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NotiCen writers

REGION COULD SUFFER SEVERELY FROM U.S. ETHANOL POLICY

The tortilla paradox is coming to Central America. First seen in Mexico (see *SourceMex*, 2007-01-10 and *SourceMex*, 2007-01-31), the phrase has come into use to denote a price reversal by which tortillas now cost more in the lands where they are the staple food than they do in New York. The World Food Organization (FAO) says cereal grains, particularly corn and wheat, have reached their highest prices in a decade. The spike, says theFAO, is the result of the US choice to feed corn to its cars as well as to livestock and people, as much of the world's corn production is slated for ethanol.

In the past year, since January 2006, the price of a quintal (45.4 kg) of corn has risen 37.5% in Guatemala. The country produced 25 million quintals during the year, equaling consumption, leaving none for export, while ethanol production has quadrupled since 2000 and now claims 20% of the yellow-corn crop. China has contributed to world demand with the construction of at least four major ethanol-manufacturing centers during the period, boosting production at a rate of 10%-15% a year.

This, said Susana Gauster of the Coordinadora de Organizaciones No Gubernamentales y Cooperativas (CONGECOOP), "is a dangerous tendency in the medium and long term since it displaces food production and, under the dominant trade schemes, generates extensive monocultures whose environmental damage is well known."

The tortilla paradox could have some positive effects, Gauster said. The most pressing problem at the moment for local producers is one exacerbated by CAFTA. "They are the surpluses that used to be disposed of under conditions of 'dumping,' on the international markets, displacing the food production of many countries and thus generating food dependence." She said the current high prices might add up to a short-term positive effect for local producers.

Just months ago, the situation was diametrically different. In September 2006, the US "donated" 18,000 tons of yellow corn to Guatemala. Local producers cried dumping.

Now, on behalf of CONGECOOP, Gauster is calling for a return to the grain-production levels of the 1970s, when "Guatemala was the granary of Central America and Mexico and completely self-sufficient in corn because of a strong public production support aimed at guaranteeing food security."

But CONGECOOP is not quite prepared to move forward on such a proposal supported by nothing more than market forces. The organization wants to maximize production in a context of price-control measures that would guarantee them profit and at the same time benefit consumers. This would involve a global change in international practices including commodity agreements "to avoid financial speculation and control supply and demand at the international level so that neither producers nor consumers would be affected."

This would be an unlikely scenario. Gauster concedes that the production aimed at feeding more corn to cars is not in the hands of those interested in price controls but rather is dominated by international corporations--Cargill, Monsanto, Archer Daniels Midland (ADM)--in position to determine every aspect of agriculture, from seed to final product.

Fudged figures and cliche explanations

Adding to the infinitesimal likelihood of a global change in the trading system, a study by the Earth Policy Institute (EPI) diminishes even further the probabilities for relief with the news that the number of ethanol plants coming on line has been underreported by more than 25%. Responsible for the underreporting, says the report, is the US Department of Agriculture (USDA) and the Renewable Fuels Association (RFA), the main lobbying group for the ethanol industry.

According to EPI research, 79 ethanol plants are under construction, but the RFA reported 62. The higher figure would more than double US production capacity to 11 billion gallons by 2008. The lower figure, Lester R. Brown, president of EPI, told The New York Times, has disinformed the debate on food versus fuel. "This unprecedented diversion of corn to fuel production will affect food prices everywhere," he said.

It already has, of course, but the RFA denies downplaying the facts. President Bob Dinneen told the paper, "It has been a moving target; we are not trying to hide the ball. We are trying to keep up with a growing and dynamic industry as best we can." Far from the problems on the isthmus, Dinneen was able to tell the reporter there would be plenty of corn to meet demands. "We can absolutely do that without having a deleterious impact on consumer food prices."

The National Corn Growers Association (NCGA) in the US says it can keep up with demand because, according to chief executive Rick Tolman, "Farmers have always responded to price signals from the marketplace and, historically, we have had much more challenge with overproduction than shortage."

Estimates are that, with prices approaching a record US$4 a bushel in December, US growers would plant 34.4 million hectares, the largest planting since 1985. That would represent an 8% increase over last year, or a total projected harvest of about 11 billion bu.

Ethanol distilleries now running in the US, plus those planned or under construction, would take an estimated 139 million tons of corn (1 MT equals 39.36 bu) from the 2008 harvest, about double the USDA's demand projection. One reason for this could be that their estimate is a year old, before investors spurred by oil prices began funneling money into ethanol plays.

The US economy is well able, with some muttering, to sustain these prices, which will result in hikes not only for corn but also for livestock fed on it, as well as the domino effect on other commodities. Not so in Honduras, where the government authorized in late January the importation of 2.6 million quintals (22 quintals equal 1 MT) of yellow corn from the US. Honduras, said Agriculture Minister Hector Hernandez, is dealing with the deleterious effects of this year's El Nino weather phenomenon on corn and other crops. Corn fuels the poultry industry, pork production, shrimp, tilapia, and other aquaculture farms, and cattle. The country is in short supply of feedstocks for these industries.

Hernandez said that white corn, used for human consumption, is in sufficient supply, but for food security as a whole, the high prices are alarming. President of the Federacion Nacional de Agricultores y Ganaderos de Honduras (FENAGH) Santiago Ruiz said the current crisis turns customary practice on its head. "We've always held to the theory that it was cheaper to import, and there was no need to take care of national production. This is a demonstration that that is not the case. This is an alert that the issue of food security is a priority, but as the agricultural sector here has always been shuffled aside, now we have this impact on the whole productive chain," he said.

Weather prognosticators have predicted a prolonged drought in Honduras from El Nino, directly affecting fruit production as well as cattle and other livestock. Hernandez warned, "This phenomenon will affect us a lot in cattle, and there will be problems with the quantity of foods and availability of water, specifically in the southern zone."

The tortilla paradox is showing some signs of becoming one of those phenomena described in chaos theory, whereby the fluttering of a butterfly's wings in one place ends up as a storm somewhere else.

Transforming Nicaragua, no help for Honduras

On the isthmus, as Honduras struggles, across the border in Nicaragua, US financiers have been reported looking into increasing corn production for export to the US, turning on its ear both the expectation that CAFTA would be the ruin of farmers as a result of dumping and the notion of regional integration. Nicaragua would find it more to its advantage to export to the US than to feed its hungry neighbor.

The US agribusiness delegation was in Nicaragua talking with the Lafise-Bancentro group about the idea. Lafise director general Enrique Zamora said the financiers broached a plan to organize local growers to increase corn production massively. He said it was premature to give specific figures for the increase, but studies are underway to determine likely areas for planting with the goal of ginning up production to the maximum the country could grow.

Zamora said that the plan would contemplate guaranteeing supplies for local consumption and making sure that prices would stay reasonable on the local market. He likened the corn situation to what has happened with the country's bean crop. Nicaragua exported US$38 million in beans in 2006 without distorting the local price or supply. "It is a good opportunity for Nicaragua," he said, "first for our own consumption and food security and also for export to the ethanol production."

Aware of the price jumps elsewhere, he did not elaborate on just how the local market prices would be controlled in the context of soaring world prices.

Nicaraguan corn production has until now been in the hands of small growers, as has beans. Until more land is made available to them, the short-term plan is to find ways to increase yield on the small plots. Corn in Nicaragua has been reported relatively stable at about US$12.20/quintal, a high price, but somewhat better than the price in Guatemala, currently around US$14.27 and rising.

The broad picture in Central America seems to be deep confusion regarding where prices are going and what to do about it. The frequently asked question, who wins and who loses, is not yet definitively answerable. In Nicaragua, for instance, it would seem that small producers, previously frightened at the prospect of seeing their livelihood taken away by a flood of cheap US corn under the provisions of CAFTA, now have reason to rejoice. But what if the foreign investors now interested in their business overwhelm the sector, making sharecroppers or poorly paid field hands of them?

Recent events in Guatemala indicate that distortions of traditional patterns of this kind are a high probability. "In the Cuenca del Polochic," said Gauster, "where ethanol is produced from sugar cane and African palm, this phenomenon can already be observed. They buy the land recently registered to campesinos and completely change the patterns."

She is concerned that extensive, high-efficiency production methods radically change ecological and cultural patterns as well. "If they continue producing in this way, the soils are going to suffer, with implications for displacement of campesino food production resulting in food crises. It can also imply a reconcentration of the land in a framework of a territorial restructuring where the land is being used by large latifundistas," said Gauster.

If the US does experience a shortfall requiring it to become a net corn importer, the competition will be fierce. Agricultural giant Argentina has been eyeing the corn trade, encouraged by commodity firms in the US.

Joel Victor, an analyst for the Illinois-based Allendale firm, is quoted in the Argentine press saying that the corn frenzy is hitting the poultry and cattle-feeding industries hard, "so some of them could go to buying from other countries, like Argentina." Others, like analyst Helen Henton of the Standard Chartered firm, are warning of US shortfalls.

Brazil, too, is gearing up for windfalls from corn. The Brazilian Gazeta Mercantil reported that Brazilian corn production could increase by 50% this year, noting that, while thirsty US cars will account for most of the increase, improved living conditions in China and India are also contributing. As the immense populations of these countries improve their diets, however slightly, with the addition of animal protein, the need for feed intensifies.

The entry of these countries puts Central American countries at a distinct disadvantage socially. Argentina and Brazil can simply convert their vast soybean acreage to corn. But for Central America, large production increases mean the dislocation of small holders to achieve economies of scale.

At the Chicago Board of Trade, where most of the price action is coming from, some traders think prices are being driven purely by politics. Commodity trader Larry Berg told NotiCen, "This is the greatest boondoggle ever. It's a giveaway to Midwest farmers." Berg said the real impetus for higher prices is last year's smaller-than-average corn crop. "There's just no corn out there."

That, combined with high volatility and huge open interest, he said, has speculators believing prices could pierce the US$7 range by April, as traders and hedgers look for corn to cover their contracts. Berg also warned that the upward spiral could reverse into a bottomless whirlpool if crude-oil prices sink to US$45 a barrel, the price at which many economists say ethanol becomes uneconomic.

The butterfly fluttered again in January, with US President George W. Bush announcing in his state of the union message that the country would need 35 billion gallons of ethanol a year to reduce its use of gasoline 20% by the year 2017.

"It is an optimistic and encouraging long-term scenario, but it is too big to make sense just with ethanol based on corn," said analyst Jerry Gidel of North America Risk Management. In Central America, the clouds have gathered, the air is charged, and the first drops have fallen.

[Sources: The New York Times, 01/05/07; Inforpress Centroamericana, La Opinion (Los Angeles), 01/19/07; La Prensa (Honduras), Nuevo Diario (Nicaragua), La Prensa (Nicaragua), 01/20/07; Clarin (Argentina), Prensa Grafica (El Salvador), 01/25/07; La Prensa (Panama), 01/19/07, 01/28/07]