RENEWABLE FUELS ASSOCIATION

May 10, 2017

Via Online Submission

Mr. Patrick Kirwan
Director of Trade Promotion Coordinating Committee Secretariat
U.S. Department of Commerce
Docket No. DOC-2017-0003

Re: Comments Regarding Causes of Significant Trade Deficits for 2016 – Request to Appear

Dear Mr. Kirwan,

In response to the April 17, 2017 notice for public comments and hearing regarding the Administration's report on significant trade deficits[1], the undersigned President and CEO of the Renewable Fuels Association (RFA), Bob Dinneen, hereby requests to appear at the hearing scheduled for Thursday, May 18, 2017, at 9:30 a.m., at the U.S Department of Commerce, 1401 Constitution Avenue, NW, Washington, DC.

I also seek an opportunity to present public comments at the hearing regarding the comments filed concurrently with this request to appear. The summary of my comments are as follows: Robust export markets and stable trade policies are crucial to the economic health of the U.S. ethanol industry. Over the last several years, China has emerged as a major export market for both U.S. ethanol and distiller's grains. However, the Chinese government has recently implemented changes to trade policies regarding imports of distiller's grains and ethanol from the U.S. Specifically, China implemented anti-dumping and countervailing duties on U.S. distiller's grains in September, 2016, and these duty rates increased in January 2017. In addition, China increased its tariff rate on U.S. ethanol from 5% to 30-40% in January 2017. These recent actions have resulted in collapse of ethanol and distiller's grains exports to China.

If you have any questions, or need any additional information, please feel free to contact our General Counsel, Edward S. Hubbard, Jr., Esq., at 202-289-3835.

Respectfully submitted,

Bob Dinneen
President and CEO
Renewable Fuels Association

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[1] 82 Fed. Reg. 18, 110 (April 17, 2017).

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Mr. Patrick Kirwan
Director of Trade Promotion Coordinating Committee Secretariat
U.S. Department of Commerce
Docket No. DOC-2017-0003

Re: Comments Regarding Causes of Significant Trade Deficits for 2016 - China

Dear Mr. Kirwan,

The Renewable Fuels Association (RFA) hereby responds to the April 17, 2017 notice for public comments and hearing regarding the Administration's report on significant trade deficits.[1] The RFA is pleased to assist the Department of Commerce and the Office of the United States Trade Representative by providing information hereunder about tariff and non-tariff trade barriers that are particularly harmful to America's economic interests.

I. Background re Renewable Fuels Association

The RFA is the leading national trade association for the domestic ethanol industry. Its mission is to advance the development, production, and use of fuel ethanol by strengthening America's ethanol industry and raising awareness about the benefits of renewable fuels. RFA's 300-plus members are working to help the global community become cleaner, safer, energy independent and economically secure.

II. The Importance of Trade for the U.S. Ethanol Industry

For the U.S. ethanol industry, exports have become a key driver of industry health, growth and competitiveness over the last several years. As the lowest cost producer of ethanol on the planet for most of the last 6 years, the U.S. ethanol industry has significantly increased its ethanol export volumes from less than 200 million gallons in 2009, to more than 1 billion gallons in 2016. (See Chart 1, below) In addition, with the dramatic industry growth over the last decade, the ethanol industry's exports of dried distillers grain, the main co-product of ethanol production, has steadily increased from just over 2 million metric tons in 2007 to 11.5 million metric tons in 2016. (See Chart 2, below) Today, the U.S ethanol industry exports ethanol and distillers grains to more than 50 different countries, with key

[1] 82 Fed. Reg. 18, 110 (April 17, 2017).

markets including Canada, Brazil, China, India, and Mexico. The RFA and its industry stakeholder partners have been working diligently to expand exports by growing existing markets and identifying new markets for U.S. ethanol, in hopes of continuing the growth of ethanol and distiller's grains exports.

Chart 1

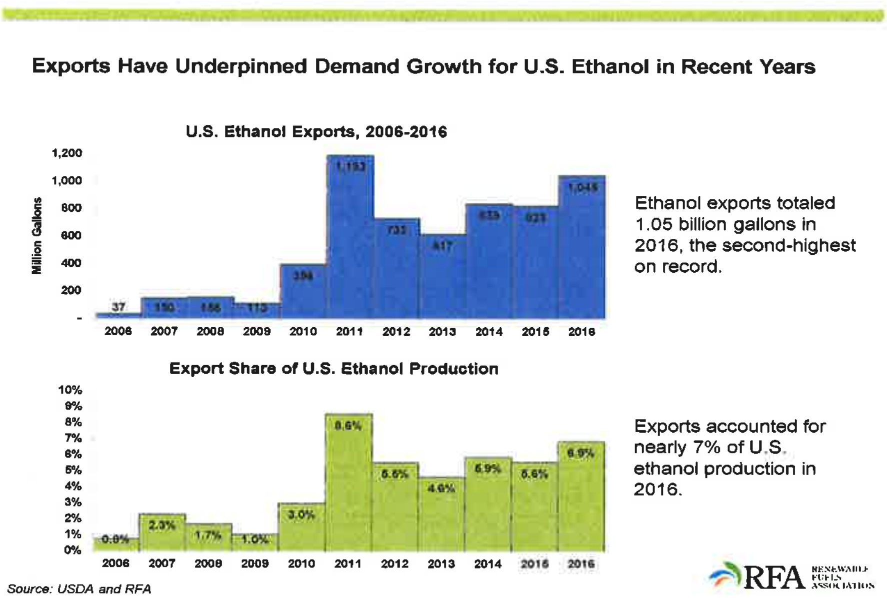
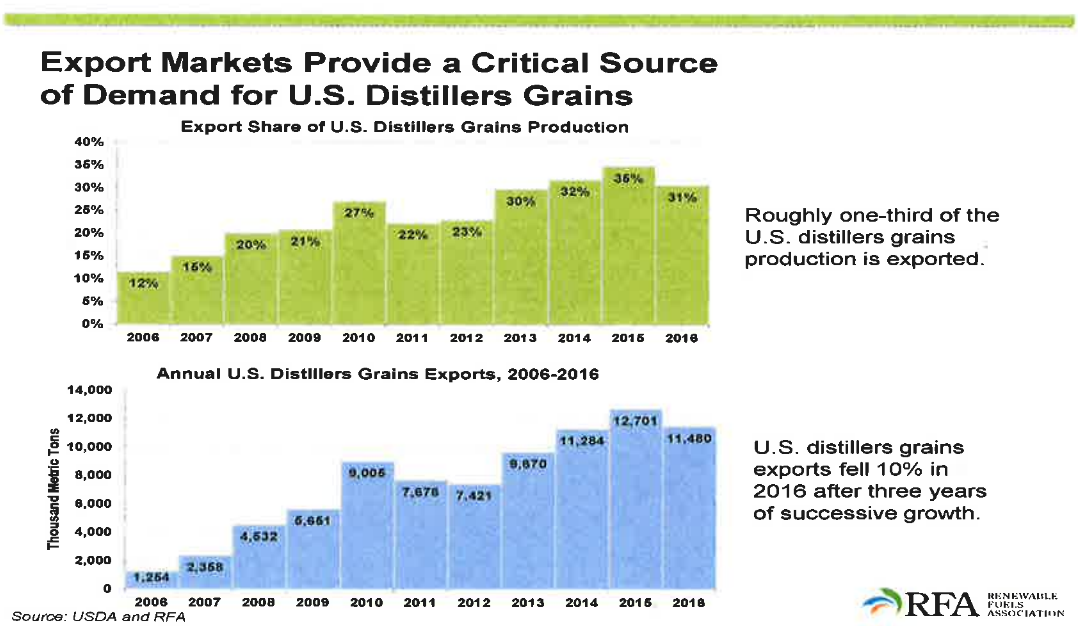


Chart 2



III. China and U.S. Ethanol Exports

Of the current export markets, China seemed to be emerging as a major export market for both U.S. ethanol and distiller's grains. However, recently, China has been implementing protectionist trade barriers that have effectively shut out exports of U.S. ethanol[2] and distillers dried grains (DDGS)[3]. We believe these actions are significantly injuring U.S. ethanol producers and farmers, and undermining the substantial investments our industries have made in developing a cooperative and mutually beneficial trade relationship with China.

A. China's Export Market Growth

Over the past decade, the U.S. ethanol and corn industries have dedicated extensive resources to opening the Chinese market to our products and developing a sustainable and synergistic trade relationship. And, initially, it appeared those investments in China were paying off for America's farmers and ethanol producers.

Despite not having imported any distiller's grains from the U.S. in 2006, by 2010, China emerged as the top market for U.S. distillers grains exports. The strong export growth continued over the next several years, and by 2015, distiller's grains exports to China had grown to 6.5 million metric tons of U.S. DDGS worth $1.6 billion, accounting for 51 percent of our total DDGS exports.

China also began importing U.S. ethanol in 2015 as part of an effort to increase the use of cleaner-burning renewable fuels and reduce smog formation in major cities like Beijing. Ethanol exports to China rapidly expanded in late 2015 and throughout 2016. By the end of 2016, the country had become the U.S. ethanol industry's **third-largest export market**, receiving almost 20 percent of total exports. Nearly 200 million gallons of ethanol worth more than $300 million were shipped to China in 2016, and prospects appeared bright for continued growth.

B. China's Recent Protectionist Actions

Despite having been a strong export market for the U.S ethanol industry, China has recently taken dramatic and severe actions to protect its domestic corn and ethanol industries. Specifically, China has halted exports of both ethanol and DDGS to that market, resulting in sharply lower prices for both products and financial harm to U.S. ethanol producers and farmers.

1. China Distiller's Grains Anti-Dumping Action

After a nine-month investigation that began in January 2016, China imposed in September 2016 a preliminary antidumping duty of 33.8 percent against U.S. DDGS, as well as a countervailing duty of 10 to 10.7 percent. These duties were implemented despite the fact that China's investigation did not find

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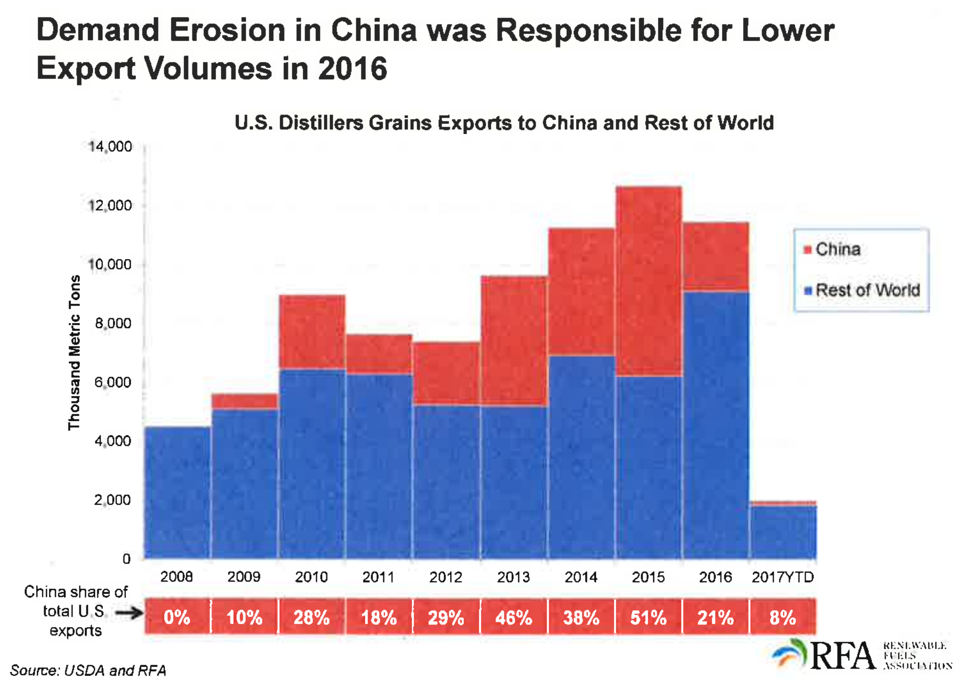
[2] Harmonized Tariff Schedule codes: 2207200010, 2207106010, 2207200090, 2207106090

[3] Distillers dried grains (DDGS) is the high-protein animal feed manufactured by ethanol plants. Harmonized Tariff Schedule code: 2303300000

any evidence of dumping or injury to domestic industries.[4] China's imposition of duties on DDGS raises important questions about whether the country violated its obligations under World Trade Organization (WTO) rules and ignored accepted protocols for investigations of alleged dumping.

The preliminary DDGS duties resulted in the rapid collapse of DDGS exports to China. In 2015 (i.e., prior to initiation of the Chinese antidumping investigation), DDGS exports to China averaged 538,522 metric tons per month. By November 2016, exports to China had plummeted to 61,575 metric tons—a dramatic 89 percent reduction. (See Charts 3, and 4, below). In January 2017, with its final determination, China raised the antidumping duty rates on U.S. DDGS in to a range of 42.2 to 53.7 percent and increased countervailing duty rates to 11.2 to 12 percent. Adding insult to injury, the Chinese have indiscriminately re-instituted a WTO illegal value added tax on the import of U.S. DDGS. Together, we expect these additional increases will substantially curtail DDGS exports to China in 2017.

Chart 3



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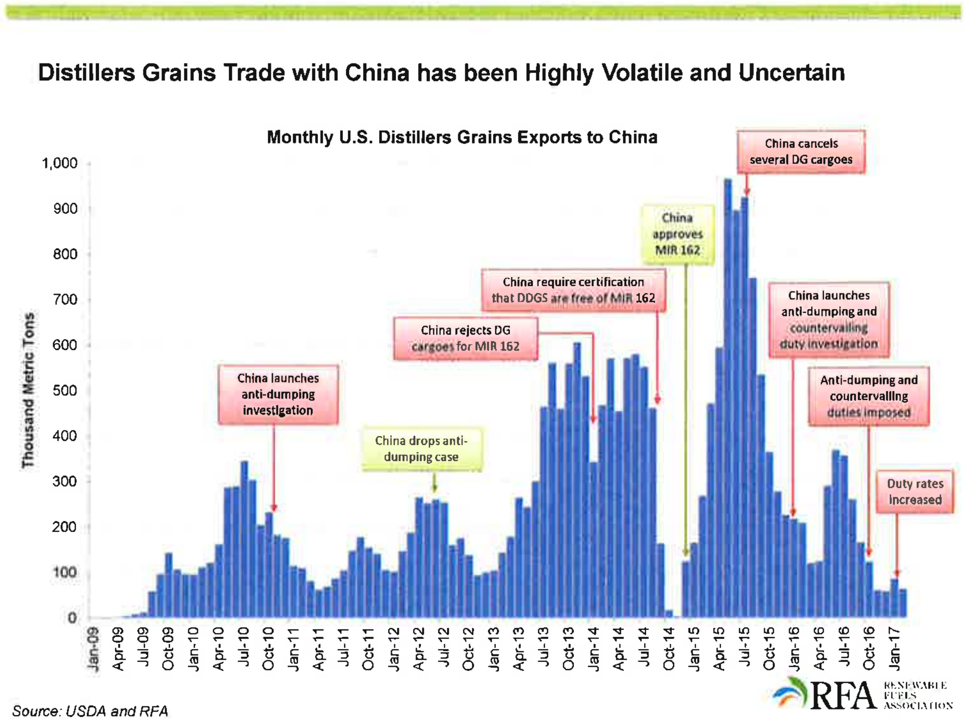
4 https://www.grains.org/news/20170111/us-grains-council-statement-china-actions.

Chart 4



2. China's Tariff Increase on Ethanol

As the New Year began, the Chinese government also announced it was taking punitive action against U.S. ethanol imports as well. Effective January 1, 2017, China has increased tariffs on U.S. ethanol from 5 percent to 30 to 40 percent.[5] As a result, it is being reported that Chinese buyers have cancelled orders for U.S. ethanol imports that were made prior to the tariff being raised.[6] It is widely believed that raising these tariffs will put an immediate end to ethanol exports to China, erasing the significant progress our industry made in developing that market over the past several years. China has not imported any U.S. fuel ethanol since November 2016. (See Chart 5, below).

Chinese officials will argue that the new rates of 30 to 40 percent are consistent with the rates agreed upon in 2002 when China acceded to the WTO. However, these rates are clearly the artifact of a time when no one could have known that the economic health of the U.S. ethanol industry would one day be so reliant on maintaining a robust export market. We respectfully ask that reform of these punitive ethanol tariff rates be included in any potential upcoming trade negotiations with China.

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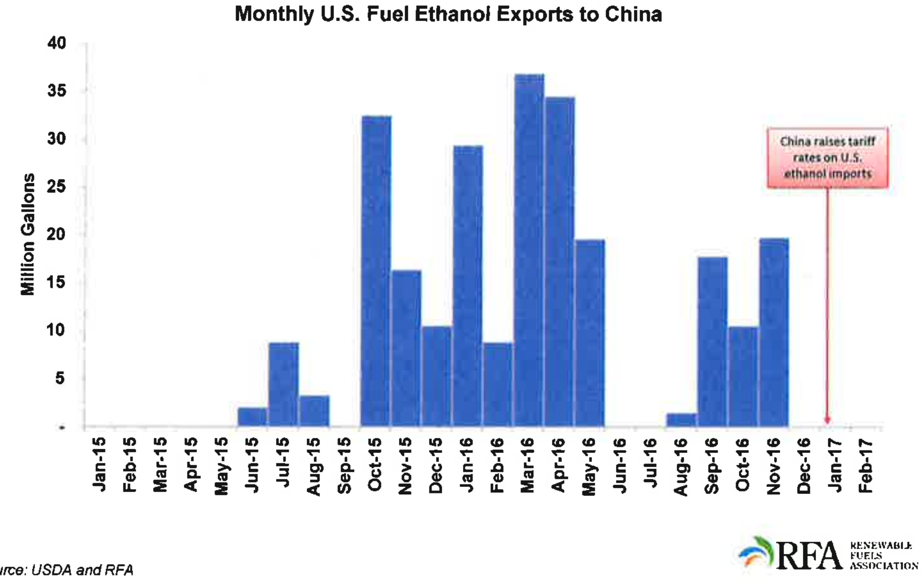
[5] U.S. Dept. of Agriculture, GAIN Report, China – Peoples Republic of, Rep. No. CHN 16067 (1/18/2017).
[6] Patton, Dominique (Reuters). "China cancels ethanol imports as tax hike threatens trade." Jan. 16, 2017. http://af.reuters.com/article/energyOilNews/idAFL4N1DM34C

Chart 5

China has not imported any U.S. fuel ethanol since November 2016



Source: USDA and RFA

C. U.S. Industry Impact of China's Protectionist Policies

China's recent actions are contributing to sharply lower prices for both ethanol and DDGS. Ethanol prices have plummeted 15 percent since mid-December 2016, as Chinese buyers have cancelled shipments. Meanwhile, DDGS prices have fallen steadily since the summer of 2016, when it became apparent that Chinese duties on DDGS were imminent. Today, DDGS prices are approximately 40 percent lower than in June 2016. (See Charts 6, and 7, below).

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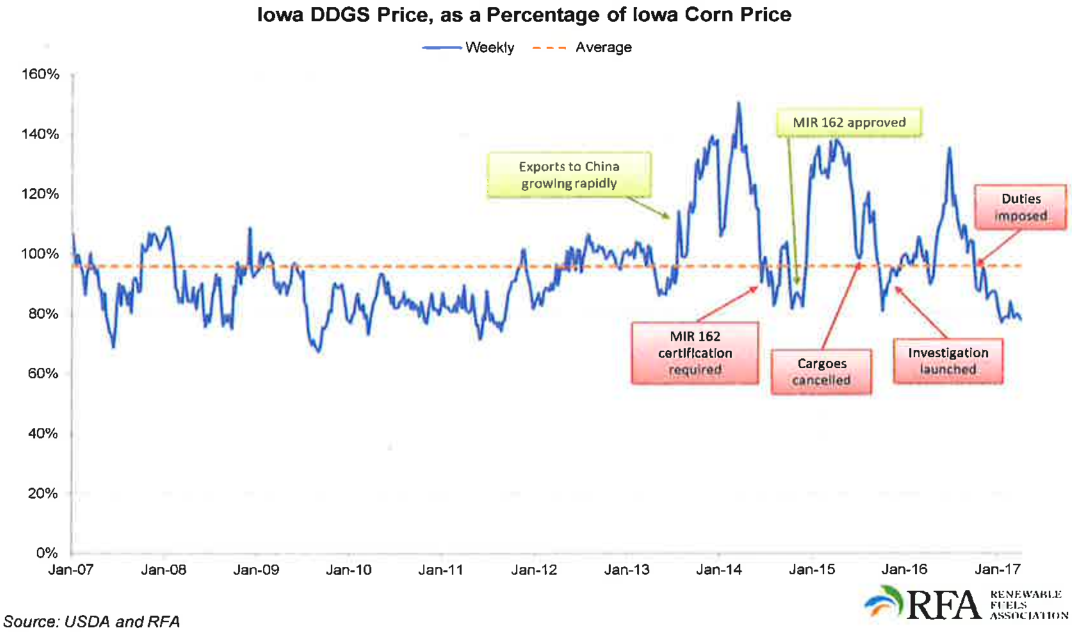
Chart 6

China's Actions Against U.S. Distillers Grains Have Significantly Affected Prices

DG-to-Corn Price Ratio at Six-Year Low



Source: USDA and RFA

Chart 7

What Does it Mean for U.S. Ethanol Producers?

- *DG prices at ~80% the price of corn means ethanol profit margins are likely $0.06-0.14 per gallon lower than if ratio was at more typical rate of 100-120%*
- *Difference between 80% DG-to-corn ratio and 100-120% ratio is $1-2 billion in net revenue across the entire U.S. ethanol industry*

2017 Year-to-Date Averages – Iowa Market	
Corn price	$120/ton ($3.37/bu)
DDGS price	$96/ton
DDGS-to-corn ratio	80%
Iowa dry mill net profit margin	**$0.01-0.11/gal**

DG-to-Corn Price Ratio	Iowa dry mill net margin ($/gal)
80% (*Actual* YTD Avg.)	$0.01-0.11
96% (10-YR Avg.)	$0.07-0.17
120% (open access to China)	$0.15-0.25

Source: RFA based on USDA-AMS data

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D. U.S. Industry Efforts To-Date to Resolve Trade Dispute

The ethanol and corn industries were completely cooperative with Chinese officials during the course of the DDGS investigation, providing them all of the requested information and actively participating in the process. Further, we have made every attempt to foster a productive and mutually beneficial relationship with China regarding U.S. ethanol exports. Unfortunately, these gestures of good will and cooperation have been rejected as China has implemented discriminatory trade policies aimed at harming American ethanol producers and farmers and protecting Chinese industry.

Despite an obvious reluctance of Chinese officials to find a path forward, the U.S ethanol and corn industries continue to work with the U.S. Trade Representative's Office, the U.S. Commerce Department, the U.S. Department of Agriculture, and other agencies in an effort to resolve these ongoing trade issues with China.

Thank you for the opportunity to provide comments on these important topics.

Respectfully submitted,

Bob Dinneen
President and CEO
Renewable Fuels Association