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## Biofuel not the big bad wolf?

**LONDON, UK.** Biofuel is not the dominant factor in the 244% increase in staple food prices since 2004, according to a new report from New Energy Finance Ltd.

The report claims that increases in input costs - oil in particular - and the dollar depreciation have played a much larger role, alongside population growth.

New Energy Finance analysed food price increases from 2004 to April 2008, breaking them into constituent factors: input costs, dollar depreciation, supply/demand factors and speculative activity. The latter is thought to have played a significant short-term role with soaring volumes of commercial and speculative transactions. This is expected to ease back, however, when the underlying supply/demand situation stabilises.

Where biofuels have been a significant contributor to price increases, this has been due to "overly-rapid application of support schemes and protectionism, rather than to the impact on land use itself," the report states.

Regarding input costs, the oil price has to take much of the blame, with prices rising to more than US\$130, alongside a falling US dollar. In addition, supply and demand has not only been affected by a population growth which for the first time in decades has not been offset by increasing yields, but also changes in consumption habits.

Broken down into different food crops, **New Energy Finance has found that in grains alone, the price has increased by an average of 168% (measured in dollars). Of this, the rising oil price accounts for 32.5% and other inputs such as land and labour costs contributed 7.4%. Dollar depreciation accounts for 17.9% with supply and demand making up the remaining 57.7%. Biofuels, however contributed with 'only' 8.1%. Other contributing factors were the failure to compensate for global population growth, and the failure of the Australian harvest.**

**In food oils, the analysts saw the price of palm oil jump 140%, and soy oil has increased by 136%. Crude oil contributed to an increase of 17.9% for soy oil, and other input costs contributed 11.0%. Dollar depreciation was responsible for 16.7% with supply and demand factors making up over half of the increase at 54.3%. Biofuels used 4.1% of available land, driving overall price increases up to 17%. In addition to these, changes in dietary habits and population growth added to the equation despite the latter being compensated by yield improvements and a switch to productive crops.**

Sugar cane saw a much smaller price increase with 'only' 63% overall. Oil prices brought a surge in domestic demand for ethanol in Brazil, which contributed to a 70% increase in sugarcane prices by mid-2006. This has since eased back due to increased capacity (not in the Amazon region), and a good harvest in India.

Looking ahead, New Energy Finance calls for modest increases in land cultivation and substantial increases in agricultural productivity. The focus must be on land reform, irrigation, fertiliser availability, transport infrastructure and eliminating distribution monopolies, the report says. Grain and oilseed exporters could be well served by a reduction in state interference in the price setting of food crops, and Europe may need to weigh climate change and development goals against its resistance to genetically manipulated (GM) crops.

Finally, New Energy Finance urges the biofuels industry to come together to research and communicate the message that the proliferation of biofuels is not the dominant factor in food price increases, merely a contributing factor.