Clearing Up a Few Tariff Myths
By Leticia Philips

You can tell without looking at a calendar that this year's legislative session in Congress is drawing to a close. Just as an increase in harried shoppers announces the Holidays are here, the volume of unfounded accusations has grown louder as we approach the December 31st expiration for the misguided tariff on imported ethanol. The abundant misinformation signals a desperate attempt by those who benefit from the 30-year-old trade barrier to preserve their protected status. So let's have an honest debate and clear up a few misconceptions.

Myth #1: Ending the ethanol tariff will cause job losses in the Caribbean.
Reality: Time to cut out the middle man, because Americans do not benefit from the current arrangement.

Special interests in the Caribbean have benefited from a trade loophole since 1987. Certain countries in that region operate ethanol dehydration plants that are exempt from the ethanol import tariff as long as their supplies don't exceed 7% of the previous year's U.S. production. These plants add no real value to the ethanol they process and provide few jobs. Whenever a ship arrives (which has been a rarity during the past 18 months), workers assist with pumping the fuel into a dehydration machine and then piping it back onto the ship once water is removed. No one has produced credible information on the number of jobs involved – probably because there are so few, if any, formal jobs created. Oh, and most of these countries are net importers of petroleum, meaning Hugo Chavez's oil from Venezuela is likely powering the operation. With no tariff and free trade, Americans could receive direct access to lower-cost ethanol without this unnecessary, interim step.

Myth #2: Brazil's 20% limit for blending ethanol in gasoline amounts to a trade barrier.
Reality: American exports to Brazil have never been higher, making it a ridiculously ineffective trade barrier.

Brazilian law provides the government flexibility to set the ethanol blend with gasoline anywhere between 18% and 25%. As they've done many times during the past decade, officials have currently set the blend limit at the lower end of the range because they feel domestic ethanol supplies are too constrained. The Brazilian government took this action despite protests from the sugarcane industry. We disagree with the decision and continue to call for reinstating the blend limit at 25%.

But the lower limit certainly hasn't stopped shipments of American ethanol. In fact, after Brazil announced this blending reduction at the end of August, U.S. ethanol exports skyrocketed in September making it the third highest month on record to date. Remarkably they increased even more in October – the most recent month for which complete data are available. Brazil was the leading destination for American ethanol during both months, receiving nearly half of the 105.8 million gallons (mg) shipped in September and 50 mg from October's 121.4 mg exported. In all, Brazilian imports have totaled more than 215 million gallons in 2011 – a record demand from that country for U.S. ethanol.

Myth #3: Brazilians are poised to reinstate an ethanol tariff next year.

Reality: American ethanol has been and will continue to be welcome duty free in Brazil.

In April 2010, with strong support from the Brazilian sugarcane industry, the Brazilian government unilaterally reduced its tariff on American ethanol to zero. The sugarcane ethanol industry supported this move because we believe the U.S. and Brazil should lead by example in creating a free market for clean, renewable energy since they are the world's top producers of ethanol.

Some groups have questioned Brazil's commitment to maintaining a zero tariff due to procedural concerns related to the country's membership in the Common Southern Market (Mercosur), a customs union agreement. Under Mercosur rules, signatory countries have the right to apply a lower tariff for a limited number of products without interference from other member countries. Anhydrous ethanol – the type of ethanol America produces and exports – is on Brazil's list of tariff free products.

These lists are reviewed every six months, and though countries have the right to update and modify them, anhydrous ethanol remains untouched since being added almost two years ago. And considering the Brazilian government is doing all it can to reduce the price of ethanol, we can't imagine officials would take the counterproductive step of increasing import taxes on the fuel.

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Sugarcane ethanol producers strongly support a zero tariff on ethanol imports – a point we made clear in our recent letter to the U.S. Chamber of Commerce. Our position will hold as long as the U.S. import tariff on foreign ethanol expires at the end of the month and is not reinstated in the future. We believe that ethanol should be freely traded, and we encourage the United States Congress to let its tariff expire.