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Carta nº 001/DCR/SPG-MME

Brasília, 5 de abril de 2013.

VIA E-MAIL AND REGULATIONS.GOV
Air and Radiation Docket and Information Center
Environmental Protection Agency
Mailcode 2822T
1200 Pennsylvania Avenue, NW
Washington, D.C. 20460

Re: Regulation of Fuels and Fuel Additives: 2013 Renewable Fuel Standards, 78 Fed. Reg. 9281 (Feb. 7, 2013), Docket EPA-HQ-OAR-2012-0546

To Whom It May Concern,

1. The Brazilian Ministry of Mines and Energy (MME), on behalf of the government of Brazil, appreciates the opportunity to submit these comments to the United States Environmental Protection Agency ("EPA") regarding the proposed rule, titled "Regulation of Fuels and Fuel Additives: 2013 Renewable Fuel Standards" ("2013 RFS2 Rule"), 78 Fed. Reg. 9281 (Feb. 7, 2013).
2. MME welcomes this opportunity to share Brazilian view regarding the perspectives of production and utilization of ethanol fuel in both countries. Together, both countries produce nearly 90% of global ethanol production and share the same views of the role of bioenergy not only in our territories but also in developing countries. In this matter, it is important to emphasize that whatever both countries decide regarding biofuels policies, it will bring a significant impact on third party countries policies.
3. USA has proved in the last decade that is possible to have a perfectly clear policy on biofuels production and utilization through mandates. This achievement proves that it is possible to use ethanol in order to reduce fossil fuels dependence, increase the level of energy security and reduce GGE. In our view, the US is now in a crucial moment of its ethanol (and biofuels) policy considering that the blend wall of 10% mixture was reached and that, in order to fulfill the mandate imposed by RFS2, it will be necessary to include other uses such as E15 and E85 in a larger scale.

4. Since the United States passed the Energy Independence and Security Act of 2007 (“EISA”) and EPA implemented the RFS2 program, Brazilian sugarcane ethanol has played a critical role in helping the United States to achieve the EISA’s advanced biofuels mandates. We offer these comments to support EPA’s continuing commitment to promote advanced biofuels by maintaining the EISA’s statutory volume requirements despite the limited production of cellulosic ethanol. From our forecast of the season 2013/2014 that will initiate next May, we also want to assure EPA that Brazilian sugarcane ethanol producers are capable of exporting to the United States the 666 million gallons of ethanol that EPA projected will be required to meet the EISA’s statutory volume requirements for 2013. The main point of our comments presented here is to show the Brazilian ethanol supply-demand that the Brazilian government is using to shape our national ethanol policy for the short-term.

5. Table: Projections for 2013/2014 sugarcane harvest and ethanol production/demand

Product	MME/Brazil Forecast Season 2013/2014		Private Sector and Consultancy Companies Forecasts (Season 2013/2014)						Season 2012/2013 (b) Final	Var (%) a/b
	Min	Max	Datagro	FOLicht	Czarnikow	Kingsman	UNICA*	Average (a)		
Sugarcane crushing ¹	634	650	647	645	640	645	650	645	586	10%
Sugar production ¹	38,9	38,9	40,7	39,7	39,1	39,6	39,1	39,6	38.0	4%
Ethanol production ²	7,2	7,5	7,1	7,1	7,2	7,1	7,1	7,1	6.1	17%
Ethanol demand (BR) ²	6,1	6,4								
Exports ²	0,8	0,8								
End Stocks ²	0,25	0,26								

* Preliminary estimate. Note: ¹ - thousand tons; ² - million gallons.

6. The Brazilian government recently has decided to increase the percentage of anhydrous ethanol on gasoline blend to 25% from next May, 1st on. This decision was possible because MME hold monthly meetings with representatives of private sector (producers, fuel distributors and traders), other ministries representatives and the National Regulatory Agency for Oil, Gas and Biofuels, ANP in order to monitor the ethanol supply-demand in the short-term.

7. Since 2011, the Tripartite Meeting (Government, Ethanol Producers and Fuel Distributors) has been monitoring all aspects of ethanol market and because of the closest cooperation with private sector, even with supply restrictions that called for imports in that year (mostly from the US) the Brazilian government has not taken any measures restricting ethanol exports. Brazil supports the commoditization of ethanol.

8. One of the key factors of the success of this monitoring is that all agents of production and commercialization know in advance market conditions and become able to make more effective commercial decisions. In this sense, it is important that EPA to issue a final rule at the earliest opportunity to provide market signals to the Brazilian sugarcane farmers and mill operators who are already making production decisions based on projected demand for sugarcane ethanol in the United States.

9. In our opinion, the major uncertainty of materialization of Brazilian ethanol exports is due to RIN prices, not in production alone. The difference between Advanced RIN and Conventional RIN prices is maybe the most important variable in the equation of the viability of the US ethanol imports from Brazil.

10. MME agrees with EPA that Brazilian sugarcane ethanol meets both of Congress' purposes in the EISA: promoting energy security and reducing greenhouse gas ("GHG") emissions.

11. First, Brazil's long-term commitment to producing sugarcane ethanol as well as its productive and cooperative relationship with the United States ensures that consumption of Brazilian sugarcane ethanol is consistent with Congress' energy security goals, especially when compared to many foreign fossil fuel alternatives.

12. Second, as EPA appropriately concluded in the final RFS2 rulemaking,¹ Brazilian sugarcane ethanol offers significant reductions in GHG emissions when compared to a conventional gasoline alternative and qualifies as an advanced biofuel under the EISA. Both the lifecycle analyses considered by EPA in the RFS2 rulemaking and subsequent studies agree that GHG emissions reductions for Brazilian sugarcane ethanol exceed the 60% reduction threshold for cellulosic biofuels. In fact, lifecycle analyses of Brazilian sugarcane ethanol have found that GHG emissions may be reduced by as much as 90% when compared to gasoline.² Thus, continued reliance on Brazilian sugarcane ethanol is consistent with the EISA's purposes.

13. Despite the EISA's laudable goals of promoting the development of advanced biofuels that offer superior GHG reductions benefits, challenges associated with the production of cellulosic biofuels have prevented producers from achieving the EISA's aggressive volume requirements. As a result, each year EPA has been forced to exercise its authority under 42 U.S.C. § 7475(o)(7)(D) to reduce the required volume of cellulosic biofuels. While EPA also has discretionary authority to reduce the required volumes of advanced biofuels by an equal amount, MME agrees with EPA's interpretation that it "would not be consistent with the energy security and greenhouse gas reduction goals of the statute to reduce the applicable volume of advanced biofuel set forth in the statute if there are sufficient volumes of advanced biofuels available, even if those volumes do not include the amount of cellulosic biofuel that Congress may have desired." 78 Fed. Reg. at 9295.

14. As previously mentioned, Brazilian government supports the commoditization of ethanol and also it is proud of the role that Brazilian sugarcane ethanol has played in past years to help the United States achieve the EISA's statutory mandate for advanced biofuels and is confident that Brazil can provide sufficient volumes of ethanol in 2013 to allow the United States to meet the EISA's 2013 advanced biofuels requirement of 2.75 billion gallons.

15. In order to meet the EISA's statutory requirement for advanced biofuels, EPA projects that 666 million gallons of sugarcane ethanol will need to be imported from Brazil. 78 Fed. Reg. at 9298. Through the information already gathered not only by the Tripartite Meetings held by MME, but also based on projections of EPE (Brazilian Energy Research Enterprise) and the Ministry of Agriculture, Livestock and Food Supply, we are confident that Brazilian producers can meet, and likely exceed, these projections. As EPA pointed in the proposed rule, the Brazilian government is committed to supporting the sugarcane industry and has agreed to provide 2 billion USD annually in financing credit to sugarcane growers to support replanting and expansion of sugarcane fields. *Id.* These financial opportunities will help to ensure the long-term growth and stability of the Brazilian sugarcane industry.

¹ 75 Fed. Reg. 14,670 (Mar. 26, 2010).

² Zuurbier, Peter and Jos Van de Vooren, eds., *Sugarcane Ethanol: Contributions to Climate Change Mitigation and the Environment*. Wageningen, The Netherlands: Wageningen Academic, 2008.

16. As a result of these financial commitments and improved growing conditions, sugarcane harvests and ethanol production have increased substantially in the 2012/2013 harvest season, which concluded on March 31, 2013.³ Although sugarcane harvests and ethanol production declined in recent years due to poor weather during the growing season, increased investment in sugarcane production, along with improved growing conditions have produced substantial increases in sugarcane harvests and ethanol production. Final harvest data for the 2012/2013 season in the South-Central region totaled 532,607 tons, an 8% increase over the 2011/2012 season.⁴ Likewise ethanol production totaled 5.644 billion gallons, a 4% increase over the 2011/2012 season.⁵ Both of these values exceeded EPA's projections in the proposed rule. 78 Fed. Reg. at 9298. As a result of this increased production, Brazilian sugarcane ethanol producers in the South-Central region were able to export 887 million gallons of ethanol during the 2012/2013 season, more than 90% increase compared to 2011/2012 harvest.⁶

17. Initial projections for the 2013/2014 harvest season are also promising, with significant increases in sugarcane harvest. As mentioned previously, the projections of major internationally recognized consultancy companies and organizations indicate an average increase of 10 % for sugarcane and 17% for ethanol production for this harvest, an increase of around 1 billion gallons. While domestic demand may rise slightly due to the increase in Brazil's required ethanol blend from 20% to 25%, which should increase the demand for ethanol by 500 million gallons, the growth in ethanol production will more than make up for this increase, as shown in item 5 (Table: Projections for 2013/2014 sugarcane harvest and ethanol production/demand).

18. Assuming that the United States' market share of Brazilian sugarcane ethanol exports remains constant at approximately two-thirds, Brazilian ethanol exports to the United States should meet EPA's projections of 666 million gallons for 2013. Based on these initial projections for 2013/2014, we also believe that Brazilian sugarcane ethanol producers will be able to meet a portion of the additional volume required to meet the EISA's 2014 advanced biofuel requirement of 3.75 billion gallons. However, given the uncertainty in these initial harvest projections and the potential for growth in other advanced biofuel sectors, we think it prudent for EPA to refrain from making any preliminary decisions regarding the 2014 advanced biofuels mandate until it can obtain more accurate information about advanced biofuels production later in 2013.

19. In conclusion, we would like to share our view that ethanol trade must be stimulated, not restricted. Sugarcane ethanol has played a key role in helping the United States achieve its energy security and GHG emissions reduction goals under the EISA. We are confident that Brazilian sugarcane ethanol producers can even surpass EPA's projections for sugarcane ethanol exports to the United States in 2013 and expect that Brazilian sugarcane ethanol will continue to play a critical role in meeting the EISA's advanced biofuels mandate in

³ The South-Central region of Brazil, which produces 90% of the country's sugarcane follows an April to March harvest season. The North-Northeast region, which produces the remaining 10% follows a September to August season.

⁴ UNICA, Harvest update: Bi-Weekly bulletin (Mar. 16, 2013), *available at* <http://www.unicadata.com.br/listagem.php?idMn=63&idioma=2>

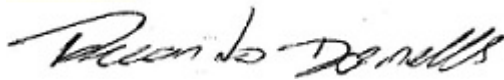
⁵ *Id.*

⁶ *Id.*

2014 and beyond. Also, we believe that any reduction of the US biofuels requirement will be understood as a significant withdraw inducing similar decisions in other regions and giving reason to those contrary of biofuels as a sustainable energy alternative.

20. We look forward to working with EPA and the United States in the future as both the United States and Brazil seek to promote clean, renewable fuels such as sugarcane ethanol.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ricardo de Gusmão Dornelles".

RICARDO DE GUSMÃO DORNELLES

Diretor do Departamento de Combustíveis Renováveis