



March 11, 2020

The Honorable Richard E. Neal  
Chairman  
House Ways and Means Committee  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Kevin P. Brady  
Ranking Minority Member  
House Ways and Means Committee  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairman Neal and Ranking Member Brady,

The Renewable Fuels Association (RFA) greatly appreciates the opportunity to submit these written comments for the record in connection with the February 26, 2020 hearing on U.S.-China Trade and Competition.

The RFA is the leading trade association representing America's ethanol industry, including its traditional, grain based-producers, as well as the advanced and second generation sector of the industry. Its mission is to advance the development, production, and use of ethanol fuel by strengthening America's ethanol industry and raising awareness about the benefits of renewable fuels. The RFA is also intensely focused on expanding the production, sale and use of ethanol globally, and supports and promotes policies and regulations both domestically and internationally that allow for free and fair trade in ethanol and other industry co-products.

Founded in 1981, the RFA represents a majority of the U.S. ethanol industry and serves as the premier meeting ground for industry leaders and supporters. RFA's 300-plus members are working to help America become cleaner, safer, and more energy independent. Today's ethanol industry consists of 205 ethanol plants nationwide that have the capacity to produce 16.9 billion gallons of high octane, clean burning motor fuel. In 2019, as a result of reduced domestic demand from the indiscriminate use of small refinery waivers and growing global trade protectionism, several plants closed their doors and the industry produced just 16 billion gallons of ethanol, of which 1.5 billion gallons were exported to over 60 countries around the globe.<sup>1</sup>

As the national trade association for the U.S. ethanol industry, the RFA has long advocated for the reduction and/or removal of tariffs and other non-tariff barriers in key

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<sup>1</sup> While exports continued to be historically high in 2019, the 1.5 billion gallons exported that year represented a decline of 200 million from 2018; the first decline after five years of rapid export growth. This decline was in large part due to trade barriers that were put in place by current or former large-scale destinations for ethanol, notably China and Brazil.

markets around the globe. In recent years, China has become one such key market for U.S. ethanol exports, and the industry has worked hard to improve trade relations in that market, coordinating and participating in various technical and trade missions designed to promote the benefits of ethanol as a fuel component.

Over the last five years, China has sought to expand the use of ethanol blended transportation fuels in an effort to address the increasingly toxic and dangerous air quality situation facing many of its cities and provinces. However, China has struggled to produce sufficient volumes domestically to meet its demand for ethanol. To complicate matters, China has long maintained prohibitive tariffs and other barriers to trade that have prevented any consistent or sustained flow of ethanol exports to that market.

Specifically, prior to 2015, China maintained a “most favored nation” bound rate of 30% that effectively made U.S. ethanol completely uncompetitive in that market. However, in January 2015, China voluntarily reduced the tariff on denatured ethanol to 5% in an effort to boost ethanol imports to help meet demand. And, as a result of the reduction in the tariff on ethanol, U.S. ethanol producers exported 75 million gallons to China in 2015, and 198 million gallons in 2016; causing that nation to become one of the top 3 markets for U.S ethanol exports.

Then, in January 2017, China unexpectedly increased the tariff rate on denatured ethanol back to the WTO MFN bound rate of 30%; thereby causing a precipitous decline in ethanol imports from the U.S. Specifically, as a result of the increase in the tariff to 30%, the arbitrage window closed for most of 2017, causing ethanol exports to China to fall to just over 55 million gallons that year.

While the industry experienced a brief uptick in ethanol exports to China in early 2018 despite the 30% tariff, in April of that same year, all ethanol export activity ceased when China levied an additional 15% tariff on U.S. ethanol imports, as a countermeasure to the Section 232 actions imposed against China by the U.S. government, bringing the total tariff on U.S. ethanol to 45%. Shortly thereafter, in July 2018, China levied an additional 25% tariff on U.S. ethanol, as a countermeasure to the Section 301 action imposed against China by the U.S., in furtherance of the ongoing trade dispute with that nation, thereby increasing the total tariff on U.S. ethanol imports to 70%.

Just last month, in an effort to boost imports of certain commodities, China announced that it would allow ethanol buyers in China to seek exemptions from the Section 301 countermeasures for one year beginning in March 2020. As a result of this tariff exemption, the tariff on U.S. ethanol has effectively been reduced back down to 45%, at least for the near future. However, we do not believe that this reduction will do anything to reopen the arbitrage window, or otherwise make ethanol competitive in China. On the contrary, we believe that further, significant reductions in the tariff are necessary to make U.S. ethanol exports competitive.

Specifically, we believe that for U.S. ethanol exports to China to become competitive for any consistent or sustained period of time, the tariffs levied against U.S. ethanol exports must be reduced to a rate not to exceed 20%. While economic conditions may allow for a few short, intermittent periods of competitiveness with tariff rates higher than 20%, we do not believe that a tariff in excess of 20% will allow for any real possibility of sustained exports of U.S. ethanol to China. (See attached graph showing historical exports at different tariff rates.)

The U.S. ethanol industry is at a pivotal point and continues to suffer from a protracted trade fight with China. In addition to the challenges our industry faces at home from the demand destruction caused by indiscriminate small refinery waivers, the industry is facing strong economic headwinds from growing trade protectionism around the globe. In order to remain strong and healthy, the U.S. ethanol industry desperately needs a robust global export market, and that requires free and fair trade with China.

Therefore, as leaders on trade issues in Congress, we urge you to consider and evaluate options available to Congress and the U.S. government to press for further reductions in the tariffs currently being levied by China on U.S. ethanol.

Sincerely,

A handwritten signature in black ink that reads "Geoff Cooper". The signature is written in a cursive, slightly slanted style.

Renewable Fuels Association

cc: House Ways and Means Members

# U.S. Ethanol Exports to China

