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***Ethanol* plans threaten corn shortage: Economists debate whether farmers will be able to keep up with demand for food, feed ? and now fuel**

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Tom Webb

Jun. 28--*Ethanol* plants need a lot of corn and a lot of water, and Minnesota has a lot of both. But even the land of lakes and cornfields has its limits.

Suddenly, so many new *ethanol* plants are planned in Minnesota that a once-unthinkable debate has begun: Will there be enough corn to go around?

Investors plan to quadruple the size of Minnesota's *ethanol* industry within just a few years, according to permit data from the Minnesota Pollution Control Agency. If they do, they'd devour more than half of Minnesota's 1.2 billion-bushel corn crop.

And that could spawn a new world of scarcity, where food companies, livestock operators and grain exporters scramble for what's left of a shrinking corn pile. The concern isn't that Americans will suddenly go hungry, but that *ethanol's* appetite will create shocks in the food system that nobody ever dreamed of.

"I'm afraid that people, in their zeal to get on board, are maybe losing sight of the impacts," said Bob Zelenka of the Minnesota Grain and Feed Association. "It concerns me that there aren't more policy folks taking a serious look at the ramifications."

The ramifications run deep because corn powers so much of the state's economy.

Dairy cows eat it. So do the livestock that wind up as Hormel bacon, Gold'n Plump chickens and Jennie-O turkeys. Minnesota companies like Cargill and CHS export it. And processed into sweeteners and other food ingredients, corn bolsters Minnesota's sprawling food industry.

For decades corn has been plentiful and forecasts offer little reason to think that will change. **Ethanol** production used one-eighth of the corn crop in 2005, and state officials had predicted that figure would rise to one-sixth by 2012.

But nobody predicted today's **ethanol** explosion, as oil prices soared and **ethanol** became liquid gold. If all the factories now seeking permits are built, **ethanol** soon will consume more than 40 percent of Minnesota's corn crop. That will rise to 50 percent if the wave of plants now on the drawing board are built. A possible third wave of plants, cited by pollution-control officials, would bring corn usage to nearly 60 percent.

In Iowa, the effect is even more dramatic. There, some 55 **ethanol** plants are open or proposed, and "if all these plants are built, it would use virtually all the Iowa corn crop," said Iowa State University economist Bob Wisner.

There is little precedent for a shift of this magnitude. Drought, disease and export booms have roiled grain markets before, but those were all temporary. **Ethanol** plants are built for the long run.

"Even though we're watching the markets and we say, 'Nothing is happening today,' it's coming up over the horizon," said Ed Usset, a grain economist at the University of Minnesota.

One warning came from Cargill Chairman and CEO Warren Staley, who last month urged a "hierarchy of value for agricultural land use: food first, then feed, and last, fuel."

Now others are weighing in, wondering what it would mean for the environment, consumer food prices and rural communities.

Still, the debate is often met with disbelief, for two reasons. First, agriculture's worry has long been overproduction, not scarcity. And currently corn prices are low, stockpiles high and subsidies large.

"There's plenty of corn to go around," said Mark Hamerlinck of the Minnesota Corn Growers Association. "We're still shipping a great deal of corn out of the state. Now, will it affect exports? It could ... but doesn't it make more sense to ship corn 40 miles down the road to an **ethanol** plant than 12,000 miles across the globe?"

There's also **ethanol's** status as the goose that lays golden eggs. It has brought jobs, economic development and stronger grain prices to rural communities.

Without **ethanol**, "I shudder to think what the price of corn would have been," said Ralph Groschen at the Minnesota Department of Agriculture.

#### FROM SURPLUS TO SHORTAGE?

To glimpse the future of corn, look to Sibley County, about an hour southwest of the Twin Cities.

Last year Sibley County corn growers had their biggest year ever: a record yield of 174 bushels per acre and a 25-million-bushel crop.

There was so much corn, in fact, that local elevators ran out of storage. If you drove through Sibley County last November, you would have seen lots of corn piled on the ground, including nearly 500,000 bushels next to the Winthrop water tower.

In earlier years, most of that corn would have been shipped out of state. Now a lot goes to the local **ethanol** plant. That has added local jobs and bolstered area corn prices, so it's been a good thing for the region -- so good that the plant is completing a mega-expansion that will make it Minnesota's largest **ethanol** plant.

To feed it, more corn will be needed. More even than corn-rich Sibley County can grow.

How much more? A pile 20 times the size of last year's water-tower stockpile.

"In this area, we will become a corn-deficit area, once this plant expansion, and a couple other planned plants are on stream," said Clif Gipp, chief operating officer for the United Farmers Cooperative.

The **ethanol** plant will get its corn from nearby counties. But here's the rub: Increasingly, those counties have, or hope to get, **ethanol** plants of their own.

The Buffalo Lake **ethanol** plant, 20 miles away, is planning its own huge expansion. A plant in Lake Crystal, 35 miles away, opened last year. And two huge new plants are still to come, one 35 miles away in Springfield, and another 45 miles away in Janesville. As the dots on the **ethanol** map crowd closer together, it will jangle local markets in unknowable ways.

"For the next three to five years, they'll certainly be growing all the corn they can deliver to these plants," Gipp said. "Now, the flip side of this is, the livestock industry will be facing higher prices for feed."

#### COMPETING FOR CORN

If corn does become scarce in Minnesota, who will be squeezed out?

"There are many competing uses for these products, and no particular market is going to give up easily," said Jay Debertin, an executive vice president for CHS, an Inver Grove Heights-based farm and energy cooperative.

**Ethanol** may be among the last to feel the pinch. Unlike other corn products, **ethanol** is priced by the energy markets, and its profitability rises and falls with oil prices.

Corn in Minnesota now sells for about \$2 a bushel. If corn jumped to \$4 a bushel, an **ethanol** plant could still be profitable at current **ethanol** prices, according to an economic model developed by Douglas Tiffany, a research fellow at the University of Minnesota's Department of Applied Economics.

But with \$4 a bushel corn, "We become very unprofitable," said David Preisler of the Minnesota Pork Producers Association.

Preisler isn't overly worried, because he foresees more corn acres being planted with corn, better seed genetics and more **ethanol**-byproducts that can be used as feed. But he does wonder what would happen during drought years.

Then there are exports. Half of Minnesota's corn is now shipped out of state. As **ethanol's** demand rises, exports are widely expected to fall. But, cautions Debertin: "I think those export markets will still demand corn."

If a corn crunch does come, Minnesotans may hope to import corn from other states. Yet some of those states already are importing corn from us.

In South Dakota, seven large **ethanol** plants lie within 30 miles of the Minnesota border, and already, three-fourths of that state's corn is used for **ethanol**. Even states that grow almost no corn are building **ethanol** plants now, too.

As the competition for corn grows brisk, Iowa State economist Wisner predicts corn prices will rise "to whatever it takes to buy the additional acres" -- meaning that if it's lucrative enough, farmers will plow up grasslands, quit raising other crops and even plant marginal lands to cash in on corn.

"The price does the job of making sure we don't run out," Wisner said.

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