
2. The development of biofuels in the current context of the Argentine economy

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2.1. Introduction

Since the National Investment Development Agency, Prosper.Ar, was founded in October 2006, we have noted a marked interest on the part of both local and foreign investors to explore new opportunities for business and new activities here. In fact, most of the questions from businessmen which we have been answering up until now, – as well as meetings held with investors, – have tended to focus on the scope of investment opportunities offered by different sectors. However these are no longer limited to our traditional productive areas, but include a range of different and innovative activities, some involving skilled labor, others intensive technology, and others the development of know-how.

Sectors as broad and diverse as software, bio-technology, information services, the production of content for TV programs, outsourcing for different services, biofuels and real estate development, to name but a few, have attracted the interest of both local and foreign investors. Such areas have also been the subject of analysis and assessment by our Agency. These innovative sectors are the new actors on the international economic scene and share a very positive spillover, compared with other sectors and activities. Furthermore, although they are still marginal in macroeconomic terms, these activities are a clear indication that we have both the capacity and drive required to move projects forward into new terrain, with greater productive diversification within a structure which creates greater added value.

It is no coincidence that these new projects have come to the fore over the last five years. They are the result of a national economic context which prioritizes productive and innovative activities, ensures that these are profitable, and provides a foreseeable and sustainable macroeconomic framework. There is a dynamic pulse behind demand, five straight years of vigorous growth, solid fundamentals (trade and fiscal balance as well as the prudent accumulation of reserves), a well managed floating exchange regime, strong growth in employment, and a reduction in poverty levels.

This unique economic scenario both underscores and revalues the structural potential of this country: a highly qualified population with one of the highest levels of education in Latin America, being very similar to that of developed countries; a great capacity for creativity, innovation and an entrepreneurial spirit, a vast reserve of natural resources, which has fostered the development of some of the most competitive primary and agricultural activities in the world; a broad technological infrastructure in continual expansion; and a highly diversified productive network which boasts the historic presence of the leading international corporations in the country, working alongside a flexible and competitive SME sector.

This is the framework in which local and foreign businessmen have been taking decisions to expand their capacity, launch new products, and introduce new activities. As a result, the levels of investment have shown a dynamic rate of development, contributing to the process of sustained growth. Internal investment rates in terms of GDP have reached a peak unequalled by any other over the last period of at least 25 years, and are expected to reach 23% of GDP by the end of this year. Foreign Direct Investment (FDI) figures are now in their third year of continuous growth, principally aimed at the productive sector and the expansion of capacity (unlike the mergers and acquisitions activity which characterized FDI during the 1990s). Actually, current FDI values have already surpassed the annual average recorded in the '90s, net of privatizations.

To summarize, the emergence and consolidation of these "new" sectors in Argentina is the direct consequence of a national context which is particularly favorable for the development of investment: one which emphasizes the range of skills and competitive resources on offer in this country. These developments have been taking place in a highly propitious international economic context, at least until mid-2007.

2.2. Why biofuels in Argentina?

Biofuels are an alternative energy source¹ to non-renewable fuels and contribute towards the diversification of the current energy matrix, which is basically made up of fossil fuels.

This phenomenon, which may be observed in most countries, including Argentina, has acquired momentum over the last few years as a consequence of different factors, which range from economic and environmental reasons to social and geo-political ones.

In fact, on one hand, the world economy's own drive to produce goods and services creates ever-growing needs for the generation and distribution of energy. This in turn means improving the efficiency of pre-existing systems and finding new sources of renewable alternative energy, which contribute towards reducing the emissions of pollutant gases.

On the other hand, the world is also experiencing a certain degree of scarcity with regard to fossil fuels. The production of these is regulated by the producers themselves, many of which are to be found in zones of conflict (basically the Middle East) or politically distanced from the larger powers (such as Venezuela, for instance). This has created problems in terms of supply, and in recent years given rise to a scenario of growing international demand, pushing the prices of these fuels to maximum historic levels. As a consequence of the confluence of these different issues, geo-political interest in diversifying the global energy matrix has intensified, with increasing value being placed on the development and consolidation of alternative sources.

Biofuels thus represent a clear opportunity for doing business in Argentina, to supply both domestic and world markets. It should be noted that this interest in biofuels at a global level has consolidated itself into a concrete, foreseeable demand of significant magnitude, which is not confined to developing countries, and which is expected to grow over time. This demand is the result of the commitments that a large number of countries have imposed on themselves over the last few years with the adoption of different laws and/or regulations which foresee a gradual and increasing obligatory assimilation of biofuels (bio-diesel or bioethanol)— in differing proportions— as opposed to fossil fuels.

These regulations represent a captive demand and thus both diminish the uncertainty and increase the profitability of investment projects, independently of the price of oil or gas (or even the value of biofuels themselves). It should be pointed out here that there are few activities in the world for which demand is actually guaranteed by law, decree or any other kind of regulatory measure. This stresses the strategic nature of the generation of biofuels in the current international context.

Regulations Established in Certain Selected Countries or Regions

Country /Region	Measures
European Union	Establishes graded blend ratios for fuels used for transport purposes: 2% for 2005, 2.75% for 2006, 3.5 for 2007, 4.25% for 2008, 5% for 2009, and 5.75% for 2010, with the aim of raising ratios to 20% by 2020. It is worth noting that transport represents approximately 60% of total fuel consumption.
Brazil	Establishes blend levels of biodiesel: 2% authorized in the 2005-07 period, an obligatory 2% for the 2008-2012 period and an obligatory 5% as from 2013.
U.S.A.	Establishes a consumption target of 28.4 billion liters of biofuels by 2012.
Japan	Establishes an authorized blend ratio of 3% with the goal of reaching 20% by 2030.
Canada	Establishes a blend ratio until 2010 of 10% bioethanol for 45% of the gasoline commercialized at domestic level and 2% for biodiesel as from 2012.

Source: ProsperAr using Worldwatch Institute data, 2006.

¹ Although biofuels are an alternative energy source, in practice they are –in the best case scenario– an option which lends itself to complementing the majority supply of fossil fuels.

Argentina offers favorable conditions for the development of biofuels, as it is one of the potential world leaders in terms of both its production and supply. Our country is characterized by vast expanses of land surface apt for agricultural production (some 30 million hectares of cultivated land), and an abundance of high-quality natural resources.

This gives us a number of comparative advantages regarding the production of diversified crops used as raw material for biofuels (basically soy, sunflowers and corn), and the development of other potential alternatives (such as seaweed, wood residue and other crops). We also have highly-qualified resources and professionals specialized in engineering and biotechnology.

Argentina also offers a high market potential for biofuels, as long as a sizeable part of the consumption of fuel for transport purposes is associated with diesel (which can be replaced by biodiesel).

As a result of the combination of its natural wealth and human resources, Argentina has experienced an agricultural revolution over the last 10 years, increasing to a maximum the productivity levels of its main crops. This in turn has allowed us to reach record levels of agricultural production year after year. Today, Argentina is among those countries with the highest figures of productivity in soy, corn, and their derivatives, and is one of the leading world exporters of soy, sunflower, and peanut oil.

From a regional perspective, the development of biofuels positions the Mercosur as a strategic region in the world. Argentina's potential range on offer complements that of Brazil, the leading producer of sugar cane-based bioethanol and one of the countries which has pioneered the development of biofuels. This broad-based offer of resources spread across the region, the complementary capacities existing between countries and, above all, the common interests surrounding this issue, foster favorable conditions for a move in the direction of an aligned and coordinated development of biofuels on a Mercosur scale.

2.3. A strategic sector for investment and growth

The public sector has recognized that Argentina possesses many opportunities for the development of biofuels and has provided a regulatory framework to specifically promote this activity. It is worth noting that in Argentina very few production sectors have their own promotional framework². Thus, the national law for the promotion of biofuels should be interpreted as a clear sign of the importance the government is giving to this sector, regardless of how much room for improvement there is within the given framework.

By sanctioning this law, Argentina has joined a group of pioneering countries that are advancing towards a greater institutionalization of the sector, thereby both stimulating domestic production, on one hand³ and creating an internal market. on the other. From 2010 onwards, it will be obligatory to add 5% of biodiesel to diesel fuels, and the same amount of bioethanol to gasoline; this will, in turn, contribute to reducing pollution levels in the environment. Hence, this law will contribute considerably to promoting investment, production and consumption.

Accordingly, investments of different sizes in the sector are already being carried out in Argentina, and a great many projects are in the offing. Current estimates of investments reach 2.2 million dollars. The largest projects have been undertaken mainly by vegetable oil producing companies, the oil company Repsol YPF, and other companies producing foodstuffs.

² Other sectors with specific regulatory frameworks are: biotechnology, with the sanction of the recent law no. 26.270, software, mining and the forestry industry.

³ Tax incentives worth noting include: upfront VAT refunds, a fast-track write-off of income tax when acquiring capital assets and infrastructure, exemption from assumed minimum income taxation for the first three years.

Plants under construction and prospective plants	Annual production capacity in tons	Location
AGD/Bunge	200,000	Santa Fe
Vicentin/Glencore	300,000	Santa Fe
Dreyfus	300,000	Santa Fe
Molinos	100,000	Santa Fe
Eurnekián	300,000	Buenos Aires Et Sgo del Estero
Terminal Pto. Rosario	200,000	Santa Fe
Repsol YPF	100,000	Prospective, Santa Fe
Cargill	200,000	Process to be approved, Santa Fe
Grupo San José	100,000	Prospective, San Luis or Salta
FT Holdings	100,000	Prospective.
Capital Group Comm.	100,000	Prospective, Buenos Aires
Bunge	100,000	Prospective
Citrusvil	60,000	Prospective, Santiago del Estero
Cil Global	100,000	Prospective, Corrientes
Total production capacity	2,200,000	

Source: Prosper.Ar, based on data provided by the Agricultural Secretariat, the Chambers of Commerce, and other specialized Media.

2.4. And finally...

Argentina is facing a great opportunity to move forward in the development of a project that promises to be highly lucrative. Producing biofuels will allow for an efficient and revalued use of our natural and human resources, as well as other critical capacities.

At Prosper.Ar, the National Investment Development Agency, our aim is to contribute towards positioning biofuels as a strategic sector for investment in Argentina, working as a team and in a coordinated manner with the private sector and public agencies involved in the area.

We have taken the first steps by approaching Chambers of Commerce and business associations in the sector, and establishing cooperation channels with the Secretariat of Agriculture, Cattle-raising, Fishing and Foodstuffs, the Secretariat of Energy and the Export.Ar Foundation, with the aim of working together. The close relationships we have started to build up with these different sectors are key to our main task of supplying information, and answering the queries we receive on a daily basis.

Likewise, we have started working on coordinating efforts that, when it comes to the promotion of biofuels, are already occurring in different provinces throughout the country, by means of the joint teamwork that we have been carrying out within the framework of the Federal Network to Promote Investors.

We have also been promoting biofuels as an attractive sector for investment on our missions abroad, and supplying detailed and up-to-date information to potential Argentine and foreign investors upon request.

And this is just the beginning. We know that there is a lot to do and many challenges to face: we must continue to consolidate the institutionality we have achieved, by analyzing the real potential of the regulatory framework provided, and evaluating possible amendments where necessary. We must also work to empower the public/private sector alliance and foster connections between business, universities and the scientific and technological community; we must find the means to facilitate financing, by coordinating action with multilateral credit agencies, the capitals market and the financial system; we must aim to achieve a relatively balanced participation of small, medium and large-sized enterprises when developing the sector; and finally, we must intensify international and regional cooperation, to make these new projects happen.

In Argentina, our approach to this process highlights biofuels as the strategic sector in our agenda of sustainable economic and environmental development. Hence, promoting the production and use of biofuels that will contribute to environmental sustainability, is not only an ecological necessity, but also a social and economic one to which we must all contribute.