

**Contact:** Duane Dailey  
Senior Writer  
University of Missouri Cooperative Media Group  
Phone: (573) 882-9181  
E-Mail: [daileyd@missouri.edu](mailto:daileyd@missouri.edu)

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## **MU FAPRI studies farm bill biofuel impacts; policy matters but oil price can matter more**

COLUMBIA, Mo. –Government biofuel policies affect fuel and farm commodity prices, but the price of a barrel of oil can have even larger effects.

Tax credits, import tariffs and mandates on usage encourage increased production of biofuels, but so do rising oil prices, according to the University of Missouri Food and Agricultural Policy Research Institute (FAPRI).

A new study presents biofuel scenarios based on 500 random draws of possible weather, production and other market influences.

“The impact of biofuel policies depends not just on the policy but very much on the market context,” said Pat Westhoff, FAPRI co-director.

The 68-page report, an update of a report released in March, looks at biofuel provisions of the 2008 Food, Conservation and Energy Act, known as the farm bill, and the Energy Independence and Security Act of 2007, the energy bill.

FAPRI maintains computer models of U.S. agriculture and is linked to international agricultural models at Iowa State University.

The models run extensive “what-if” scenarios based on current policy compared to proposed changes. FAPRI examined 13 scenarios, ranging from a pre-farm-bill scenario that keeps current policies in place to scenarios that eliminate biofuel tax credits, tariffs and use mandates.

The report, “Biofuels: Impact of Selected Farm Bill Provisions and other Biofuel Policy Options,” was published online June 12.

The energy bill mandated use of various biofuels, including ethanol from corn, biodiesel from soybeans and ethanol from cellulose sources such as wood chips.

“Mandates have little market impact when high petroleum prices contribute to high biofuel prices and production levels.” Westhoff said. “On the other hand, mandates can be important when petroleum prices are low or crop supplies are reduced.”

The 2008 farm bill extends a 54 cent per gallon tariff on imports of ethanol from non-Caribbean countries through 2010. That tariff was to expire at the end of this year.

Secondly, the farm bill cuts the tax credit from 54 cents to 45 cents per gallon for those who blend ethanol with gasoline. That credit is set to expire at end of 2010.

Continuing the tariff discourages imports, but does not have big impacts on biofuel production or farm commodity markets, FAPRI suggests. The small change in the tax credit also has modest market impacts.

The most extreme scenario allows current tax credits and tariffs to expire as scheduled and would not enforce the energy bill mandates. In this scenario, without most current biofuel policies, corn prices would decline 14 percent on average compared to a scenario that continues current support measures.

The full report can be seen at <http://fapri.missouri.edu>. The report was based on work under a contract with the United States Department of Agriculture's Economic Research Service. The authors are Westhoff, Wyatt Thompson and Seth Meyer.

"The work reflects the views of the authors and not necessarily the view of the USDA," Westhoff said.

The FAPRI model required extensive modifications in reaction to changes in energy costs and biofuel use, Westhoff said. "While the model was improved, further refinements are underway. What we learned in this exercise will improve the model."

A new analysis including higher oil prices and new crop production estimates will be run this summer.

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