

Table of Contents

| | |
|-----------------------------------|---|
| The great biofuel fraud | 1 |
|-----------------------------------|---|

The great biofuel fraud

By F William Engdahl

OK this is hardly a scoop – even Fidel Castro has got his two contraband cents' worth in – but the basic Green agenda of making the poor pay (more) for their own reproduction could hardly be better illustrated than by exponential basic food price inflation caused by transfer of essential agriculture to biofuel production. Environmentalism and 'neoliberal' capital are not strange bedfellows: they were joined at the pinhead from birth, as their shared hallucination of Scarcity goes to show.

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The great biofuel fraud
By F William Engdahl

That bowl of Kellogg's cornflakes on the breakfast table or the portion of pasta or corn tortillas, cheese or meat on the dinner table is going to rise in price over the coming months as sure as the sun rises in the East. Welcome to the new world food-price shock, conveniently timed to accompany the current world oil-price shock.

Curiously, it's ominously similar in many respects to the early 1970s when prices for oil and food both exploded by several hundred percent in a matter of months. That mid-1970s price explosion led the late US president Richard Nixon to ask his old pal Arthur Burns, then chairman of the Federal Reserve, to find a way to alter the Consumer Price Index (CPI) inflation data to take attention away from the rising prices.

The result then was the now-commonplace publication of the absurd "core inflation" CPI numbers - sans oil and food.

The late American satirist Mark Twain once quipped, "Buy land: They've stopped making it." Today we can say almost the same about corn, or all grains worldwide. The world is in the early months of the greatest sustained rise in prices for all major grains, including maize, wheat and rice, that we have seen in three decades. Those three crops constitute almost 90% of all grains cultivated in the world.

Washington's calculated, absurd plan

What's driving this extraordinary change? Here things get pretty interesting. The administration of US President George W Bush is making a major public relations push to convince the world it has turned into a "better steward of the environment". The problem is that many have fallen for the hype.

The center of Bush's program, announced in his January State of the Union address, is called "20 in 10", cutting US gasoline use 20% by 2010. The official reason is to "reduce dependency on imported oil", as well as cutting unwanted "greenhouse gas" emissions. That isn't the case, but it makes good PR. Repeat it often enough and maybe most people will believe it. Maybe they won't realize their taxpayer subsidies to grow ethanol corn instead of feed corn are also driving the price of their daily bread through the roof.

The heart of the plan is a huge, taxpayer-subsidized expansion of use of bio-ethanol for transport fuel. The president's plan requires production of 35 billion US gallons (about 133 billion liters) of ethanol a year by 2017. Congress has already mandated with the Energy Policy Act of 2005 that corn ethanol for fuel must rise from 4 billion gallons in 2006 to 7.5 billion in 2012.

To make certain it will happen, farmers and big agribusiness giants like ADM or David Rockefeller get generous taxpayer subsidies to grow corn for fuel instead of food. Currently ethanol producers get a subsidy in the US of 51 cents per gallon (13.5 cents per liter) of ethanol paid to the blender, usually an oil company that blends it with gasoline for sale.

As a result of the beautiful US government subsidies to produce bio-ethanol fuels and the new legislative mandate, the US refinery industry is investing big-time in building new special ethanol distilleries, similar to oil refineries, except they produce ethanol fuel. The number currently under construction exceeds the total number of oil refineries built in the US over the past 25 years. When they are finished in the next two to three years, the demand for corn and other grain to make ethanol for car fuel will double from present levels.

And not just US bio-ethanol. In March, Bush met with Brazilian President Luiz Inacio Lula da Silva to sign a bilateral "Ethanol Pact" to cooperate in research and development of "next generation" biofuel technologies such as cellulosic ethanol from wood, and joint cooperation in "stimulating" expansion of biofuel use in developing countries, especially in Central America, and creating a biofuel cartel along the lines of the Organization of Petroleum Exporting Countries (OPEC) with rules that allow formation of a Western Hemisphere ethanol market.

In short, the use of farmland worldwide for bio-ethanol and other biofuels - burning the food product rather than using it for human or animal food - is being treated in Washington, Brazil and other major centers, including the European Union, as a major new growth industry.

Phony green arguments

Biofuel - gasoline or other fuel produced from refining food products - is being touted as a solution to the controversial global-warming problem. Leaving aside the faked science and the political interests behind the sudden hype about dangers of global warming, biofuels offer no net positive benefits over oil even under the best conditions.

Their advocates claim that present first-generation biofuels save up to 60% of the carbon emission of equivalent petroleum fuels. As well, amid rising oil prices at \$75 per barrel for Brent marker grades, governments such as Brazil's are frantic to substitute home-grown biofuels for imported gasoline. In Brazil today, 70% of all cars have "flexi-fuel" engines able to switch from conventional gasoline to 100% biofuel or any mix. Biofuel production has become one of Brazil's major export industries as well.

The green claims for biofuel as a friendly and better fuel than gasoline are at best dubious, if not outright fraudulent. Depending on who runs the tests, ethanol has little if any effect on exhaust-pipe emissions in current car models. It has significant emission, however, of some toxins, including formaldehyde and acetaldehyde, a suspected neurotoxin that has been banned as carcinogenic in California.

Ethanol is not some benign substance as we are led to think from the industry propaganda. It is highly corrosive to pipelines as well as to seals and fuel systems of existing car or other gasoline engines. It requires special new pumps. All that conversion costs money.

But the killer about ethanol is that it holds at least 30% less energy per liter than normal gasoline, translating into a loss in fuel economy of at least 25% over gasoline for an Ethanol E-85% blend.

No advocate of the ethanol boondoggle addresses the huge social cost that is beginning to hit the dining-room tables across the US, Europe and the rest of the world. Food prices are exploding as corn, soybeans and all cereal-grain prices are going through the roof because of the astronomical - US

Congress-driven - demand for corn to burn for biofuel.

This year the Massachusetts Institute of Technology issued a report concluding that using corn-based ethanol instead of gasoline would have no impact on greenhouse-gas emissions, and would even expand fossil-fuel use because of increased demand for fertilizer and irrigation to expand acreage of ethanol crops. And according to MIT, "natural-gas consumption is 66% of total corn-ethanol production energy", meaning huge new strains on natural-gas supply, pushing prices of that product higher.

The idea that the world can "grow" out of oil dependency with biofuels is the PR hype being used to sell what is shaping up to be the most dangerous threat to the planet's food supply since the creation of patented genetically manipulated corn and other crops.

US farms become biofuel factories

The main reason US and world grain prices have been soaring in the past two years, and are now pre-programmed to continue rising at a major pace, is the conversion of US farmland to become de facto biofuel factories. Last year, US farmland devoted to biofuel crops increased by 48%. None of that land was replaced for food-crop cultivation; the tax subsidies make it far too profitable to produce ethanol fuel.

Since 2001, the amount of corn used to produce bio-ethanol in the US has risen 300%. In fact, in 2006 US corn crops for biofuel equaled the tonnage of corn used for export. In 2007 it is estimated it will exceed the corn for export by a hefty amount. The United States is the world's leading corn exporter, most going for animal feed to EU and other countries. The traditional US Department of Agriculture statistics on acreage planted to corn is no longer a useful metric of food prices, as all marginal acreage is going for biofuel growing. The amount available for animal and human feed is actually declining.

Brazil and China are similarly switching from food to biofuels with large swatches of land.

A result of the biofuel revolution in agriculture is that world carryover or reserve stocks of grains have been plunging for six of the past seven years. Carryover reserve stocks of all grains fell at the end of 2006 to 57 days of consumption, the lowest level since 1972. Little wonder that world grain prices rose 100% over the past 12 months. This is just the start.

That decline in grain reserves, the measure of food security in event of drought or harvest failure - an increasingly common event in recent years - is pre-programmed to continue going as far

ahead as the eye can see. Assuming a modest world population increase annually of some 70 million over the coming decade, especially in the South Asian subcontinent and Africa, the stagnation or even decline in the tonnages of feed corn or other feed grains, including rice, that is harvested annually as growing amounts of bio-ethanol and other biofuels displaces food grain in fact means we are just getting started on the greatest transformation of global agriculture since the introduction of the agribusiness revolution with fertilizers and mechanized farming after World War II.

The difference is that this revolution is at the expense of food production. That pre-programs exploding global grain prices, increased poverty, and malnutrition. And the effect on gasoline import demand will be minimal.

Professor M A Altieri of the University of California at Berkeley estimates that dedicating all US corn and soybean production to biofuels would only meet 12% of gasoline and 6% of diesel needs. He notes that although one-fifth of last year's US corn harvest went to bio-ethanol, it met a mere 3% of energy needs. But the farmland is converting at a record pace. In 2006 more than 50% of Iowa and South

Dakota corn went to ethanol refineries.

Farmers across the US Midwest, desperate for more income after years of depressed corn prices, are abandoning traditional crop rotation to grow exclusively soybeans or corn, with dramatic added impact on soil erosion and needs for added chemical pesticides. In the US some 41% of all herbicides used are already applied to corn. Monsanto and other makers of glyphosate herbicides such as Roundup are clearly smiling on the way to the bank.

Going global with biofuels

The Bush-Lula pact is just the start of a growing global rush to plant crops for biofuel. Huge sugarcane, oil-palm and soy plantations for biofuel refining are taking over forests and grasslands in Brazil, Argentina, Colombia, Ecuador and Paraguay. Soy cultivation has already caused the deforestation of 21 million hectares in Brazil and 14 million hectares in Argentina, with no end in sight, as world grain prices continue to rise. Soya is used for bio-diesel fuel.

China, desperate for energy sources, is a major player in biofuel cultivation, reducing food-crop acreage there as well. In the EU, most bio-diesel fuel is produced using rapeseed plants, a popular animal feed. The result? Meat prices around the globe are rising and set to continue rising as far as the eye can see. The EU has a target requiring minimum biofuel content of 10%, a foolish demand that will set aside 18% of EU farmland to cultivate crops to be burned as biofuel.

Big Oil is also driving the biofuels bandwagon. Professor David Pimentel of Cornell University and other scientists claim that net energy output from bio-ethanol fuel is less than the fossil-fuel energy used to produce the ethanol. Measuring all energy inputs to produce ethanol, from production of nitrogen fertilizer to energy needed to clean the considerable waste from biofuel refineries, Pimentel's research showed a net energy loss of 22% for biofuel - they use more energy than they produce. That translates into little threat to oil demand and huge profit for clever oil giants that re-profile themselves as "green energy" producers.

So it's little wonder that ExxonMobil, Chevron and BP are all into biofuels. This past May, BP announced the largest ever research-and-development grant to a university, \$500 million to the University of California-Berkeley, to fund BP-dictated R&D into alternative energy, including biofuels. Stanford University's Global Climate and Energy Program got \$100 million from ExxonMobil; University of California-Davis got \$25 million from Chevron for its Bio-energy Research Group. Princeton University's Carbon Mitigation Initiative takes \$15 million from BP.

Lord Browne, the disgraced former chief executive officer of BP, declared last year, "The world needs new technologies to maintain adequate supplies of energy for the future. We believe bioscience can bring immense benefits to the energy sector." The biofuel market is booming like few others today. This all is a paradise for global agribusiness industrial companies.

All this, combined with severe weather problems in China, Australia, Ukraine and large parts of the EU growing areas this harvest season, guarantees that grain prices are set to explode further in coming months and years. Some are gleefully reporting the end of the era of "cheap food". With disappearing food-security reserves and disappearing acreage going to plant corn and grains for food, the biofuel transformation will impact global food prices massively in coming years.

Another agenda behind ethanol?

The dramatic embrace of biofuels by the Bush administration since 2005 has clearly been the global driver for soaring grain and food prices in the past 18 months. The evidence suggests this is no accident of sloppy legislative preparation. The US government has been researching and developing biofuels since the 1970s.

The bio-ethanol architects did their homework, we can be assured. It's increasingly clear that the same people who brought us oil-price inflation are now deliberately creating parallel food-price inflation. We have had a rise in average oil prices of some 300% since the end of 2000 when George W Bush and Dick "Halliburton" Cheney made oil the central preoccupation of US foreign policy.

Last year, as bio-ethanol production first became a major market factor, corn prices rose by some 130% on the Chicago Mercantile Exchange in 14 months. It was more than known when Congress and the Bush administration made their heavy push for bio-ethanol in 2005 that world grain reserves had been declining at alarming levels for several years at a time when global demand, driven especially by growing wealth and increasing meat consumption in China, was rising.

As a result of the diversion of record acreages of US and Brazilian corn and soybeans to biofuel production, food reserves are literally disappearing. Global food security, according to Food and Agriculture Organization data, is at its lowest since 1972. Curiously, that was just the time that Henry Kissinger and the Nixon administration engineered, in cahoots with Cargill and ADM - the major backers of the ethanol scam today - what was called the Great Grain Robbery, sale of huge volumes of US grain to the Soviet Union in exchange for sales of record volumes of Russian oil to the West. Both oil and corn prices rose by 1975 some 300-400% as a result. Just how that worked, I treated in detail in *A Century of War: Anglo-American Oil Politics*.

Today a new element has replaced Soviet grain demand and harvest shortfalls. Biofuel demand, fed by US government subsidies, is literally linking food prices to oil prices. The scale of the subsidized biofuel consumption has exploded so dramatically since the beginning of 2006, when the US Energy Policy Act of 2005 first began to impact crop-planting decisions, that there is emerging a de facto competition between people and cars for the same grains.

Environmental analyst Lester Brown recently noted, "We're looking at competition in the global market between 800 million automobiles and the world's 2 billion poorest people for the same commodity, the same grains. We are now in a new economic era where oil and food are interchangeable commodities because we can convert grain, sugarcane, soybeans - anything - into fuel for cars. In effect the price of oil is beginning to set the price of food."

In the mid-1970s, secretary of state Henry Kissinger, a protege of the Rockefeller family and of its institutions, stated, "Control the oil and you control entire nations; control the food and you control the people." The same cast of characters who brought the world the Iraq war, and who cry about the "problem of world overpopulation", are now backing conversion of global grain production to burn as fuel at a time of declining global grain reserves. That alone should give pause for thought. As the popular saying goes, "Just because you're paranoid doesn't mean they aren't out to get you."

F William Engdahl is author of the book *Seeds of Destruction: The Hidden Agenda of Genetic Manipulation*, about to be released by Global Research Publishing, and of *A Century of War: Anglo-American Oil Politics and the New World Order*, Pluto Press. He may be reached via his website, www.engdahl.oilgeopolitics.net.