Biorenewables Policy at CARD

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Over the last year, the most talked about agricultural topic has not been the state of Doha negotiations, what the next farm bill would include, or when Japan would completely open its market to U.S. beef exports. Rather, the focus has been on ethanol. A combination of Congress passing the Renewable Fuel Standard Program, high oil and natural gas prices, two consecutive years of low corn prices, a continuation of the tax credit for ethanol, and a phase-out of MTBE have created a frenzy of investment in ethanol plants and huge windfall profits for owners of existing plants. Investors are in such frenzy because they know that if they do not act quickly enough, all the corn surplus areas will be spoken for by someone else’s ethanol plant.

The rapid expansion of biofuels production will change U.S. agriculture over the next 10 years. The impacts will be felt across both crop and livestock sectors, as the market signals farmers that more corn is needed. We have (perhaps inadvertently) put in motion this change without much understanding of what it will mean. CARD researchers are increasingly being asked to supply answers to fundamental questions about the impacts of the biofuels boom on U.S. agriculture.

What will it mean to U.S. agriculture if Iowa no longer exports corn? Where will cattle feeders in Oklahoma and Texas source their feed? Who will meet the world demand for corn imports? Can dairy, beef cattle, poultry, and swine rations be changed sufficiently to use up all the by-products from ethanol production? Will the huge growth in by-products change where cattle are fed in the United States? What will happen to our ability to feed our livestock when we lose half a corn crop because of drought? What will be the impact on basis risk from the ethanol boom? What environmental impacts will follow from increased corn acreage? Will expansion of biofuels production change the political dynamic that has left the United States on the sideline of carbon markets? Will we soon be importing substantially more ethanol from Brazil? What impact will higher corn prices have on the 2007 farm bill? And, more fundamentally, will the United States really be better off if we devote an increasing portion of our land base to producing crops that can be converted to liquid fuels?

CARD researchers have devoted considerable effort to understanding the impacts of biofuels. Simla Tokgoz and Amani Elobeid created the first international ethanol trade model to help estimate the impact on U.S. markets of overseas developments and to provide outlook information. The Resource and Environmental Policy Division has developed models to estimate the benefits to U.S. agriculture from participation in carbon markets and the impact of changing cropping patterns on water quality. And many of us have written about the potential for synergistically combining crop production, livestock operations, and ethanol plants.

A new research division in CARD called Biorenewables Policy will enable us to answer the growing list of questions more systematically and to better position future CARD research efforts. The new research division will be led by Dr. Chad Hart. Chad has extensive knowledge of U.S. agriculture and farm policy so he is an ideal person to provide leadership in this area.

Chad will soon provide CARD’s Web site with a host of biofuels-related information, including updated maps that show all U.S. ethanol and biodiesel plants, including the feedstocks the plants use, the current production capacity of the plants, and any planned expansions in capacity. He will also provide updated information about biofuels operating margins relative to historical trends. Enhanced basis analysis for corn and soybeans is also on the horizon. We will soon roll out basis maps for the entire Corn Belt.

Chad will have the overall responsibility of making sure that CARD’s quantitative models are capable of providing insight into the new questions that have arisen as U.S. agriculture adjusts to its new future as a supplier of both food and energy.