

30 May 2012 13:17 EDT **DJ Mexico To Urge More Non-Food Biofuel Research At G-20 Summit**

- More work needed on non-food biofuel sources, Mexican official says
- Researchers blame U.S. corn-based ethanol for food insecurity in developing countries
- US ethanol use said to cost Mexico \$250 million-\$500 million more per year in corn imports

By Jean Guerrero
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MEXICO CITY (Dow Jones)--Mexico plans to ask the U.S. and other developed countries at the June summit of the Group of 20 industrial and developing nations to step up research into non-food sources of biofuels to offset the volatility in global food prices stemming partly from demand for corn-based ethanol.

"The world is still in diapers, not just in terms of commercial production [of non-food biofuels] but also cost-effective research," said Mexican Deputy Agriculture Minister Mariano Ruiz-Funes in an interview. "It's a shared responsibility, but certainly the capacity for research by developed countries like the U.S., European, and various Asian ones, for obvious reasons is far superior to the capacity of countries like Mexico."

The average price of tortillas in Mexico has reached record highs this year due to the international price of corn, which has risen over the last decade due, in part, to U.S. corn-based ethanol demand. This month, tortillas averaged 12.23 pesos (\$0.88) per kilogram at tortilla shops after rising 69% between 2005 and 2011.

Some foreign researchers and development groups have urged the Mexican government, which this year holds the rotating presidency of the G-20, to negotiate a stop to U.S. corn-based ethanol expansion.

Timothy Wise, research director at Tuft University's Global Development and Environment Institute, said corn-based [ethanol demand needs to decrease](#) to keep grains prices low in the long term. "To put it in context, it represents a diversion of 15% of total global corn production," Wise said of ethanol production. "That's a major demand shock."

He estimated that the use of corn for ethanol has pushed up Mexico's corn-import bill by \$250 million to \$500 million a year.

Ruiz-Funes said the topic of food security versus biofuels was one of the most polemic at the last G-20 summit in France. Talks ahead of this year's G-20 summit, which Mexico will host next month in Los Cabos, have so far focused on the need to increase worldwide agricultural productivity and international cooperation, he added.

Global food security was included on the G-20 agenda last year due to high agricultural commodity prices.

Ruiz-Funes said it isn't up to Mexico, however, to get involved in U.S. biofuels policy, except to oppose the use of instruments that distort the market, such as subsidies that had encouraged the diversion of corn toward ethanol until they were eliminated last November.

The U.S. expects annual biofuel production to increase to 36 billion gallons by 2022 from its current output of 14 billion to 14.5 billion gallons, according to the U.S. Department of Agriculture. Corn-based

ethanol makes up a majority of U.S. biofuel consumption, but the U.S. has capped the amount of ethanol that can come from corn at 15 billion gallons. It is currently about 13.5 billion.

Joe Glauber, chief economist with the USDA, said consumption of corn-based ethanol is unlikely to increase anytime soon because of a lack of infrastructure for consumption and the fact that Americans are using less fuel altogether.

"We've saturated the U.S. market about as much as we can," he said.

Glauber said that poor crop yields have contributed more than ethanol to higher corn prices, and that the expected 19% rise in U.S. corn production in the 2012-2013 harvest to 14.8 billion bushels is likely to bring average prices down to about \$4.60 a bushel from \$6.10 in 2011-2012. The amount of corn going into ethanol will remain at five billion bushels.

Ruiz-Funes said U.S. consumption of corn-based ethanol has an impact in Mexico, but he doesn't think the solution is to demand that the U.S. reduce its consumption of corn-based ethanol.

"You have to see the other side of the coin," Ruiz-Funes said. "If I'm an agricultural producer in any part of the world, I'd like to have the largest possible number of markets to which I can send my products. And certainly the biofuel market is a competitive option. We shouldn't condemn producers and tell them they can only produce food."

In 2011, corn futures on the Chicago Board of Trade neared a record high of \$8 per bushel and have since gone down to about \$6. Since corn is used as feed for livestock, prices of meat and dairy products have also been on the rise. Mexico imports between eight million and 10 million tons of corn each year, mostly from the U.S.

Yaneer Bar-Yam, professor and president at the New England Complex Systems Institute, said he blames the U.S. ethanol program and financial speculation for higher corn prices, and doubts production increases will be enough to reverse the bullish market trend.

Bar-Yam said he is anticipating a third bubble in food prices that could lead to protests similar to those in Mexico in 2007 unless ethanol demand slows substantially beforehand.

"The critical time to act is in the next three to four months," he said.

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