April 17, 2016

CAMEX
Attn: Tatiana Rosito, Executive Secretary

Dear Ms. Rosito,

We, the undersigned organizations representing the U.S. ethanol industry, jointly write to you to voice our strong opposition to a recently announced petition submitted to the Chamber of Foreign Trade (CAMEX) by the Brazilian Sugarcane Industry Association (UNICA) calling for the imposition of a 16% tariff on imported ethanol. According to recent reports, the 16% tariff on ethanol imports proposed by UNICA was determined based on a combination of 1) the average price of ethanol imported into Brazil over the last 12 months and 2) the value needed to account for the purported higher greenhouse gas emissions associated with imported corn ethanol versus Brazilian sugarcane ethanol. In addition to the formal petition submitted by UNICA, there have also been reports of less formal efforts by ethanol producers in the northeast region of Brazil calling for the reinstatement of the across the board, 20% import tariff on ethanol imports.

As explained in greater detail below, we strongly object to any effort to reinstate or reimpose an import tariff on ethanol as it runs counter to long standing and ongoing efforts to promote free and open trade and commerce between our two countries; potentially jeopardizes the well-established cooperative relationship between our countries in the areas of biofuel production, innovation and use;[1] and would only result in higher prices for Brazilian consumers. While we do not have full and complete information concerning the methodology utilized by UNICA in establishing the basis for a 16% tariff on ethanol imports, we have reason to believe that it amounts to an unfair and illegal barrier to trade. Given our limited understanding of the details of the proposal from UNICA, we request an opportunity to carefully review the UNICA proposal to determine whether it presents other challenges and barriers to trade between our countries, and to offer comments concerning the nature and extent of such barriers to trade.

Longstanding Brazil-US Trade Relations

As the two largest democracies and economies in the Western Hemisphere, Brazil and the U.S. share one of the world's most important trade and economic relationships. While our two countries have had robust political and economic relations going back as far as Brazil's independence in 1822, over the last decade Brazil and the U.S. have experienced a significant strengthening of our economic and trade relationship. Today, Brazil is the world's ninth largest economy and the eighth largest goods trading partner with the U.S., and in turn the U.S. is the

[1] See, Memorandum of Understanding Between the U.S. and Brazil to Advance Cooperation on Biofuels, March 9, 2007.

second largest trading partner for Brazil. In fact, two-way trade between our countries has been at record highs in recent years, totaling $95 billion in 2015.

Brazil-US Cooperation on Biofuel

One of the key areas of economic trade and cooperation between the U.S. and Brazil has been in the area of biofuels, specifically ethanol. As the world's two largest ethanol producing and consuming countries, we have long shared a cooperative and complementary relationship with respect to that biofuel, particularly as it relates to ethanol trade, commerce, production and use. Since the early days of the U.S. ethanol industry, our country has relied on imports from Brazil to fill or satisfy any production shortfalls we experienced. And, despite being the largest producer of ethanol on the planet today, we continue to rely on imports of ethanol from Brazil whenever production in the U.S. falls short of demand.

In addition, since 2011 the U.S. has become a reliable supplier of ethanol to Brazil when its ethanol industry experiences production shortfalls due to challenging growing and crush seasons, or has chosen to produce sugar instead of ethanol due to more attractive world sugar prices. Together, our two nations have worked hard to develop ethanol into a true global commodity and to promote its production, use and trade around the world. And, over the last decade, each of our two countries has worked to identify and remove tariffs and other barriers to free and fair trade in ethanol.

UNICA's Previous Advocacy for the Elimination of Import Tariffs

As an example of this effort, from 2008 to 2011, UNICA aggressively lobbied the U.S. government, as well as the U.S. ethanol industry and consumers for the removal of a US $ 0.54 tariff that was imposed to offset U.S. tax credits that applied to imported ethanol in the same way they applied to domestically produced ethanol. Despite being imposed to ensure that U.S. taxpayers were not subsidizing foreign ethanol production already being subsidized by the host country, UNICA strongly objected to the offsetting tariff, claiming that it distorted trade. However, it did not. Brazilian ethanol imports were at time quite robust. It simply offset the tax incentive Brazilian ethanol would receive. Nevertheless, in a press release encouraging the tariff's removal, UNICA claimed that ". . . Americans are being denied an opportunity to save money at the pump. . . ., and that [e]liminating, or even reducing the tariff on cane ethanol could provide immediate relief, particularly in states like California and Florida. . . ."[2] . Thereafter, in May 2010, after successfully lobbying the Brazilian government to remove its own 20% tariff on ethanol imports, UNICA challenged the U.S. to end its US $ 0.54 offsetting tariff, stating that "[t]he best way to cut energy costs and reduce global dependence on oil is to give consumers more choices and make providers of different energy sources compete in open markets."[3] UNICA further stated that the removal of the tariff by Brazil was an "important step towards establishing ethanol as a freely traded, global commodity."[4] Despite it being an offsetting tariff, UNICA continued to fight both the US $ 0.54 tariff, and the blender's tax credit that served as the basis for the tariff's imposition.

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[2] UNICA Press Release, July 3, 2008, http://www.autoblog.com/2008/07/03/unica-says-4th-of-july-is-the-right-time-to-end-ethanol-tariffs/.

[3] http://www.unica.com.br/news/22317484920324775593/brazilian-sugarcane-industry-association-welcomes-ethanol-import-tariff-cut-by-brazil-por-centoE2-por-cento80-por-cento99s-government/.

[4] *Id*.

On December 5, 2011, in response to legislation introduced in Congress to extend the US $ 0.54 tariff, UNICA issued a press release stating that "[t]hese trade barriers prevent U.S. consumers from abundant and potentially more economic choices from friendly nations like Brazil . . . . The elimination of the import tariff on foreign ethanol would create an open, competitive marketplace resulting in more choices for consumers, less global fuel price volatility, and perhaps most importantly, increased savings at the pump for U.S. drivers."[5] Finally, on December 29, 2011, when the blenders tax credit and resulting offsetting tariff both expired and were not extended or reinstated by the U.S. government, UNICA celebrated the fact that Brazil and the U.S., for the first time ever, eliminated import tariffs and implored that now it was ". . .the time for these two countries to show leadership and work together to develop a truly global free market for ethanol without trade barriers."[6]

As recently as 2015, UNICA has publicly promoted the importance of free and open trade between our two countries in ethanol without the need of import tariffs. In a blog published on June 23, 2015, by current UNICA President Elizabeth Farina, it was argued that "Brazilian sugarcane producers have long been strong advocates of removing trade barriers and creating tax parity for renewable fuels. . . . Working together, the U.S. and Brazil have built a thriving global biofuels trade benefiting both countries, and we look forward to continued progress toward shared environmental and economic goals."[7]

However, the recent proposal from UNICA seeking to impose a new 16% tariff on ethanol imports seems to signal a dramatic and complete reversal of its prior position supporting free and open trade between our two countries. Despite previous claims that the removal of import tariffs creates an open, competitive marketplace in ethanol that ultimately provides less volatility in global fuel markets, more choices and competition, and lower prices for consumers, UNICA now seems to ignore these concerns in proposing a new 16% tariff on imports into Brazil. In addition, UNICA seems oblivious to the potential risk that, by imposing a tariff on imports from the U.S., Brazil could potentially spark a retaliatory action on the part of the U.S., and risk reversing all of the above economic and trade diplomacy efforts between our countries on this important energy source.

Impact of Import Tariff on Brazil

By imposing a 16% tariff on ethanol based on a purported carbon intensity difference between Brazilian sugarcane based ethanol and imported corn based ethanol from the U.S., as formally proposed by UNICA, the government of Brazil will only be successful in causing the price of ethanol or ethanol blended fuel to increase for Brazil's consumers. As Brazil remains reliant on ethanol imports to meet a significant portion of its domestic demand, the imposition of such a tariff will only force consumers to buy more expensive ethanol, or otherwise drive demand for more gasoline imports.

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[5] Leticia Phillips, UNICA press release, Dec. 5, 2011, http://www.prnewswire.com/news-releases/sugarcane-ethanol-producers-respond-to-unfair-legislation-to-extend-tariff-135062093.html.
[6] Ethanol Producer Magazine, Dec. 29, 2011: http://www.ethanolproducer.com/articles/8449/.
[7] Statement of UNICA President, Elizabeth Farina, June 23, 2015, http://sugarcane.org/blog/unica-statement-on-changes-to-brazil-tax-policy-on-imported-ethanol.

Brazil has imported a monthly average of 166 million liters of U.S. fuel ethanol over the past six months, meaning a total of nearly 1 billion liters has been imported from the United States during that time. U.S. ethanol imports have played an important role in holding Brazilian fuel prices down and helping to satisfy growing demand for ethanol in Brazil. At a time when world sugar prices have driven most mills to prioritize sugar production over ethanol production, creating an artificial barrier to U.S. ethanol imports would only increase fuel prices for Brazilian consumers and increase demand for gasoline imports.

By imposing a 16% tariff on ethanol based on a purported carbon intensity difference between Brazilian sugarcane based ethanol and imported corn based ethanol from the U.S., as formally proposed by UNICA, or by reinstating an across the board, 20% tariff on ethanol imports, as suggested by others, the government of Brazil will only be successful in causing the price of ethanol or ethanol blended fuel to increase for Brazil's consumers. As argued by UNICA for more than a decade against the offsetting tariff in the U.S., the real losers will be Brazilian drivers, who will no doubt suffer from higher gas prices. Moreover, to base the need for such a tariff on GHG reduction goals associated with world agreements to reduce carbon emissions like COP 21, when the result would ultimately increase Brazil's demand for gasoline imports, seems somewhat counterproductive to these goals. To the extent that gasoline demand in Brazil goes up, given the higher carbon intensity of gasoline fuel, it is no doubt that Brazil's GHG reduction goals would also suffer.

Request to Review and Comment on UNICA's Carbon Intensity Methodology

As noted above, we do not have the benefit of having full information concerning the proposal submitted by UNICA, and therefore are unable to carefully evaluate the proposal to determine whether and to what extent it results in an unfair and illegal barrier to trade. We are, however, concerned that any attempt to establish a country-wide, "one size fits all" carbon score calculation for ethanol from the U.S., that is not based on contemporary, up to date and scientifically sound data, and to use such a score to establish a tariff on all ethanol imports, would inevitably result in a clear and illegal barrier to trade. Therefore, we would respectfully request an opportunity to review a detailed draft of UNICA's carbon intensity proposal and an opportunity to append our comments herein with more complete and informed comments.

We sincerely appreciate your careful consideration of this letter, and look forward to working with you in the future to promote the continued economic cooperation between our two countries.

Respectfully submitted,

Emily Skor	Bob Dinneen	Tom Sleight
Growth Energy	Renewable Fuels Association	U.S. Grains Council