

July 10, 2008

The President
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. President:

Recently, much attention has been focused on rising food prices and the impact on American economy. Unfortunately, and inaccurately, our ethanol industry is being blamed for causing rising food prices by increasing the demand for corn. On June 2 a coalition of food and consumer organizations wrote asking you to suspend U.S. duties and quotas on imported ethanol used in the production of motor fuel “to favorably influence the price of feedgrains, energy costs, [and] food infrastructure....” We write today to request you continue supporting the United States’ ethanol industry in order to reduce our dependence on foreign oil.

The repeated claim that ethanol is responsible for retail food price increases continues to mislead and misdirect attention from the real factors driving up prices: skyrocketing oil prices; rising demand for food in emerging markets such as China; droughts and adverse weather around the world; commodity market speculation; and the declining value of the dollar.

Numerous factors contribute to the retail price of food. According to the U.S. Department of Agriculture, labor accounts for \$.38 of every dollar a consumer spends on food, by far the largest share. Retail food products such as cereals, snack foods, and beverages with corn-based sweeteners contain very little corn. Therefore, fluctuations in the price of corn are not often reflected in the retail prices of these items.

As an example, a standard box of corn flakes contains approximately 10 ounces of corn, or 1/90th of a bushel. Even at today’s spot market price for corn per bushel, a box of corn flakes contains less than a dime’s worth of corn. Corn is a more significant ingredient for meat, dairy, and egg production. However, corn still represents a relatively small share of these products from a retail price perspective. It takes about 3.6 pounds of corn to produce one pound of pork (live weight). This equates to an increase of less than 25 cents worth of corn when the market prices of corn is \$7.00 per bushel compared to \$2.50. The facts clearly show the link between ethanol, corn prices, and retail food prices is minimal. Regardless, opponents of ethanol ignore the facts and provide no supportive justification for calls to amend current ethanol policies.

Ethanol imported into the United States is subject to two customs duties: an *ad valorem* tariff rate of 2.5 percent and a secondary tariff of 54 cents per gallon. The 54 cent per gallon secondary tariff was enacted by Congress in 1980 to offset any incentive for imported ethanol to benefit from the 54 cent per gallon tax credit for ethanol blended into motor fuel. This tax credit is taken by refiners who blend ethanol into motor fuel, not ethanol producers.

The purpose of the secondary tariff is to protect American taxpayers from subsidizing imports, not to protect domestic ethanol producers. Without this tariff, American taxpayers would be subsidizing foreign-produced ethanol, primarily from Brazil.

The ethanol tariff was not intended to provide protection to the U.S. ethanol industry and indeed it does not prevent imports. In 2007, the United States imported approximately 450 million gallons of ethanol, of which more than 198 million gallons came from Brazil. In addition, the Dominican Republic, El Salvador, Honduras, Guatemala, Nicaragua and other countries included in the Caribbean Basin Initiative (CBI) can import up to seven percent of the previous year's domestic consumption, duty free. In 2008, up to 452.5 million gallons may be imported duty-free from CBI countries. As domestic ethanol consumption continues to grow, so will the volume of imported duty-free ethanol under this program.

Changing current ethanol public policies will have virtually no impact on corn prices or retail food prices in the United States. Therefore, we respectfully request that you reject any misdirected efforts to lay blame on the ethanol industry for rising food prices. Furthermore, we encourage you to continue supporting the American ethanol industry which is reducing our dependence on foreign sources of oil.

Sincerely,

American Coalition for Ethanol
Ethanol Producers and Consumers
National Association of Wheat Growers
National Corn Growers Association
National Farmers Union
National Sorghum Producers
Renewable Fuels Association