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Will the U.S. Becoming an Ethanol Exporter Affect Brazil?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: How Will the U.S. Becoming an Ethanol Exporter Affect Brazil?

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According to a new study from the Renewable Fuels Associ-ation, the U.S. biofuels industry group, the United States is set to become a net ethanol exporter this year, with exports expected to reach 330 million gallons. What is behind this new trend? Is Brazil, which has had to import ethanol due to a domestic shortage, losing market share to U.S. ethanol producers? What future regulatory developments in both countries will influence their export capability?

A: Joel Velasco, chief representative in North America of the Brazilian Sugarcane Industry Association (UNICA):

"At the core of rising U.S. ethanol exports is an indisputably mature industry. America is by far the world's largest ethanol producer, with more than 12 billion gallons of corn ethanol annually. The industry was even described as 'mature' in a recent report by the President's Biofuels Interagency Working Group. This is the result of an elaborate system of subsidies and trade barriers that have existed for more than 30 years. Ironically, U.S. producers are even exporting ethanol to Brazil now, capitalizing on the weak U.S. dollar and Brazil's decision earlier this year to eliminate its own tariff on imported ethanol. Also, with Brazil's economy booming, and three million new flex-fuel vehicles added to Brazil's auto fleet in 2009, demand for ethanol is strong in Brazil. A growing economy and market competition are good for consumers and producers alike. With record exports, the U.S. ethanol industry is clearly ready to compete. And yet, defying all logic, they maintain that they need more subsidies and trade barriers, because they will be decimated if they go head-to-head with sugar cane ethanol. It is clear that some are simply determined to avoid healthy market-based competition, all at the expense of consumers. Consumers win when businesses compete in an open market; the same principle holds true for the renewable fuels market. The biggest regulatory hurdle is the 54-cent per gallon tariff on imported ethanol in America, which is set to expire this year."

A: Matt Hartwig, director of public affairs at the Renewable Fuels Association:

"The recent surge in U.S. exports of ethanol is good news for U.S. producers struggling with a capped domestic market and tight margins. But these increased exports raise two critical questions: Should the United States be maximizing its use of domestic renewable fuels like ethanol to displace oil imports? Or, should the United States continue to look to overseas markets to help its balance of trade? The answer to both is yes, but all in due time. The U.S. ethanol industry has been built as a tool to address the nation's dependence on imported oil. Yet, artificial caps are placed on the amount of ethanol the United States can blend into a gallon of gasoline.

The Obama administration should lift that cap to at least 15 percent ethanol in each gallon, as a current waiver from the ethanol industry requests, for all vehicles on American roads. Such a move, together with investments in ethanol infrastructure and new technologies would ensure the United States is maximizing the benefits of domestic ethanol production and use. Only after the United States has realized these benefits should it actively look to overseas markets for its ethanol. A global trade in ethanol should and will develop. In the meantime, each nation should be allowed to realize its own potential without interference from other nations."

A: Gal Luft, executive director of the Institute for the Analysis of Global Security in Washing-ton:

"The United States has vast potential to increase its ethanol production capacity, but the ability of its domestic market to absorb the fuel has maxed out. The reason: in the United States, ethanol is used as a fuel additive and Environmental Protection Agency (EPA) regulations allows cars to burn fuel that contains as much as 10 percent ethanol. Once the industry reached this blend wall it can only grow by exporting its product. This is why its main lobbying priority is to raise the blend wall to 15 percent. The EPA's ruling on whether or not to do so is due this month. Should the EPA rule in favor of the industry, the domestic market will expand and the industry is likely to shelve its plans to export product. Should the Obama administration decline to raise the blend wall, we can expect the U.S. ethanol industry to divert growing parts of its yield to foreign markets while fighting hard to maintain the 54-cent-per-gallon tariff on imported ethanol. This does not necessarily mean a loss of market share for Brazilian ethanol. Brazil's sugar industry has experienced a bumper crop this year and the country's ethanol production is expected to rise 19 percent. But Brazil is also on the verge of opening a vast new market for its ethanol: Iran, which faces sanctions on imported gasoline. Brazil's ethanol would allow Iran to replace as much as 20 percent of its gasoline requirement hence neutering the sanctions. Oil prices are expected to rebound, sanctions on Iran passed this week and global demand for ethanol will increase. Neither Brazilians nor Americans should worry. There will be sufficient market for ethanol for everyone to profit."

The Energy Advisor *welcomes responses to this Q&A. Readers can write editor Gene Kuleta at kuleta@thedialogue.org with comments.*