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Grassley Urges Energy Secretary to Consider Need to Retain Tariff on Ethanol Imports

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today urged Energy Secretary Samuel Bodman to consider the need to retain the U.S. tariff on ethanol imports. In a letter to the secretary, Grassley said the world’s other major ethanol producer – Brazil – already can send ethanol duty-free to the United States up to an annual cap but has never come close to meeting the cap. Therefore, there is no reason to lift the import tariff, Grassley said.

The text of Grassley’s letter follows here.

January 30, 2007

The Honorable Samuel W. Bodman
Secretary of Energy
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Secretary Bodman:

I am writing with regard to your recent comments reportedly advocating the lifting of the U.S. tariff on ethanol. I would strongly oppose any proposals that would terminate this tariff and increase U.S. dependence on foreign energy sources.

Brazil – the world’s other major ethanol producer – and other countries can already export ethanol to the United States duty-free. Under the Caribbean Basin Initiative (CBI), ethanol that is produced in a non-CBI country and then merely dehydrated in a Caribbean country can enter the United States duty-free. The cap on duty-free entry under this program is 7 percent of annual U.S. ethanol consumption, which comes to 351 million gallons for 2007. So, in other words, up to 351 million gallons of ethanol produced in Brazil and other countries can enter the United States duty-free this

year if such ethanol undergoes minimal processing in a Caribbean country. Given that U.S. ethanol consumption is increasing each year, the 7 percent cap will allow for even larger amounts of imported ethanol to qualify for duty-free treatment in 2008.

While the United States provides for generous duty-free access under this program, Brazil and other ethanol exporting countries have never come close to filling the 7 percent cap. For 2006, the cap for duty-free treatment was set at 268 million gallons, but only 182 million gallons were actually shipped. As the cap for 2007 is significantly higher at 351 million gallons, it is very unlikely that Brazil and other countries will take full advantage of duty-free access under the CBI program this year. In fact, the amount of last year's duty-free imports would fill barely half of this year's cap. Moreover, the issue is not the ability of Caribbean countries to dehydrate larger amounts of ethanol – they have the capacity to do so.

I see no reason even to consider lifting the ethanol tariff at a time when Brazil and other countries have yet to take full advantage of their existing opportunities to ship ethanol to the United States duty-free.

By removing the tariff, and thus providing yet more duty-free access for foreign ethanol, the United States would send the wrong signal. We would signal that we are backing away from our goal of increasing U.S. energy independence. Such a message could thwart further investments in the U.S. ethanol industry, which would in turn both harm rural America and make the United States even more dependent on imported energy sources.

I urge you to keep these points in mind as you consider this issue further.

Sincerely,

Chuck Grassley
Ranking Member