
3. Biofuels: a new chapter in the promotion of Argentine exports

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3.1. Introduction

The global energy paradigm is immense and in a process of change, mainly as a result of economic, geopolitical and environmental factors. From an economic standpoint, our generation has witnessed the relentless increase in fossil fuel prices. From a geopolitical standpoint, access to oil has become more complex as a consequence of growing instability in extraction areas. And in terms of the environment, oil and coal burning (80% of the world's energy matrix) is one of the main reasons for global warming, due to the emission of greenhouse gases.

Though potentially a substitute for fossil fuels, biofuels are nothing but a complement so far. And although experts claim that with the projected production only 5% of the global energy demand can be met, these fuels are a technologically viable and economically feasible option. One of the most positive aspects of biofuel development is that existing engines or distribution mechanisms do not require major changes to use them, and therefore they will not replace the oil industry but rather complement it. Ultimately, they are an important element in the world's trend towards reducing the use of oil.

In the current scenario Argentina faces one of the most significant opportunities of its recent history. Our country has the full potential to become a key player in international fuel supply: With one of the world's most developed edible oil industries and a thriving agribusiness sector, it can become the "gas station" of the future.

3.2. The global scenario: present and future trends

Undoubtedly, the starting point is that today the world depends on oil as a source of energy. With the current consumption levels, this non-renewable resource is expected to last a maximum of five decades. Thus, the search for substitutes is essential. Meanwhile, for economic¹ and environmental² reasons, steps are being taken towards the establishment of renewable fuels, although at present, such initiatives are in their infancy.

A large portion of oil reserves are located in areas of growing instability and conflict, and over 80% of the barrels consumed today come from wells that went into production in the seventies. In addition, beyond the economic impact of the above situation, fossil fuel combustion is one of the main causes of global warming. These circumstances combined have put energy production on a path of no return and a new scenario is drawing near.

Biofuels are a growing business. The role of the U.S. and the European Union as consumers of both bioethanol and biodiesel is paramount: the U.S. consumes approximately 43% of the gasoline and 21% of the diesel production worldwide, whereas the European Union uses 14% of the gasoline and 26% of the global diesel production. Other major fuel buyers in the international arena are Japan, China and India.

The United States has embarked on the production of biofuels under the framework of what is known as the "Twenty in ten" plan, intended to reduce oil consumption by 20 percent in 10 years. Given the huge potential in the US for corn production – the raw material from which bioethanol is produced – it may virtually supply itself of this fuel, since it is also the first producer. Nevertheless, in the medium term its enormous automotive industry, fueled by gasoline, will require imports in order to secure supply.

1 Its progressive shortage causes its price increase: ten years ago a barrel of oil cost US\$10; at present it costs US\$80 approximately.

2 Environmental degradation requires a new energy matrix from mankind.

In turn, the European Union has set equally ambitious goals: 10% biofuel mix by the year 2010 and 20% renewable energy by 2020. Unlike the U.S., the European automotive industry is mostly diesel fueled, and although EU production is considerable, in the medium term it will prove insufficient to meet the demand required to comply with the above objectives.

In Asia the situation is quite different, given its dependence on the external supply of biofuels. China and India are large ethanol producers. However, for food security reasons, the use of renewable energies will depend on imports. In countries such as Japan and Korea, where natural resources are limited, supply will mostly originate abroad. The great exception is South-East Asia, where countries like Indonesia and Malaysia are major producers of palm oil and have a huge potential to produce biodiesel.

This change of paradigm indicates that the agricultural industry is not producing enough, that there is an unmet demand, despite the fact that for many years it was thought that there was an abundance and surplus in developed countries. However, projections for the year 2020 indicate that countries producing vegetable-based fuels will be in a position to multiply their current volume at least by four, which shows that the model is sustainable.

3.3. Argentina's international insertion and market access

Argentina is the largest international exporter of vegetable oils and fats; its edible oil industry is amongst the world's most efficient and sophisticated. After the U.S., our country is the largest corn producer-exporter and is among the top three nations in terms of soy harvest and export. Moreover, due to the feasibility and the need to grow alternative energy crops in order to diversify production, castor, jatropha, spurge weed, rape seed (most of them excellent for rotation) and other crops, are being tested.

Over the past few months Argentina has made significant progress towards creating a proper environment for businesses involved in the biofuels value chain: the national government has enacted act N° 26.093, which provides the legal framework (also implemented by most provinces) -; a futures market has been created for vegetable oils; producing facilities have begun exporting their biofuels; and specific budget allocations have been made for research and development, amongst them, the "bio-jet" project, which is aimed at the use of biofuels in the aviation industry³.

Biofuels are important for the Argentine economy, and in particular, for foreign trade. Whether it is because they are based on raw materials that the country exports, because they can become industrialized products for export, or because they are fully globalizable goods, Argentine foreign trade can experience a quality leap with this new product. In terms of positioning, Argentina has sent a clear signal of the role it wants to play in the international renewable fuels trade: to move forward towards value added production. A clear example of this is the tax policy: whereas vegetable oils are taxed with 24% and corn with 20%, biofuel export duties amount to 5%, with 2.5% drawbacks for biodiesel and 4% drawbacks for bioethanol.

Unlike other biofuel-producing countries, Argentina has the necessary resources to position itself as a safe and reliable supplier. Whereas current producers will be affected, in the medium term, by the need to increase their production, Argentina has not only the highest food production rate per capital of the world (not jeopardizing national food security), but also one of the largest margins of arable land available. According to private estimates, the domestic demand for biofuels can be met with only 9% of the vegetable oil production and 2% of the corn harvest. This means that, if we manage to integrate the agricultural-industrial-commercial processes, we will be engaged in an essentially international activity.

Regarding integration into the world economy, for Argentina MERCOSUR is the stepping stone for international trade relations. Consequently, Argentina's potential for the production of biofuels is maximized, because its main partners (Brazil, Uruguay and Paraguay⁴) are highly competitive in the agribusiness value chain. A strategic partnership with Brazil allows us to imagine the new ABC: Argentina + Brazil = Fuels (Combustibles, in Spanish) for the Future.

³ Only two countries have had successful flights using these fuels, Argentina being one of them.

⁴ Venezuela is in the process of acceding to the regional market; its accession has not been ratified by all member countries yet.

In recent years, MERCOSUR has engaged in negotiations to generate strategic economic partnerships with its main trade partners, especially the European Union, which, as already mentioned, needs to meet ambitious goals regarding fuel restrictions. MERCOSUR in general, and Argentina in particular, can become the EU's strategic allies in achieving its goal, even more so given that the European and Argentine automotive markets are mainly diesel-fueled, thereby providing room for cooperation.

All circumstances indicate that Argentina has been called upon to play a major role in the global biofuels trade: its location in the hemisphere to which all eyes turn in search of new energy, its partnership with Brazil, one of the powers in this sector, the advantage of having Europe as a client with tremendous potential, and its ability to supply other markets, such as North America or Southern Asia. Should we use a photograph to illustrate the great axes of biofuels trade flows worldwide, we would see a great vertical axis of bioethanol between the United States and Brazil and another oblique axis between the European Union and Argentina. Is this a scenario of dichotomies? The answer is an unequivocal no. It is a scenario of diverse markets, complementary productions, and potential alliances to face a new challenging demand that is difficult to meet.

Regarding market access, it is possible to identify a global trend among developing countries: most of them have high import duties, as shown by specific and ad valorem tariffs. In the case of the U.S., import duties on bioethanol amount to US\$ 0.51 per gallon; in the EU, the import tariff for biodiesel is 6.5%.

This situation cannot continue for much longer, and a trend towards these markets opening is expected in the near future, due to the fact that these countries will have to rely on imports as long as the market demands a growing amount of renewable fuels. In addition, since the rules of the game of the international biofuels market are still in the making, each nation's capacity will be a variable to consider for all players involved. Advances will be required in terms of technical regulations and certifications, and Argentina is in a position to successfully provide them.

The World Trade Organization (WTO) classifies tradable goods in agricultural and non-agricultural products. Bioethanol and biodiesel are included in different categories: the former belongs to agricultural goods; the latter, to the non-agricultural market access, or NAMA, in the multilateral organization's terminology. This means, pursuant to the WTO's Agreement on Subsidies and Countervailing Measures, that since biodiesel is a non-agricultural good, any direct subsidy on its production is illegal. This grants Argentina substantial comparative advantages in terms of enhancing its competitiveness, such as access to quality raw materials and low costs in the production chain. As the leader in food production, our country is in a position to become a significant player in the international biofuels trade, an advantage that is even greater if we consider that, at least until the end of 2008, it will enjoy the benefit of zero tariff rates in the framework of the Generalized System of Preferences (GSP).

3.4. The role of Fundación Export-Ar in the promotion of biofuels

Fundación Export.Ar has become a fundamental tool for the promotion abroad of strategic sectors with the potential for penetration, by expanding the relationships of over 5,000 national companies with which it cooperates in three stages: the definition of the trade context, the adaptation of companies to that context, and the application of intelligent penetration strategies in the chosen markets.

With the intention of consolidating as a leading agency in trade promotion, its work methodology is constantly aimed towards going beyond export promotion, in order to accomplish what is known as an "extended product". This includes working on the creation of commercial brands, international communication, partnerships with stakeholders, stable relationships with clients and partners in the value chain, and the development of direct distribution channels. In short, it aims towards differentiation in the broadest sense.

Every step taken by Fundación Export.Ar is driven by this philosophy and vision. In line with the growth in Argentine exports (which have doubled in the past five years and are expected to reach US\$ 52.0 billion in 2007), Fundación Export.Ar trade promotion activities have grown in both quality and diversity.

Over 25,000 yearly queries answered with trade information especially prepared for businesses; over a hundred trade promotion activities around the world every year (such as delegations from numerous corporations in more than 50 trade fairs worldwide and the insertion of Argentine products and companies in the most relevant global marketing

chains); several dozen foreign companies regularly invited to our country to take part in business round tables in order to build strategic supply relations; technical assistance provided in workshops, seminars, working meetings and gatherings attended by about 10,000 entrepreneurs from across the country every year; and programs for the promotion of specific sectors that develop strategic insertion plans in various markets for over twenty sectors of our economy, are all examples of the way we do our job.

Every action and program Fundación Export.Ar has enforced, aims at a modern corporate or industry internationalization. The increasing new forms of access to international markets present a series of choices, new mixed approaches that facilitate a dynamic and flexible display of competitive abilities in changing environments. And they demand, in addition, internationalization, and an ever growing integration into a network of inter-corporate agreements that exists beyond national borders, to enable them to include new cooperation methods in the direct international projection pathways.

In its capacity as an export promotion agency and the foreign trade promotion agency of the Ministry of Foreign Affairs, International Trade and Worship, Fundación Export.Ar perceives the national biofuels production as an important axis in the advancement of the country's exports. Therefore, Fundación Export.Ar promotes this area in the international market through several tools for Argentine companies. The task has thus begun, because when there is an opportunity, there is an answer to provide.