February 7, 2017

The President
The White House
Washington, DC 20500

Dear Mr. President:

A consistent theme throughout your campaign was the risk to American workers and industries from unfair trade. That message resonated with the U.S. ethanol industry and farmers who depend on access to foreign markets to compete effectively. You cited China's currency manipulation and unfair tariff and non-tariff barriers as particularly harmful to America's economic interests. We can most definitely attest to the devastating effects of China's capricious actions, and greatly appreciate your commitment to putting America first.

As a result, we are writing to ask for your Administration's assistance in urgently addressing China's recent implementation of protectionist trade barriers that are shutting out U.S. exports of ethanol and distillers dried grains (DDGS).[1] China's recent actions are significantly injuring U.S. ethanol producers and farmers, and undermining the substantial investments our industries have made in developing a cooperative and mutually beneficial trade relationship with China.

Over the past decade, the U.S. ethanol and corn industries have dedicated extensive resources to opening the Chinese market to our products and developing a sustainable and synergistic trade relationship. Initially, it appeared those investments in China were paying off for America's farmers and ethanol producers.

In 2006, China did not import any DDGS from the United States at all. But by 2010, the country had emerged as the top export market for U.S. DDGS. In 2015, China imported 6.5 million metric tons of U.S. DDGS worth $1.6 billion, accounting for 51 percent of our total DDGS exports.

China also began importing U.S. ethanol in 2015 as part of an effort to increase the use of cleaner-burning renewable fuels and reduce smog formation in major cities like Beijing. Ethanol exports to China

[1] Distillers dried grains (DDGS) is the high-protein animal feed manufactured by ethanol plants.

rapidly expanded in late 2015 and throughout 2016. By the end of 2016, the country had become the U.S. ethanol industry's third-largest export market, receiving almost 20 percent of total exports. Nearly 200 million gallons of ethanol worth more than $300 million were shipped to China in 2016, and prospects appeared bright for continued growth.

China has served as a crucial demand source for our products in recent years. Growth in exports to the country has been vital to the economic health of our industries. However, recent actions taken by China to protect its domestic corn and ethanol industries have halted exports of both ethanol and DDGS to that market, resulting in sharply lower prices for both products and financial harm to U.S. ethanol producers and farmers.

After a nine-month investigation that began in January 2016, China imposed in September 2016 a preliminary antidumping duty of 33.8 percent against U.S. DDGS, as well as a countervailing duty of 10 to 10.7 percent. These duties were implemented despite the fact that China's investigation did not find any evidence of dumping or injury to domestic industries. China's imposition of duties on DDGS raises important questions about whether the country violated its obligations under World Trade Organization (WTO) rules and ignored accepted protocols for investigations of alleged dumping.

The preliminary DDGS duties resulted in the rapid collapse of DDGS exports to China. In 2015 (i.e., prior to initiation of the Chinese antidumping investigation), DDGS exports to China averaged 538,522 metric tons per month. By November 2016, exports to China had plummeted to 61,575 metric tons—a dramatic 89 percent reduction. In January 2017, with its final determination, China raised the antidumping duty rates on U.S. DDGS in to a range of 42.2 to 53.7 percent and increased countervailing duty rates to 11.2 to 12 percent. Adding insult to injury, the Chinese have indiscriminately re-instituted a WTO illegal value added tax on the import of U.S. DDGS. Together, we expect these additional increases will substantially curtail DDGS exports to China in 2017.

As the New Year began, the Chinese government also announced it was taking punitive action against U.S. ethanol imports as well. Effective January 1, 2017, China has increased tariffs on U.S. ethanol from 5 percent to 30 to 40 percent. As a result, it is being reported that Chinese buyers have cancelled orders for U.S. ethanol imports that were made prior to the tariff being raised.[2] It is widely believed that raising these tariffs will put an immediate end to ethanol exports to China, erasing the significant progress our industry made in developing that market over the past several years. Chinese officials will certainly argue that the new rates of 30 to 40 percent are consistent with the rates agreed upon in 2002 when China acceded to the WTO. However, these rates are clearly the artifact of a time when no one could have known that the economic health of the U.S. ethanol industry would one day be partially reliant on maintaining a robust export market. Thus, we respectfully ask that reform of these punitive ethanol tariff rates be included in any potential upcoming trade negotiations with China.

China's recent actions are contributing to sharply lower prices for both ethanol and DDGS in recent weeks. Ethanol prices have plummeted 15 percent since mid-December 2016, as Chinese buyers have

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[2] Patton, Dominique (Reuters). "China cancels ethanol imports as tax hike threatens trade." Jan. 16, 2017. http://af.reuters.com/article/energyOilNews/idAFL4N1DM34C

cancelled shipments. Meanwhile, DDGS prices have fallen steadily since the summer of 2016, when it became apparent that Chinese duties on DDGS were imminent. Today, DDGS prices are approximately 40 percent lower than in June 2016.

Our industries were completely cooperative with Chinese officials during the course of the DDGS investigation, providing them all of the requested information and actively participating in the process. Further, we have made every attempt to foster a productive and mutually beneficial relationship with China regarding U.S. ethanol exports. Unfortunately, these gestures of good will and cooperation have been rejected as China has implemented discriminatory trade policies aimed at harming American ethanol producers and farmers and protecting Chinese industry.

In addition, the U.S. ethanol industry has faced an unlawful anti-dumping duty imposed by the European Union despite a similarly flawed investigation. The U.S. industry challenged the anti-dumping duty in the European Court. We prevailed in that case, and while the EU has filed an appeal, we remain confident we will prevail again. Our success there shows however, that a WTO challenge would also have been successful, and may have prevented other nations from pursuing the same tactic. We are confident under your leadership we will have an Administration and a U.S. Trade Representative's Office willing to challenge unfair practices when they occur.

For these reasons, we are urgently seeking your assistance. We respectfully request that your Administration, and specifically the incoming U.S. Trade Representative, place the Chinese government's injurious trade barriers against U.S. ethanol and DDGS near the top your China trade agenda.

Thank you for your continued leadership and support, we are

Sincerely,

Growth Energy Renewable Fuels Association U.S. Grains Council