



September 22, 2011

James R. Holbein
Secretary to the Commission, Office of the Secretary
United States International Trade Commission
500 E St NW
Washington, DC, 20436

Re: Inv. 323-325

Dear Secretary Holbein:

On behalf of the Caribbean Basin Ethanol Producers Association¹, we want to share with you our response to the USITC report “*The Economic Effects of Significant U.S. Import Restraints*” released August 2011. We believe that the status quo in the specific case of ethanol tariffs already provides the U.S. with significant economic advantages that are not fully explored in your report. This view is grounded in the fact that the current trade regime allows for duty free imports of sugarcane based ethanol through the use of quotas and duty free access granted to nations under U.S. preference programs and free trade agreements. In addition, we take issue with some of the key assumptions in your report. For example we differ with the USITC report on the forecasted price difference of 15% between U.S ethanol prices and the rest of the world. Finally, we believe that the economic model used by the USITC is outdated and does not take into account considerations such as the likely monopolization of the ethanol market by Brazil in the future as a result of greater access to the U.S. market.

Your report does not appear to take into consideration sufficiently the fact that, although federal mandates are slated to increase demand for ethanol imports, the current origin quota system and capacity from CBI nations, which include DR-CAFTA nations since those nations are also CBI-designated nations, and FTA partners would be able to provide much of that increase on a duty-free basis. According to your report, the United States may not meet its ethanol production targets by 2015, thus imports derived from sugarcane are forecasted to increase to 1.5 billion gallons. If this assumption were correct, CBI and potentially other U.S. FTA partners like Colombia have the ability to supply at a competitive price most or even all of the required imports of ethanol. At the very least, CBI capacity is more than adequate to process all of the volume Brazil is projected to have for export to the U.S. during the period covered by the ITC analysis. Import data for 2005-2010 shows FTA/preference programs already account for 51.1% of all ethanol imports and this number is likely to increase in the upcoming years.

¹ CBEPAs consist of eight companies: Petrojam Ethanol Limited; Jamaica Ethanol Processing Limited (JEPCO), Jamaica Broilers Group Ltd, Liga Agricola de la Caña de Azucar, Gasohol de El Salvador, American Renewable Fuel Suppliers, Trinidad Bulk Traders Ltd, and EthylChem. These companies produce ethanol at plants located in the countries of Jamaica, El Salvador, Costa Rica and Trinidad & Tobago. -To learn more, visit us at www.caribbeanethanolproducers.com

There is strong evidence that routing Brazilian sourced ethanol through the CBI for further processing, and then importing that product into the US duty-free, is highly competitive with any direct shipments from Brazil to the US, even if there were no tariff. This data is particularly relevant, as Brazil has historically been the largest supplier of cane based ethanol to the U.S. From 2005 – 2010, CIF prices for Brazilian ethanol, processed for U.S. markets, averaged \$2.18/gallon. During this same period, landed, duty-free prices for ethanol imports from the CBI averaged \$2.23/gallon. This difference, equal to only 2.2%, is less than the normal cost of freight from Brazil to the U.S. In addition, during periods when Brazilian anhydrous prices were much higher than hydrous ethanol that could be processed in CBI facilities, e.g., early in 2011, direct imports from Brazil simply did not occur. Had they occurred, the average differences noted above would have been even smaller or even reversed.

Furthermore, we find it difficult to understand your assessment that the elimination of the ethanol tariffs and the origin quota would result in a 45 percent increase in ethanol imports from the projected 2015 baseline value. We agree that future growth in U.S. ethanol imports will be driven in large measure by the Renewable Fuel Standard requirements of the Energy Independence and Security Act but we also believe that the primary effect of the elimination of the ethanol tariffs and the origin quota would be a shift in shipments from CBI suppliers to Brazilian suppliers rather than a large increase in total U.S. ethanol imports.

Another point where we differ with the USITC report is with the key assumption of the forecasted price difference of 15% in U.S ethanol prices and the world price. Significantly, this is also a point in which the authors express uncertainty. The report suggests that with the removal of import restraints, the lower world price would result in landed prices of imports below domestic ethanol prices, resulting in lower prices for consumers, and thus increasing economic welfare. A different picture emerges when one looks at market data. The U.S., today, has an export advantage based on a favorable price differential. Additionally, lower U.S. prices for ethanol are likely to remain in place, calling into question the forecasted price difference. Brazilian ethanol prices are also expected to remain high as the world continues to recover from severe sugar shortages. This condition is projected for at least the period covered by the USITC outlook.

The capacity of U.S. production also appears distorted in your report. The production trend of domestic biodiesel suggests that the import requirement would be less than that projected by the report, which takes domestic biodiesel production as a fixed point of reference – 1.0 billion gallons per year. As biodiesel forms part of the Advanced Biofuel mandate, any increase in domestic biodiesel production would reduce the need for imported sugarcane based ethanol. Current U.S. production rates already exceed the 1.0 billion gallon number and are expected to continue growing. Because the EPA has already indicated that the 2013 RFS2 mandate for biodiesel will be 1.2 billion gallons, the need for additional imports of sugarcane ethanol is further reduced. In addition, each extra gallon of biodiesel produced reduces the ethanol import volume by 1.5 gallons.

Finally, while we understand that your report is focused only on following a particular economic model and deriving conclusions from it, the reality is that there is a significant policy choice for the U.S. to make in regard to the ethanol tariff. If the tariff disappears, current and future employment and investment in ethanol production in CBI nations and other U.S. FTA partners is very likely to disappear and settle in a non FTA nation

like Brazil. Without the tariff system, there will be little incentive for Brazilian ethanol to be shipped for processing in the Caribbean and Central America and for other FTA partners to continue developing their ethanol industries.

As shown here, the final cost to the consumer is marginal and not even close to the levels outlined in your report. On the other hand, the costs for the U.S. as a nation can be very significant. The choice for the U.S. is whether to continue to uphold its promises to Caribbean nations and FTA partners by keeping the current system or allow a non FTA country such as Brazil to possibly monopolize ethanol production and distribution in the long-term. Market reports already indicate that Brazil is investing heavily in its sugar cane ethanol industry and may be in a position to dominate this portion of the ethanol market once again in the future. In the end, policy implications for the U.S. cannot be determined by looking at economic models alone.

We urge the Commission to take these considerations into account for future reports. We stand ready to provide you with information and assistance at your request.

Kind regards,

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

George Fitch
Executive Director

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