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Brasher: Brazil beseeches tariff cut to pump up ethanol use

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Washington, D.C. - Six million cars and trucks now on the road can run 85 percent ethanol, but most don't. The reasons are simple: There is little of the E85 fuel for sale, and where it is for sale it sometimes isn't priced low enough to compensate for the lower mileage that vehicles get using it.

Some Brazilians think they have the solution. Why not import some of their relatively cheap sugar cane-derived ethanol and offer it to motorists as E85?

"You have 6 million cars that do not pump ethanol because you do not have distribution of cheap ethanol," said Marcos Sawaya Jank, president and chief executive of the Brazilian Sugarcane Industry Association.

Brazil would like Congress to abolish the 54-cent-per-gallon tariff on imported ethanol. The duty is due to expire at the end of the year. However, the U.S. ethanol industry wants the tariff continued, arguing that it is necessary to assure investors of the industry's long-term viability.

The United States imported about 189 million gallons of Brazilian ethanol in 2007. Although production costs of Brazilian ethanol are significantly lower than the U.S. industry's, the tariff and shipping costs wind up offsetting the price difference.

Some Brazilian ethanol can be imported duty-free so long as it undergoes further processing in one of the countries that is a member of the Caribbean Basin Initiative. But that processing requirement increases the cost of the ethanol and the annual allowance for such duty-free imports is typically unfilled.

So Jank suggests Congress consider a variable tariff that would rise or fall according to the price of oil. The higher the price of oil, the lower the tariff would be, potentially saving motorists some money at the pump.

"We could do much more together in terms of trade policies that would be good for our countries," Jank said at a recent renewable energy conference.

Brazilian ethanol costs less to produce than corn ethanol because cane is cheaper than corn, labor costs are lower in Brazil, and the sugar distilleries need no outside energy source. They run on the waste from the cane.

Ben Bernanke, the chairman of the Federal Reserve, recently suggested cutting the ethanol tariff as a way of holding down food prices.

In Congress, Sen. Richard Lugar, R-Ind., has argued that ending the tariff would strengthen U.S. ties to Latin America while reducing U.S. dependence of imported oil, an oft-stated goal of the U.S. ethanol industry.

The Bush administration has expressed some support for that idea but pointedly stopped short this year of proposing anything in the president's 2009 budget.

A provision in the Senate-passed farm bill would extend the tariff through 2010. The future of that extension is in doubt because of the Bush administration's opposition to including tax measures in the farm bill.

Still, Iowa Sen. Charles Grassley, the ranking Republican on the Senate Finance Committee, which has jurisdiction over tariffs, won't hear of ending the tariff. He argues that eliminating the tariff would amount to subsidizing Brazilian ethanol since it would qualify for the 51-cent-a-gallon U.S. tax credit for ethanol. And, Grassley argues, there's no need to make it easier to import Brazilian ethanol when the Caribbean allowance isn't being filled.

If Congress won't eliminate the tariff, what about lowering it? That may not be so far-fetched.

Jank said the tariff should at the very least be no higher than the U.S. tax credit. For now, the tax credit is 51 cents. But there are plans in Congress to lower it to 46 cents so that the savings can be used to create a supplementary subsidy for ethanol produced from nonfood feedstocks, such as corn stubble and wood chips.

"Tariffs and subsidies should be at the same level," Jank said, speaking on a panel with Bob Dinneen, president of the Renewable Fuels Association, which represents the U.S. industry.

Dinneen's response? "I agree with that."

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