



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Floor Statement of Sen. Chuck Grassley
Chairman, Committee on Finance
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Mr. President, I'd like to speak on a matter that has gotten a lot of attention lately, and for good reason. The rising cost of gasoline is hitting all Americans hard. Families, businesses, farmers, and truckers are all hurting as the cost escalates out of control.

With gas prices now hovering near \$3 a gallon, everyone here in Congress is looking for a solution or for someone to blame. Unfortunately, some have chosen to pinpoint ethanol as the culprit. However, blaming ethanol for the costs at the pump ignores the fact that crude is at near record highs, and our country is still suffering from a strained domestic refining industry.

Around the country, gasoline refiners are making a voluntary decision to remove MTBE, a gasoline additive, from the market. In its place, they are using ethanol. So, ethanol is currently being blended for the first time in many parts of the East Coast and in Texas.

Because of the new demand for ethanol, some of my colleagues have begun to argue that there is a shortage and that it's responsible for the rising cost of gasoline. They look to increased imports of ethanol, and the lifting of the import tariff, as the solution. Let me be clear: There's no shortage of ethanol. And, ethanol is a tiny fraction of the cost of gasoline.

You don't have to take my word for it. Guy Caruso, Administrator of the Energy Information Administration of the Department of Energy, recently stated that the 10 percent blend of ethanol is affecting prices by "just a few pennies." Ethanol's role in gasoline prices is a tiny fraction of the overall increase.

I'd also like to address the claim that there is a shortage of ethanol. According to the Energy Information Administration, 130,000 barrels per day of ethanol are needed to replace MTBE. Last month, 302,000 barrels of ethanol were produced each day. That seems to me like it's enough to meet the demand. There's also 25 days of ethanol supply in storage.

Have there been some transportation issues surrounding the transition from MTBE to ethanol? The answer is yes, and they're being dealt with. Sufficient supplies of ethanol are where they need to be. There is no shortage of ethanol.

If there is no shortage, what good does it do to eliminate the import tariff on imported ethanol? None. Domestic supplies are sufficient.

Lifting the tariff won't have an impact on gas prices as the only other major producer of ethanol –

Brazil – simply doesn't have enough ethanol to export at significant levels at this time. I know this issue well. I was in Brazil just six weeks ago, and one thing I heard over and over was that Brazil is experiencing an ethanol shortage.

Shortages of ethanol in Brazil are being driven by strong demand for ethanol in that country. Looking at the longer term, USDA analysts in Brazil are reporting that Brazil is anticipating even higher demand for ethanol later this year and in 2007.

Given low supplies in Brazil, there has even been talk of importing ethanol into Brazil.

I'd like to point out something else. Brazil and other countries can already ship duty-free ethanol to the United States. They don't have to pay the U.S. tariff. Under the Caribbean Basin Initiative, Brazilian ethanol that is merely dehydrated in a Caribbean country can enter the U.S. market duty-free up to 7 percent of the U.S. ethanol market. That's generous access, but Brazil has never even come close to hitting the 7 percent cap.

And it isn't that the Caribbean countries don't have the capacity to dehydrate more Brazilian ethanol. They do.

As we're already providing duty-free access for Brazilian ethanol shipped through Caribbean countries, and as Brazil isn't taking full advantage of this duty-free treatment, I don't know why we should bend over backwards to provide even more duty-free access for Brazilian ethanol.

I especially don't know why we should do this given Brazil's stance in the Doha Round negotiations of the World Trade Organization. Brazil is the leader of the G-20 negotiating group in the WTO negotiations, a group that is resisting our efforts to obtain improved market access for U.S. products around the world.

In addition, the Brazilian government intervenes extensively in the price and supply of ethanol in that country. But the U.S. tariff on ethanol operates as an offset to an excise tax credit that applies to both domestically produced and imported ethanol. So by lifting the tariff, we would in effect be giving the benefits of a U.S. tax credit to subsidized Brazilian ethanol.

Providing yet more duty-free treatment for Brazilian ethanol would send the wrong signal to those Americans who are devoting their careers to help America become more energy independent. The U.S. ethanol industry is working every day to lessen our dependence on foreign oil. This is a virtue that President Bush has touted again and again.

Just last week the President restated his goal to replace oil from around the world by expanding the use of U.S. ethanol.

The President stated, "The federal government has got a role to play to encourage new industries that will help this nation diversify away from oil. And so we're strongly committed to corn-based ethanol produced in America." The President clearly understands the need to assist our domestic ethanol industry so that it can get a foothold and succeed. Why would the United States want to send a signal that we're backing away from our efforts to seek energy independence by promoting renewable fuels in the United States?

We're already dependent on foreign oil. Surely, President Bush doesn't intend for our nation to go down the path of eventually becoming dependent on foreign ethanol also. Providing yet more duty-free treatment would be a step in the wrong direction. I don't think our country should take any action that would harm the farmers and investors in rural America who have worked so hard to develop this industry. The efforts to reduce our dependence on foreign oil have only just begun.

Providing more duty-free treatment for ethanol won't increase supplies or reduce prices at the pump. It's a solution in search of a problem. It's a bad idea for our energy independence and our national security.