looking for alternative fuels. The alternative liquid fuel that is the current favourite of American policymakers is ethanol, whose production is currently subsidised by legislation. In the United States, the grain of choice for ethanol production is corn, unlike the sugarcane used by Brazil for its ethanol. The US corn market, like for the rest of US agriculture, is already distorted by subsidies and interventions that are playing havoc in the world cereal markets. The artificial expansion of ethanol production has created an increase in the demand for its main input corn, driving up its price. American farmers have reacted by diverting productions away from other crop, raising their prices as well. According to the Economist:

This year the overall decline in stockpiles of all cereals will be about 53m tonnes -- a very rough indication of by how much demand is outstripping supply. The increase in the amount of American maize going just to ethanol is about 30m tonnes. In other words, the demands of America's ethanol programme alone account for over half the world's unmet need for cereals. Without that programme, food prices would not be rising anything like as quickly as they have been.[3]

The Economist's assessment is supported by the IMF. The director of its research department says:

In the IMF staff's assessment, a significant part of the latest jump in food prices can be traced directly to biofuels policy.[4]

The US ethanol program has its origin in the idea of "energy security" -- an end to American reliance on imported fossil fuel. But the way biofuel subsidies interact with other policies can actually produce more demand for fossil fuel. For example, production of "flexible-fuel vehicles" (that is, vehicles that can use both ethanol as well as fossil fuels) are subsidised. Because the fuel-economy credit is biggest for the least energy-efficient models, manufacturers concentrate on sport utility vehicles and light trucks. Yet almost all the drivers of these vehicles use ordinary petrol. The result is greater consumption of petrol, not less.[5]

Biofuels are subsidised in Europe as well. In both sides of Atlantic, climate change is another reason cited for the subsidies. But if that reason was genuine, then surely the most environmentally efficient sugar-based Brazilian ethanol wouldn't have been prohibited from entering American and European markets through tariff.

Whatever the stated reason is, according to Global Subsidies Initiative, a Geneva-based think

