

Why Popcorn Is Costing More – But Not much More -- at the Movies

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Under the mantra of reducing the country's oil dependency, Congress promised an environmental rose garden three decades ago when it began mandating and subsidizing the use of ethanol in gasoline blends. With the “law of unintended consequences” in full force, Congress has created a potential environmental mess – and hiked the price of corn-based products, including already expensive popcorn at the movies.

How did Congress do this? Simply. It required gasoline producers to include ethanol in gasoline and encouraged the production of ethanol with lavish subsidies and import protection. Today, 147 ethanol plants pump out 8.5 billion gallons of ethanol, absorbing at least a quarter (and maybe a third) of all bushels of corn produced in the country. An additional 61 ethanol plants are on the drawing boards – all because of federal government ethanol subsidies that amount to \$1.90 a gallon, for a total industry subsidy of \$7 billion a year, according to *The Economist* magazine. Farm state governments have added to the subsidies.

The federal government also has imposed a tariff of more than 50 cents a gallon of cheaper imported alternative ethanol products to ensure that domestic corn-based ethanol plants don't have to compete on cost with alternative, perhaps environmentally “greener” biofuels made from sugar cane produced in, say, Brazil.

Congress has helped create the “perfect storm” in the world corn markets. The increase in the domestic demand for corn for ethanol production emerged along with a surge in economic

growth in China and India where one-third of the world's population live, and eat. Their greater demand for higher quality foods, including meat, has caused its own surge in the demand for feed grains, including corn.

Then, the spring floods in the Midwest washed out a tenth of the corn acreage and delayed replanting even as the dramatic increase in gasoline prices, especially during the past year, has added to costs of producing and distributing corn and corn-based food products.

The result of the combined supply and demand forces has been daily reports of record prices in domestic and world corn markets. In 2006, the price of corn vacillated under \$2.50 a bushel. This June (2008), a bushel of corn jump well above \$7 a bushel, a nearly three-fold increase.

The price of popcorn has been pressed upward for the same reason that the price soybeans has risen. If the price of corn escalates, farmers of alternative cereal crops must receive higher prices to prevent them from shifting their land and time to produce more corn. Hence, the profitability of popcorn and soybeans must move more or less in tandem with corn, which means that the government subsidies and tariff protection on ethanol has padded the pockets of popcorn and soybean farmers, as well as corn farmers.

As the price of field corn has tripled, so has the price of popcorn, an increase that needed to happen to keep popcorn growers from shifting their production from popcorn to field corn or selling off their popcorn harvest for chicken feed. At the start of the movie season, theaters paid \$12 for 50-pound bags of popcorn; by mid-summer, they paid 50 percent more or \$18 for 50-pound bags.

Of course, the Congressional sleight-of-hand on ethanol has, in the process, picked the pockets of taxpayers – and more slightly moviegoers. A 50 percent increase in the price of

popcorn can't have a huge effect on the selling price of popcorn since the popcorn kernels and oils theaters use represent such a small portion – surely less than 10 percent and maybe less than 5 percent – of high-priced theater popcorn.

Nevertheless, AMC this spring hiked the price of its small, medium, and large bags of popcorn by 25 cents, or to \$4.75, \$5.75, and 6.75, respectively, to accommodate the jump in its material costs. The higher price of popcorn, according to company spokespeople, has also caused AMC theaters to hike the price of its evening tickets from \$9 to \$10. No one should be surprised if Regal Theaters, the country largest theater chain, follows suit (if the company hasn't already done so by the time this piece is read).

This shifting of popcorn and oil costs to ticket prices should not be unexpected because the past relatively higher profitability of popcorn at theaters' concession counters allowed theaters to hold down the price of theater tickets by as much as 25 percent, according to University of California, Santa Cruz economist Richard Gil. With the profitability of theater popcorn bags undercut, theaters have less of an incentive to hold down ticket prices in order to move more people through their turnstiles and up to their concession counters. Of course, we should note, higher movie ticket prices can increase the box-office take of movie studios, which receive an average of upwards of 55 percent of theater box-office receipts.

The greater irony of the nation's ethanol policy debacle is that gasoline-ethanol blends undercut fuel economy by as much as 25 percent, which is a force that has marginally spiked the demand for and the pump price of gasoline.

The environmental benefits of the ethanol policy also could be decidedly negative, given that corn production requires heavy doses of nitrogen-based fertilizers, much of which will pollute creeks and rivers and eventually find its way to the Gulf of Mexico where it could

radically extend the “dead-zone,” or the current 7,900 square miles of ocean where nitrogen and other pollutant runoffs already have so depleted the oxygen level of the water that virtually no sea life can survive.

And to add misery to injury, the nation’s ethanol policy has pushed up world food prices and undermined the miserable living standards of hundreds of millions of desperately poor people around the globe.

The next time moviegoers belly up to theater concession counters and feel the pinch of a tub of popcorn, they should consider how their members of Congress once again have taken money out of their pockets for the benefit of a very special political lobby – corn farmers.

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