

Biofuels end cheap food

It's official – biofuels are taking over as the main growth driver for agricultural demand. So says the world's leading investment bank Goldman Sachs. Goldman reckons that across the world, if government policies are pursued in full, global demand for biofuels could rocket from some 10 billion gallons a year now to over 25 billion gallons in 2010 – just three years away. The obvious implication is for food (and grain) prices to rise sharply.

The analysts at Goldman forecast that in five years time (2012) corn (maize) will trade at \$5 a bushel compared to the \$3.50 a bushel of today (up 42 per cent). For wheat the prediction is for the rise to be from the current \$4.50 a bushel to \$6 a bushel (up 33 per cent).

For consumers in the developed world this biofuel-driven price strength will mean an end to many "cheap" foods. It is already worrying governments and policy makers, providing as it does a fresh driver for inflation. Overall, global food demand is rising rapidly as economies such as China and India thrive and create armies of new affluence with far greater consumption of meat and grains. In the developing world the impact is set to be even more serious, as more and more hungry mouths end up further and further away from an economically accessible meal.

Interestingly, the predictions for higher grain prices come against a backdrop of rising levels of grain production, as reported by the International Grains Council. It predicts world grain production to hit 1.666 billion tonnes next year (2007/8), a rise of 6.2 per cent.

Across the markets traditionally soft commodities are hardening. Corn, wheat and even cocoa and coffee prices have all risen strongly in recent months. So far this year, corn and wheat prices have reached their highest levels for a more than a decade.

Despite this body of evidence, EU agriculture commissioner Mariann Fischer Boel has been busy playing down the likely impact of the rising demand for biofuels on both the availability and the price of food.

"There is a heated debate about whether we can deliver on the (EU Commission's) 10% target for biofuels (by 2020), without putting a huge strain on our food markets," she recently told European grain traders in Brussels. "Let me be clear - I do believe that we can."

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