INSTITUTE FOR AGRICULTURE AND TRADE POLICY
2105 FIRST AVENUE SOUTH
MINNEAPOLIS, MINNESOTA 55404 USA

PRESS RELEASE

FOR IMMEDIATE RELEASE
June 22, 2005
Contact: Ben Lilliston, 612-870-3416, blilliston@iatp.org

CAFTA Would Increase Ethanol Imports, New Report Finds

Agribusiness Investing in CAFTA Countries to Export Into U.S.

Minneapolis - The Central America Free Trade Agreement (CAFTA) will lead to increased ethanol exports largely from Brazil entering into the U.S. tariff-free, according to a new report released today by the Institute for Agriculture and Trade Policy (IATP).

The report found that agribusiness firms are already investing heavily in Brazil and the Central American region in an effort to take advantage of the CAFTA ethanol provisions. Under CAFTA, if Central American countries convert Brazilian ethanol into fuel for the U.S., 240 million gallons of ethanol could be exported into the U.S. tariff-free in 2005. That number is just the tip of the iceberg. If ethanol feedstock produced in Central America is part of a 50 percent blend with Brazilian ethanol, unlimited amounts could be exported into the U.S. tariff-free.

"It doesn't make any sense to give away our ethanol market, something farmers and rural communities have spent 20 years building, to a bad trade agreement," said Mark Ritchie, President of IATP. "Ethanol has the potential to create jobs in struggling rural communities while establishing a stabile, local, renewable source of energy. Why would we agree to a trade deal that undercuts this growing market?"

The U.S. ethanol market has seen rapid growth over the last several years. There are currently 84 ethanol plants in the U.S. with another 18 scheduled to come on-line in the next year. More than half of the ethanol plants are farmer-owned. Congress has instituted a 54 cent per gallon tariff on ethanol imports to promote the development of the domestic renewable fuel industry.

The full paper, *CAFTA's Impact on the U.S. Ethanol Market,* is available at: iatp.org. Major findings include:

- For 2005, 240.4 million gallons of ethanol derived from foreign feedstocks are allowed to enter the U.S. from CAFTA countries tariff free. This is more ethanol than, or roughly equal to, what is produced by farmer-owned ethanol plants in most of the top ethanol producing states in the U.S., including: Nebraska, Kansas, Wisconsin, Illinois, Indiana, Missouri and South Dakota.

- Global agribusiness companies have announced plans or have finished construction on ethanol processing plants in El Salvador, Jamaica, Trinidad and Tobago, and Panama. These plants are designed to import high water content Brazilian ethanol, dehydrate the ethanol to make it fuel grade and useable in the U.S., and export it into the U.S. tariff-free.

- It would not be difficult for CAFTA-based ethanol facilities to use a portion of regional feedstock in their ethanol production, which would allow them unlimited exports into the U.S. tariff-free.

- Agribusiness companies are making significant investments in Brazil to increase ethanol exports. These investments include Cargill's decision to expand its soy port in Santos to include the world's first ethanol exclusive terminal.

CAFTA adopts ethanol language currently in force under the Caribbean Basin Initiative (CBI). Under the CBI, countries can export 7 percent of total U.S. ethanol production that is derived from foreign feedstock (ie Brazil) into the U.S. tariff-free. Unlimited levels of ethanol that is derived from 50 percent feedstocks produced within CBI countries can be exported into the U.S. tariff-free.

CAFTA locks in the CBI's ethanol language. The CBI provisions are permanent until another free trade agreeement comes into effect. In this case, CAFTA overrides the CBI. CAFTA could have increased or decreased the levels of tariff-free ethanol entering the U.S. This is why agribusiness companies waited until CAFTA was agreed to in December 2003 to begin rapid investment in ethanol-related ventures in Central America and Brazil.

"It's clear that agribusiness companies interested in exporting into the U.S. were waiting for CAFTA before they started to build the infrastructure," said IATP's Ben Lilliston, the report's lead author. "CAFTA gives them a guaranteed market. If CAFTA is passed, we can probably expect to see many more ethanol facilities designed to export into the U.S. market popping up in Central America and Brazil."

Last week the Senate overwhelmingly approved an amendment to the Energy bill that would require an 8 billion gallon Renewable Fuel Standard by 2012.

"The decision on whether to approve CAFTA will go a long way toward deciding how much of that 8 billion gallons will be American-produced and how much will come from other countries," said Lilliston.

The full report can be found at: iatp.org.

The Institute for Agriculture and Trade Policy works globally to promote resilient family farms, communities and ecosystems through research and education, science and technology, and advocacy.

##