# USDA TRANSCRIPT

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***May 19, 2008*** Release No. 0130.08 Contact: Office of Communications (202)720-4623 USDA OFFICIALS BRIEFING WITH REPORTERS ON THE CASE FOR FOOD AND FUEL USDA; *USDA Headquarters - Washington, D.C.*

**USDA SEC. ED SCHAFER:** Thank you all for joining us. It's a great day in America, and we're glad to have you here in Washington, D.C., and especially at USDA today. As you can see, we have been talking a lot in the United States these days and globally actually about the food versus fuel situation. And we are going to make the case today for food and fuel.

We think the time has come for USDA to join in the public conversation about the relationship between food prices and biofuels. We want to offer our perspective on what is happening in the marketplace, to share our data, and the analysis of what is happening. That's why I am joined today by Deputy Secretary Chuck Conner; Joe Glauber, our chief economist; Tom Dorr under secretary for Rural Development; and Dr. Gale Buchanan, the under secretary for Research, Education and Economics.

One of USDA's missions is to make sure the American people have access to safe, abundant and affordable fuel supplies. We are very concerned about the impact on higher prices for everyday food, particularly at a time when Americans are also facing a rising cost of gasoline. In fact, one of the points we want to make today is that these two trends are very closely linked. **Higher oil prices affect much more than just the cost of driving; they are actually one of the major factors behind higher food costs.**

With all the recent focus on the impact that biofuels are having, this fundamental fact seems to get overlooked. The markets, however, keep right on sending us wake-up calls. The price of oil is now holding steady at more than $120 a barrel and giving signs that it might even go higher. In fact, we've already seen oil break through a series of price ceilings this year, and the result has been prices at the gas pump that are pushing towards $4 a gallon.

So **developing diversity in our portfolio of fuels is, if anything, an even more urgent matter** than it has been in the past, and it is one that remains central to both our energy security and our national security. And that is what our biofuels program is all about. **For food products, higher oil prices mean higher costs of transportation, processing, packaging and distribution, and all the other intermediary steps that bring commodities form the farm gate to the retail store. Those steps account for approximately 80 cents of every retail dollar that is spent on food here in the United States.**

**One theory that has been widely discussed in recent weeks is that the nation's growing demand for biofuels and the crops needed to produce them is the real culprit behind higher food prices, both at home and abroad. Yet the evidence that we have seen,** and that Joe will take you through in just a few minutes, **does not support this**.

It's true that higher demand for corn for ethanol and soybeans for biodiesel has led to higher prices for those crops over the past couple of years. But we do not have a one on one relationship between higher prices for those commodities and what consumers are paying for foods at the retail level. There are many factors at work, and I'd like to point out just a couple.

While corn is the feedstock for over 90 percent of the biofuels that we produce, it is actually an ingredient in less than one-third of the everyday food items whose retail prices we track. And because processed foods are such a large part of our diet here in the U.S., higher costs for a particular ingredient typically have only a small impact on their retail food price.

On the international level, the President's **Council of Economic Advisors estimates that only 3 percent of the more than 40 percent increase we have seen in world food prices this year is due to the increased demand on corn for ethanol.** Here in the U.S., we're fortunate to be dealing with a much smaller scale of food price increases. As Joe's slides will show you, last year our overall food prices were up 4 percent. That's about 1 1/2 percent higher than the average annual increase of 2 1/2 percent that we've been seeing since 1990.

This year we're expecting consumer prices to increase about 5 percent over last year's levels.

United States and other nations around the world are developing biofuels to cut their reliance on oil as a transportation fuel, to reduce greenhouse gas emissions, and to create new opportunities in agriculture. The policy choices we've made on biofuels will deliver long-term benefits. But we also have to recognize that there may be some short-term costs or dislocations involved, and we have to consider those costs in the light of the ultimate benefits that we hope to secure for the American people.

Those benefits are substantial, and some have already been secured. **According to the International Energy Agency, the biofuels production that has been available to the United States and European markets over the last three years has cut the consumption of crude oil by one million barrels a day. At today's prices, that's a savings of more than $120 million per day.**

Ethanol also brings environmental benefits. It gives us cleaner air by cutting tailpipe emissions of carbon monoxide and hydrocarbons that can cause ozone and smog. It also displaces benzene and other toxic ingredients of gasoline that would otherwise be burned at a greater rate. And by replacing MTBE as the blending agent of choice in gasoline, it has relieved us of water quality problems associated with MTBE while still boosting oxygen and octane contents of gasoline.

Those are just a few of the highlights about what ethanol is doing for us. In the future as American ingenuity helps us diversify our feedstocks and expand our production base, we expect to do much more. And just as we need to continue to generate biofuels in the future, we also need to take steps to increase our domestic supply of traditional energy sources.

We have vast untapped oil and gas reserves within our borders or just offshore. We could draw on those to help expand supply and bring down the cost of oil and therefore the price of food. We can do it with government policies that offer tax incentives to help keep the thousands of stripper wells that we have around the country operating. These wells are sitting on top of fields that still contain significant amounts of oil at today's prices, and technologies are making it more feasible than ever to pull that oil out of the ground.

And we can do it by encouraging the construction of new refineries, more investment in shale oil and gas recovery, and more exploration recovery of the oil and gas assets that are located on tribal lands throughout the United States.

In the long run, keeping food prices stable requires sound energy policies that address the challenges we face on the supply side.