Ethanol and archer daniels midland

In 2007, Archer Daniels Midland began shifting increased resources towards the production of fuel. Frusaro (2007) notes that the Minnesota-based industrial agribusiness conglomerate doubled its capital spending to an estimated 1. 12 billion U. S. dollars.

This increase is aimed towards new agricultural products which include, but are not limited to: plant-based plastics, sugar-based polymers, and most interestingly a substantial amount of capital towards ethanol plants in Columbus, Nebraska and Cedar Rapids, Iowa, biodiesel plants in North Dakota and Missouri and various other bioenergy projects centered around corn-based ethanol and biodiesel. Regardless, though many regard ADM’s entry into the biofuels game to have been inevitable, it has, in recent months, run against a wall in terms of skyrocketing food prices that may severely cut into its profit margins.

Jon Birger, a senior writer for Fortune, notes that corn prices have “ gone stratospheric” due to a construction binge on ethanol plants. (Birger, 2008) This has made it significantly more difficult for ethanol plants to make a healthy profit, even when current oil prices stand at well over a hundred dollars a barrel. Birger notes that this trend will not make ethanol disappear, especially in the face of federal biofuel mandates, which guarantees that there will be a certain level of demand for biofuels, regardless of the decreased profitability in production.

As such, the cross elasticity of demand remains favorable for ethanol producers, regardless of cost of production. Ethanol economics have been permanently changed, Birger argues, and smaller ethanol producers may have to fall back while Archer Daniels Midland holds the advantage in economy of scale. (Birger, 2008). However, there are things to consider before armchair environmentalists can begin to celebrate the rosy portrait of the sublime biofuel future with a clean, worry-free conscience.

Journalist Richard Manning notes ethanol is a “ distillation of politics” just as much as it is a distillation from grain, and argues that the boost in “ its political octane” comes primarily how much interest industrial agriculture has in its adoption. Mannings argues that every dollar of profit that ADM makes on ethanol costs the American taxpayers eleven dollars. (Manning, 2004) Sustainable farmer Tom Philpott (2006) argues that Manning’s opposition towards ethanol and its benefits to industrialized agribusiness are not entirely without merit.

Although much attention has been accorded towards sugar cane as an alternative feedstock for ethanol, the production of sugarcane-based ethanol, however, still favors ADM. This is after all, a company which has repeatedly lobbied to keep the price of domestic sugar high. Philpott (2006) notes that because Archer Daniels Midland’s ability to sell high fructose corn syrup depends upon how their prices compete with sugar.

ADM lobbied against foreign sugar imports ostensibly to protect local sugar, but such lobbying also ensured that the price of local sugar remains inflated. Increased production of sugarcane-based ethanol in countries such as Brazil, combined with sugar quotas ensure that local prices of sugar continue to inflate and ADM benefits in a situation where the price demand for high fructose corn syrup remains inelastic, simply because they are able to charge more for without fearing that sweetener-dependent companies will retaliate by switching to sugar. (Philpott, 2006)