

## **We're still importing Brazilian ethanol – and so what?**

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A commodities reporter from New York phoned me the other day, hoping to get an Iowa reaction to the idea of eliminating the 54 cents per gallon tariff on imported ethanol. President Bush said May 5 that “Dropping a tariff will enable the foreign export of ethanol into our markets which would particularly help on our coasts. I’ve talked to Congress about that.”

Probably not gonna happen. Our Iowa senator Charles Grassley said, “It’s a solution in search of a problem.” Other Senators and Congressmen have also said this proposal won’t go anywhere.

My answer to the reporter was easy. I just quoted American Farm Bureau policy: “We oppose the use of federal biofuels tax incentives for imported biofuels.” The 54 cent tax on Brazilian ethanol offsets a 51 cents per gallon federal tax incentive for fuel blenders to mix ethanol into gasoline. The 51 cents tax credit applies to either domestic or imported ethanol, so without the import tariff, American taxpayers would in effect be subsidizing Brazilian ethanol. Which gets quite enough support from the Brazilian government already, thank you very much.

Some claim that the phase-out of the fuel additive methyl tertiary butyl ether (MTBE) is making it difficult for gasoline refiners on the coasts to find ethanol to replace it, contributing to the recent increase in gas prices. Nonsense. The U.S. already makes enough ethanol to replace all the MTBE, and we have another 35 ethanol plants now under construction. And imported ethanol makes up just a fraction of the ethanol used to replace MTBE.

I probably disappointed the reporter by not harrumphing indignantly about the very concept of ethanol imports from Brazil. But that’s old news, and actually good news. Good news because if it makes economic sense for someone to pay the ocean freight and import duty to bring in Brazilian ethanol, then that indicates U.S. ethanol demand exceeds U.S. ethanol supply. And that, any economist will tell you, is a formula for higher ethanol prices, which is good news for the Iowa farmers who raise corn and own shares of ethanol plants.

Last year, we imported about 66 million gallons of ethanol from Brazil, out of 193 million gallons of total ethanol imports. Sounds like a lot, but U.S. ethanol plants produced 3,904 million gallons in 2005. Do the addition and division, and Brazilian ethanol represented only 1.6 percent of U.S. ethanol consumption last year. No big deal.

(We actually import more Brazilian alcohol via the Caribbean – 103 million gallons from Jamaica, Costa Rica, El Salvador and Trinidad last year. Under U.S. tax law, dehydrating Brazilian ethanol in those countries to remove the last three percent of water content makes it “local” ethanol eligible for duty-free access to our market. Sore subject, and Farm Bureau has policy against it: “We support closing the loophole in the Caribbean Basin Initiative that allows an entity to import ethanol tariff-free into the United States.”)

That reporter emailed me the ethanol import statistics for January through March of this year. Ports in New York and California unloaded 24 million gallons of Brazilian ethanol with a value

of about \$50 million. That's an average price of \$2.09 per gallon, much higher than what it costs us to make ethanol from corn here in Iowa. That tells me it takes high oil prices to justify importing Brazilian ethanol. If petroleum prices drop, paying the freight and duty to bring in Brazilian ethanol may not pencil out anymore.

Demand for ethanol is high in Brazil too, and if U.S. prices and demand aren't sufficiently appealing, they may not have much to spare for export. A supply shortage prompted the Brazilian government this March to lower its ethanol blend mandate for gasoline from 25 percent to 20 percent. The high price of gasoline also makes 100 percent ethanol, which is available at almost every gas station in Brazil, more attractive to Brazilian drivers. More of them are driving flex-fuel cars that can burn gasoline, pure ethanol, or any combination in between. Three-fourths of new car sales in Brazil are now "flex", and 900,000 more flex-fuel cars went onto Brazilian roads last year. Brazil's ethanol supply also varies seasonally, because it's made from sugarcane. Unlike corn, you can't store sugarcane after harvest – it must be processed within a day or so, before its sucrose content degrades. Midwest ethanol plants can get corn deliveries from farmers' grain bins year-round, but Brazilian ethanol plants sit idle several months of the year.

So I'm not concerned about the volume of our ethanol imports from Brazil. But there was one gratifying number on that spreadsheet of ethanol import statistics: the total in the "calculated duties" column. Those 24 million gallons of Brazilian ethanol incurred \$14.3 million of import taxes. In this era of record budget deficits, the U.S. Treasury can certainly use that money. The 54 cents per gallon tariff is obviously no barrier to ethanol imports if the price of oil is high enough, and should stay in place.