

For Immediate Release

July 7, 2008

OPEN LETTER TO G8 LEADERS ON RECORD PRICE OF OIL & FOOD PRICES

"Biofuels are part of a broad solution to the world's dependence on oil"

Dear Group of Eight Leaders:

Unquestionably, the world is facing an unprecedented energy and economic crisis. Oil prices are at record highs, and despite Saudi Arabia's announcement that it is increasing production, experts warn that prices will only continue to soar reaching \$150 to \$170 within one or two months. Since the beginning of the year alone, oil is up 40 percent on the New York Mercantile Exchange.

Not by coincidence, world food prices are also on the rise. Rice prices have more than doubled since January and corn prices are up 64 percent. Wheat prices have declined from the record levels set in February and currently are up 3.5 percent since the beginning of the year. And the International Monetary Fund calculates world food prices as a whole are up 43%.

Policymakers are rightfully concerned about the dire human consequences resulting from these rapidly escalating prices, especially for the hundreds of millions of poor people around the world facing starvation and as millions of others face declining economic prospects.

As you probably know, the sudden and rapid increase in food prices around the world has multiple causes, not the least of which is oil already priced at \$140 per barrel. Much of the modern world's agriculture and food transportation are reliant on oil, and drastically higher oil prices increase prices all along the food chain. At the same time, poor harvests due to drought and other adverse weather conditions in a number of countries, growing demand by expanding Asian economies, commodity speculation, the decline in the value of the dollar, and to a lesser extent, the growth in biofuel production are also making contributions. But so too have restrictive government policies that prevent the expansion of local food production.

In advance of the UN's World Food Summit, there were some in the international community who sought to place much of the blame for higher food prices on the world's biofuel producers, especially those in Brazil, Europe and the United States. However, following the Summit, several high level officials acknowledged the limited role that biofuels play in affecting food prices. For example, Hafez Ghanem, FAO assistant director general, commented, "The world has enough resources and the right technology to produce enough crops to meet the demand for food and biofuel." Similarly, John Holmes, the U.N. humanitarian chief and coordinator of the U.N. task force on food price crisis, said, "Biofuels are not taking the food out of the mouths of people, but we need to make sure that balance is struck."

We would note that two food grains that have seen the most volatile markets, wheat and rice, are not significant feedstocks for biofuel production. Further, common biofuel feedstocks like corn or sugarcane are not produced on the same acres. Corn is not grown in rice paddies.

On average, the world consumes some 86 million barrels of oil per day. According to the International Energy Agency (IEA), that number is slated to rise to 116 million barrels by 2030. At the same time, world oil prices are expected to stay well above \$100 into the future with some forecasting oil reaching \$200 per barrel. The President of OPEC, Chakib Khelil, recently predicted that oil prices could reach \$170

in the coming months.

The IEA notes that in order to meet the world's thirst for oil, nonconventional sources of fuel must be found. By IEA estimates, world biofuels production is the only nonfossil fuel that is helping to reduce oil demand. Were it not for the increasing production of world biofuels producers, oil consumption would expand by 1 million barrels per day, according to a recent IEA report. As the leaders of the world's most industrialized nations, you can imagine what would happen to oil prices in the absence of biofuel production.

There can be little question that the increased supply of biofuels is not only lowering oil demand, but also helping to mitigate the devastating impacts of volatile oil and gasoline markets. Francisco Blanch, a senior commodity analyst at Merrill Lynch, concluded in a June 6 investors report that, "On a global scale, biofuels are now the single largest contributor to world oil supply growth. We estimate that retail gasoline prices would be \$21/bbl higher, on average, without the incremental biofuel supply."

Usually, these benefits are overlooked by those rushing to criticize biofuels as the main culprit for the food crisis gripping the world today. Excessive rhetoric by a UN special rapporteur has gone so far as to label biofuels a "crime against humanity." While such highly emotional claims make great headlines, they fail to communicate to the world's policymakers the complex set of the factors driving world food prices.

Not surprisingly, record prices for oil, natural gas and other energy sources are making it nearly impossible for farmers around the world to produce food at the same low prices with which we as consumers have become accustomed. In Europe, diesel fuel, used to run the machinery needed to raise crops, has doubled in price year over year. In North America, not only are diesel prices higher but so too are other inputs like fertilizer (often based on fossil fuels), which has risen 350% in price since 1999.

Record prices for fuel also make it far more difficult for food aid organizations to deliver much needed assistance. A US Government Accountability Office analysis concluded that the largest US food aid organization spent 65% of its annual budget on transportation costs alone. The fact that food is now shipped around the world requires an enormous amount of fuel. More and more food companies are affected by the rise in oil prices and weather impacts. Recently, *The Wall Street Journal* reported, "[Chiquita Brands International](#) Inc. is the latest food company to be roiled by high fuel costs and bad weather."

As is always the case, context is critical. Biofuel production consumes just 3% of world coarse grain supply. With the incentives a strong global grain market provides agricultural producers, increases in efficiency and productivity by farmers the world will advance far more rapidly than they have in the past, plagued by years of neglect.

Indeed, biofuels offer a real opportunity for developed and developing economies alike. For developed nations, biofuels are an opportunity to begin the difficult task of energy diversification. For developing nations, biofuels offer tremendous opportunity for job creation and economic opportunity, as well as an avenue to avoid repeating the fossil fueled mistakes many industrialized nations have made. Brazil, because of its significant investments and public support for ethanol development, is a perfect example of the promise biofuels hold for developing nations.

This promise, however, can only be realized if biofuel production is encouraged to continue its evolution. Today, sugar, starch and plant oils represent the feedstock for virtually all biofuel production. But these technologies are only the beginning, the first phase of a much greater biofuel future. Because governments have chosen to invest in domestic biofuel production, new technologies are evolving that will vastly expand the basket of feedstocks from which biofuels are made. It is only through this evolution that developed and developing nations will be able to harness the promise of biofuel production from indigenous biomass material.

Through existing ability of agriculture and the developing technologies that will improve efficiencies and productivity of farmers and biofuel producers alike, we can meet the food needs of the world and begin the long journey towards greater energy security and reduced global warming emissions.

New oil supplies are getting harder and more expensive to find. Existing supplies are dwindling in many of the world's producing nations. Nonconventional reserves, like Canadian tar sands, pose even more environmental and economic risks. If one of the goals of G8 leaders is to help ensure the long term economic health and energy security, biofuels must be part of your strategy.

As you consider policy options to address skyrocketing oil and rising food prices, we urge you to be cognizant of the important role the nascent, but growing, biofuels industry is playing in your countries and around the world. Biofuels are part of a broad solution to the world's dependence on oil; a resource which many believe is in decline.

Sincerely,

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