

Food or fuel? The policy choice becomes agonising



In 1959, after years of lobbying from Texas oil men, President Dwight Eisenhower imposed a quota on US crude oil imports. The idea of the world's biggest oil importer putting up barriers to keep out foreign crude now seems ludicrous. With fuel shortages looming, the quotas were abandoned by Richard Nixon in spring 1973.

Yet the arguments marshalled in support of the quotas are all too familiar. Protecting the domestic industry was vital to national security, the oil men said: America needed to invest in production capacity in case foreign supplies were cut off.

Today, the US ethanol industry is running its campaign out of the same playbook: there is a lot of talk about

energy security and producers are protected by a 54 cents a gallon import tariff. In the European Union, the focus is more on the supposed environmental impact, but the results are similar: the industry is also protected by a tariff and further import restrictions are being talked about in Brussels.

The combined crisis of food prices soaring as oil reached almost \$120 a barrel this week should be the decisive signal that those policies are no longer tenable.

Biofuels such as ethanol are not the only reason, or even the main reason, that food prices are rising. The International Monetary Fund thinks the use of crops such as corn for biofuels accounts for only about 20 per cent of the rise in prices over the past couple of years; other estimates suggest the effect is even smaller.

But it is clear we have moved into a new era, in which food prices and fuel prices are tied more closely than ever before. That realisation has led some environmental groups - among them those, such as Friends of the Earth, who were among biofuels' biggest

cheerleaders only a few years ago - to urge policymakers to stop the growth of biofuels.

Some politicians, with Gordon Brown, the UK prime minister, in the vanguard, have responded to these concerns by calling for a rethink of biofuels policy. Targets for the EU to meet 10 per cent of its fuel demand from biofuels by 2020 and for the US to have 36bn gallons of "renewable" fuels in its consumption by 2022 now look at risk.

Yet putting a brake on the expansion of biofuels is not an easy way out. At \$120, the oil price has almost doubled in the past year. It is an extra problem that a fragile world economy really does not need, and abandoning biofuels would make it worse.

High oil prices are a sign that the balance of supply and demand is very tight. Policymakers can help curb demand: the new fuel economy standards for cars in the US will be a step in the right direction, although their effect is likely to be modest. Higher fuel taxes would be better: the call from John McCain, the

Republican presidential candidate, for the federal petrol tax to be suspended over the summer is entirely counterproductive.

Changing demand patterns takes time, however, and while the world gets used to a permanently higher level of energy prices, there is a need for additional supplies.

Biofuels last year contributed about

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1.3 per cent of world oil supplies: a small proportion, but still more than Indonesia, one of the earliest members of Opec, the oil producers' cartel. Over the next few years, their contribution as a share of the increase in oil supplies is expected to be much greater. If that contribution were lost, the supply-demand balance

would be even tighter and the oil price even higher.

The effect of cutting biofuels production could be to make food inflation even worse: higher oil prices push up the prices of fertiliser and transport, some of the biggest components of agricultural costs.

It seems policymakers are damned if they do back biofuels, and damned if they do not.

The *deus ex machina*, favoured by many politicians, especially in the US, is "second-generation" biofuels, such as cellulosic ethanol, which can be produced from straw or other plant waste and so do not compete with food supplies.

The pious declarations of support for cellulosic ethanol amount to pure wishful thinking, however: it is nowhere in large-scale production. There is a lot of corporate and government-supported research and development under way, but even supporters of cellulosic ethanol reckon commercial viability could be five years off. Cynics say it always will be.

There is a solution, however: the US and Europe can open their

markets to more Brazilian ethanol made from sugar cane. Brazil has the potential for huge growth in ethanol production on land today used as pasture, where the impact of expansion on either food supply or deforestation would be small.

Brazilian ethanol is not the whole answer, but it can help, and other low and middle-income countries could with the right support also develop biofuels industries in ways that need not necessarily compete with food supplies.

Having opened the floodgates to foreign oil, Nixon had a change of heart after the Arab oil embargo. By the end of 1973, he was evoking the spirit of the moon landings and the Manhattan Project as he called for the US to make itself self-sufficient in energy by the end of the decade.

That bold initiative failed, of course; as all attempts at energy independence are doomed. If there is one good thing that can come out of the food and fuel crisis, it should be the recognition of that reality.

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