The Rest of the Story....

by Ronald H. Miller

As a young boy growing up in mid-century Kansas I remember Paul Harvey on the radio with "The Rest of the Story...". When it comes to renewable ethanol and the "food vs. fuel" debate it is time for "the rest of the story".

USA Today, no fan of ethanol, noted in its March 18 article, "*Hunger, despair for millions*" that "The farm value of food - what goes to the farmer - is about 19% of the cost in the U.S., according to the U.S Department of Agriculture. The rest goes to labor, packaging, transportation, energy and corporate profits." USA Today goes on to take a swipe at corn demand for ethanol causing higher farm prices but clearly by their own admission 81% of the cost of food comes from beyond the farm. Given the great recession, labor costs have barely nudged but packaging and transportation costs are functions of energy costs. The average cost of crude oil in 2009 was $53.48 per barrel and as of April 5, 2011 the price for the U.S. benchmark crude oil is $108.14 per barrel, over two times as high. Clearly energy costs have doubled and their impact on packaging and transportation have been significant - just check the fuel surcharge rates instituted by freight haulers.

And what about corporate profits? One vocal opponent of ethanol is Kraft Foods. Why, because it has removed the financial advantage from taxpayer-subsidized grain prices they enjoyed for decades. You see farmer innovation and genetic improvements allowed the supply of grain to rise much faster than demand for decades after World War II. To keep farmers planting and from going broke the USDA implemented its "loan" program which essentially guaranteed the farmer a minimum price sufficient to keep him barely in business. Because of the oversupply condition, this minimum price paid to the farmer was generally above the market price. Essentially this difference was paid by the American taxpayer with the benefit of low, subsidized, market prices going to the grain buyer, in this case a company like Kraft Foods. But don't worry too much for them, their gross profit margin last year, the difference between what they sold their products for and what it cost to produce them, was 34.8%. That is nearly double what the farmer received for his grain, not his profit margin as he has production costs too.

So the next time you go to the store and experience sticker shock, think about the 81% that goes to companies beyond the farmer and the 34.8% gross profit margin. Big Oil and Big Food have a vested interest in deflecting consumer angst elsewhere and small ethanol is an easy target. Eliminating ethanol will have little impact on consumer food prices but replacing that ethanol with one million barrels per day of imported gasoline will make $108 per barrel look cheap. To say nothing of the havoc it will create for Rural America. The next time you hear about "food vs. fuel" remember "The Rest of the Story...."

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