

December 8, 2011

John V. Faraci
Chairman & CEO
Brazil-U.S. Business Council
1615 H Street, NW
Washington, DC 20062

Thomas J. Donohue
President & CEO
US Chamber of Commerce
1615 H Street, NW
Washington, DC 20062

Dear Messrs. Faraci and Donohue:

I recently had an opportunity to read your letter to Congress urging that it allow the secondary tariff on imported ethanol to expire at the end of the year. Please know that while we share your desire for the removal of trade distorting practices between the U.S. and Brazil, we are very concerned about the Council's singular and biased focus on U.S. ethanol policy, and its failure to address more timely recent trade distorting practices engaged in by Brazil.

As you acknowledge in your letter, the U.S. is the low-cost global producer of ethanol today, but this has been the case for much longer than "the past few months." Ethanol produced in the U.S. has been the cheapest ethanol produced in the world for well in excess of 2 years. This has been true despite significantly less restrictive labor and environmental standards in Brazil. In fact, in every month since July 2009, U.S. ethanol has been cheaper than Brazilian ethanol. During this period, U.S. ethanol has sold, on average, for \$0.58/gallon less than Brazilian ethanol *even before the tariff is applied*. The California Energy Commission recently reported that in 2011 ethanol imported into the state from Brazil has been \$1.56/gallon more expensive than the delivered price of ethanol from the Midwest. That means E10 gasoline made with Brazilian ethanol would theoretically be nearly \$0.16/gallon more expensive than E10 made with U.S. ethanol at the pump. Given that Brazilian ethanol is far more expensive than U.S. ethanol (and more expensive than U.S. gasoline itself in many instances), we find your letter's assertion that increased Brazilian ethanol imports would result in "increased savings at the gas pump for U.S. drivers" to be misleading and ill-informed.

This year, the U.S. ethanol industry will export close to 1 billion gallons of ethanol to the world market, and even filling demand in Brazil itself. While the U.S. ethanol industry's status as low cost producer is in large part due to Brazil's disappointing sugar crop and the volatility of global sugar prices, which resulted in Brazil shifting its production away from ethanol, and toward sugar, it has also been helped by the advances made by our domestic ethanol industry in production and yield efficiencies. And, it is important to note that these price figures are not impacted at all by the Volumetric Ethanol Excise Tax Credit ("VEETC"), which is only available on fuel blended for retail.

While your letter accurately identifies the \$0.54-per-gallon secondary tariff on foreign ethanol, it fails to explain that this was intended to offset the benefit that is currently received by foreign ethanol from the blender's credit. Given the failed efforts to pass an ethanol tax reform package through Congress this summer, the U.S. ethanol industry is not seeking an extension of VEETC, and as such, does not believe that there will be any future need to offset any tax benefits received by Brazilian ethanol. However, before Congress allows this WTO compliant tariff¹ to expire, we think it is critical that Congress address the many Brazilian barriers to trade that are currently distorting trade between the two countries.

First, Brazil has recently taken an action that has no other reasonable justification than to reduce the volume of U.S. exports of ethanol to Brazil. Recently, the Brazil government reduced the volume of ethanol that can be blended in fuel from 25% to 20%. As a result of this mandated reduction in blend volumes, U.S. exports of ethanol to Brazil are being dramatically reduced from levels that would have otherwise occurred had Brazil left the mandate at 25%. And, instead, Brazil is importing dirtier, more expensive, petroleum-based gasoline to cover the additional demand. This year, the U.S. is on schedule to export close to 300 million gallons to Brazil alone. However, the action taken by Brazil to reduce the amount of ethanol blended in its fuel is now threatening those export volumes. This is even more disconcerting, given the fact that the U.S. is now encouraging imports of cane-based ethanol from Brazil to fill advanced ethanol requirements under the Renewable Fuels Standard (RFS), and California's Low Carbon Fuel Standard (LCFS). Because of its high price relative to U.S. ethanol, there is absolutely no economic reason for oil refiners and gasoline blenders to be importing Brazilian ethanol today. Yet, nearly 30 million gallons were imported from Brazil in July-September, solely for the purpose of complying the RFS and LCFS. At the same time the U.S. is opening its doors to trade with Brazil, doors are being closed to our exports.

¹ The secondary tariff is WTO compliant because it was duly noticed pursuant to the GATT, or the Generalized Agreement on Tariff and Trade. Because the \$0.54 cent tariff was included in the list of existing tariffs at the time of GATT was approved, it does not violate the WTO as long as it does not exceed \$0.54 cents. This is true regardless of the existence of VEETC.

Second, while your letter to Congress is correct to state that Brazil's 20% import tariff has been suspended, you fail to further explain that this suspension was only on a temporary basis. While Brazil's Chamber of Foreign Trade (CAMEX) did indeed reduce its tariff in April of 2010, the temporary suspension is scheduled to expire one day after the U.S. tariff is set to expire. That means U.S. ethanol going to Brazil will be hit with a steep tariff just 25 days from today. It is a bit inconsistent that the Brazil US Council would fail to acknowledge such an important and material fact to Congress in its effort to promote Brazil exports.

If the U.S. Chamber's Brazil U.S Council is truly concerned about removing barriers to trade between the two countries, it would certainly be better served by addressing barriers that exist on both sides of the trade relationship. We would also expect the Council to issue the same missive to decision makers in Brazil, and support the U.S. ethanol industry's efforts to remove barriers to our exports. Trade with Brazil must be free and fair.

We look forward to working with the Council in this and other future efforts.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Bob Dinneen', with a long horizontal flourish extending to the right.

Bob Dinneen
President & CEO