmers with new incentives to produce. Farmers will increasingly adopt the technologies necessary to become even more productive and efficient. As farmers increase their plantings, prices have already begun to weaken.

In the context of crops, it is important to note that the two commodities most often associated with today's food crisis are wheat and rice. Neither commodity is a major source of biofuel production, nor are they competitors for acres with corn and other biofuel feedstocks. You do not produce corn or sugar cane in a rice paddy. The factors driving the price of wheat and rice higher are independent of efforts to develop a biofuels industry. These include weather related problems, rising demand and the price of oil.

The world's farmers can meet the challenges of today's crisis. The world does not lack for arable land or highly efficient food production methods. What it lacks are sound international agricultural policies that allow farmers, especially in food importing countries, to meet the food demands of their fellow citizens. Increasing the production of food and expanding biofuel production are not mutually exclusive activities. They are complimentary. Increased production of biofuels lowers the cost of oil, an immense burden for developing countries. And as more grain is planted and harvested, which the OECD projects, we can look forward to declining food and energy prices – an outcome we can all support.

Sincerely,

Gordon Quaiattini

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