

Just the Facts:

Removing the Import Tariff on Ethanol Unlikely to Increase Supply while Subsidizing Foreign Producers

The recent voluntary shift away from methyl tertiary butyl ether (MTBE) to ethanol undertaken by U.S. gasoline refiners has put increased focus on America's ethanol and gasoline supplies. Some have suggested that the secondary tariff on imported ethanol should be removed, at least temporarily, to augment domestic supplies. It is claimed this would lower prices at the pump. This claim is flawed on a number of counts.

Ethanol supplies are sufficient.

The Energy Information Administration (EIA) estimates that 130,000 barrels per day (b/d) of ethanol will be needed to replace the volume of MTBE refiners have chosen to remove from the gasoline pool. The most recent EIA report shows that U.S. ethanol production has soared to 302,000 b/d in February, clearly enough ethanol to meet the new MTBE replacement demand while continuing to supply existing markets. With 35 new ethanol biorefineries under construction, ethanol production capacity will only continue to increase.

In addition, EIA data shows a large increase in ethanol stocks. Because gasoline marketers and ethanol producers have been building stocks over the past several months in anticipation of the transition from MTBE, there is now nearly 25 days of supply in working inventory. Additional data has shown that imports are rising also, demonstrating the existing tariff structure is not a barrier to entry. Indeed, more than 25 million gallons of ethanol were imported in February. Moreover, some 40 million gallons of ethanol has been imported duty free through the Caribbean Basin Initiative (CBI) as of May 1, 2006, with much of that being Brazilian in origin. All of these numbers indicate that ethanol supplies are sufficient to meet the new demand.

Removing the tariff means American taxpayers would be subsidizing Brazilian ethanol production.

Removing the 54 cent secondary tariff would in essence be asking American taxpayers to further subsidize already heavily subsidized ethanol and sugarcane production in countries like Brazil. U.S. gasoline refiners receive a 51 cent tax incentive for every gallon of ethanol they blend into gasoline, regardless of the ethanol's origin. So, imported ethanol from Brazil, for instance, qualifies for the tax incentive. Brazil has built its ethanol industry through 35 years of tax incentives, production subsidies, mandates, export enhancement, infrastructure development, debt forgiveness and currency devaluation. Brazil does not need U.S. tax dollars to compete effectively, as evidenced by the fact 135 million gallons were imported last year and those volumes are increasing.

Repealing the tariff won't lower gasoline prices.

Gasoline prices will not be affected by removing the secondary tariff on imported ethanol. Imported ethanol represents just a fraction of the ethanol used to replace MTBE, and ethanol itself represents just 3 percent of U.S. motor fuel supplies. The factors truly driving the price of gasoline higher have nothing to do with ethanol supplies. Record crude oil prices, tight refining capacity, lower gasoline production, lower gasoline imports and limited expansion of domestic refining expansion all play a much greater role than the supply of ethanol in today's higher gasoline prices.

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