
8. Buenos Aires... a strategic destination for biofuels industry investments

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8.1. Introduction

The World is undergoing major transformation, with far-reaching changes in production and trading patterns. In an international context in which oil supplies approach their peak globally, and energy security becomes a major goal, developing regions like Buenos Aires have much to gain by supporting strategies around prospects for renewable energies and biofuels.

In that sense, as you'll soon discover, our province has great potential to share with you, from its economic strength and diversity, to the richness and quality of its natural resources, which provide comparative advantages in the development of activities related to those resources.

The existence of extended space, full of high quality natural resources and excellent environmental conditions, is undoubtedly an important factor in attracting investment towards the production of biofuels. As it will be seen moreover, our territory is not only important due to the availability of resources here, but also due to the conditions in which the exploitation of such resources is possible.

Furthermore the government of the province of Buenos Aires considers biofuels a priority because of their multiple benefits. Taking that into account Congress enacted law 13.719 which implements a regime for the promotion of production of biofuels in the province.

An investment in Buenos Aires takes place in a environment of growth, competitiveness, and productivity; we invite you to take part.. We hope to offer our experience and knowledge of the region when it's time for your company to make investment decisions.

Welcome to Buenos Aires. We hope to share our huge potential for the production of biofuels with you.

8.2. About Buenos Aires

Its location and geography

Buenos Aires province is part of the Pampeana region. It has an area of 307,571 km², which is similar to some European countries such as Germany (357 thousand km²), and Italy (301 thousand km²). It is Argentina's largest province and represents 11% of the national continental territory.

It has excellent soil, fine weather, and a strategic location in the south of America. These characteristics have been of vital importance for the province to become, as time went by, the most important area, regarding economic activity and human settlement in Argentina.

From a geographical point of view, the Pampeana plain is predominant, presenting a slight graduation towards the Argentinean sea. The plain is interrupted by two small mountain ranges with rugged peaks: Tandilia, at an altitude of 500 meters above sea level, and Ventania, at 1,100 meters. Its geographic situation, with an extensive coastline and easy access to the Atlantic, make it an ideal gateway for the development of an important port structure, with storage systems in Bahía Blanca, Mar del Plata, Necochea and Quequén, and fluvial ports in Río de la Plata and Paraná, for different uses. The province infrastructure guarantees the producers a platform from which their products can reach the world.

Its people

Buenos Aires is the most populated jurisdiction of Argentina. In 2001, according to the National Population and Housing Census, there were 13,827,203 people living in the province. The current population is estimated in 14.5 million, which represents 38.1% of the national population.

Buenos Aires's educational indicators are the highest in Latin America, in all of the educational levels considered, resulting in better quality human resources. The province has 4.5 million students from the first level to the highest. Illiteracy is 1.6%, in contrast to an average of 11% in Latin America. Apart from that, the net enrolment-rate at the secondary level is 85%, in contrast to the regional average of 67%. The best relative position also includes enrolment at university and tertiary levels, where Argentina and Buenos Aires register the highest levels in the region.

Its economy

With a US\$ 88 billion product, the province represents 35,5% of the national GDP. It is the provincial jurisdiction which presents the highest relative weight and productive diversification in Argentina. Buenos Aires exports reach 17.7 billion dollars. It generates four out of every ten dollars Argentina obtains from foreign markets.

Similarly, the province has played and still plays a main role in the expansion process that Argentina is going through, which started at the end of 2002. Since then, Buenos Aires registers an average annual growth rate close to 10.5%, much higher than the world and regional average, and is still growing for the fifth year in a row, surpassing its historical tendency.

8.3. The structure and outlook for the Buenos Aires biofuels industry

Agricultural sector

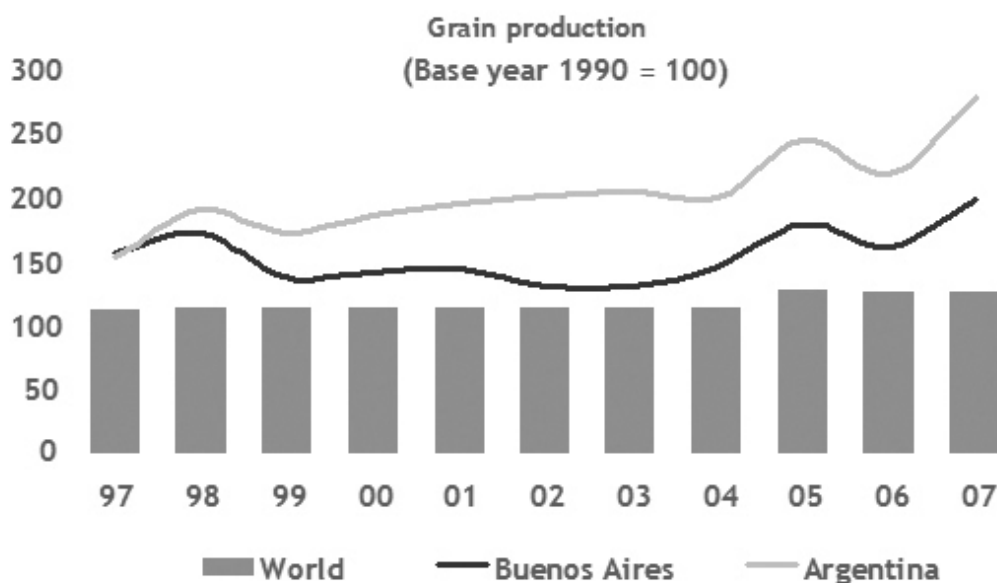
Local agribusiness is supported by many natural advantages. Diverse soil types and different climates across a vast landmass allow diverse crops to be grown from large-scale cropping and grazing. Counter-seasonal production in comparison with the northern-hemisphere means, that companies can produce throughout the year.

At the same time, leveraging these natural resources, our farmers have been working in partnership with some of the world's best R&D organisations to develop new crops, processes, and technologies, to suit Buenos Aires's growing conditions and to keep Argentina at the cutting edge of innovation. Developed and applied technologies support Argentina's long-term competitiveness. There is a wide range from breeding programs for improved genetics to advanced farm management and innovative and intelligent storage and transport solutions.

A sector with results presented as follows:

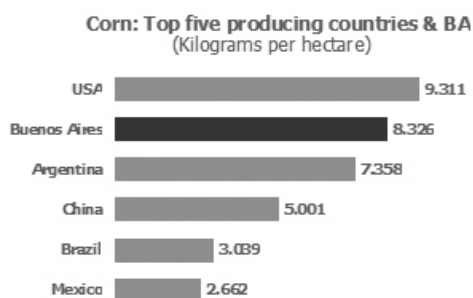
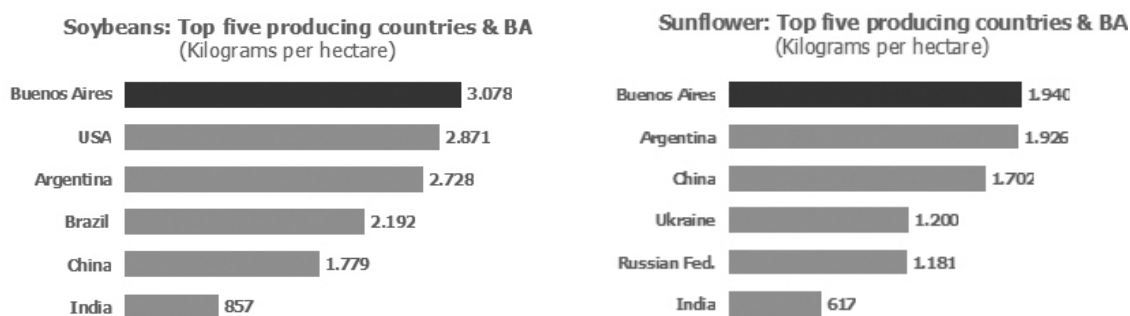
- Agricultural production in Buenos Aires increased by 97% between 1990–2007. During those years, the cultivated area expanded by 12%, showing significant yield progress (at the same time the world's agricultural production increased by 26%).
- A unique aspect of the situation in Argentina, compared to other large potential agricultural producers, is the relatively small share of domestic consumption. Nowadays Argentina represents 3,9% of the world's grain production, and 0.6% of the world's population. This creates a tremendous opportunity for export expansion.
- In 2007, grain production in Argentina totaled 95 million metric tons, which is a record level. Buenos Aires accounts for 35% of Argentine production.
- The yields of Argentina and particularly of Buenos Aires, are doing well in comparison with other major grain producers in the world.
- Argentina has become the world's largest exporter of soy and sunflower oil and the second largest exporter of corn. Furthermore it is one of the world's five largest producers of grains and vegetable oil. Argentina's domestic consumption is only 6% of total vegetable oil production.
- According to the last National Census of Agriculture in Buenos Aires, there are 50,620 farming-businesses covering a total surface of 25.8 million hectares. 42.5% of this arable land is used for crop growing, while the rest of the land is used for cattle raising, forestry, rural dwellings, and storage establishments. The greatest part of the cultivated area corresponds to oilseed crops such as soy and sunflower, and cereals such as maize and wheat. These crops, taken together, represent 62% of the agricultural production area.
- According to the last National Census of Agriculture in Buenos Aires, there are 50,620 farming-businesses covering a total surface of 25.8 million hectares. 42.5% of this arable land is used for crop growing, while the rest of the land is used for

cattle raising, forestry, rural dwellings, and storage establishments. The greatest part of the cultivated area corresponds to oilseed crops such as soy and sunflower, and cereals such as maize and wheat. These crops, taken together, represent 62% of the agricultural production area.



Source: United States Department of Agriculture (USDA) and Secretariat of Agriculture, Argentina (SAGPyA)

Source: Food and Agriculture Organization of the United Nations (FAO).



8.4. Outlook for the biofuels industry

Biofuel production is expected to show a strong upward tendency in coming years. It is driven especially by federal and provincial policies aimed at promoting biofuel use and competitive advantages for production in Buenos Aires to satisfy international demand.

Production is possible in a complete cycle (harvest – seed pressing – production of biodiesel) and this reduces costs and intermediaries. The marketing of by-products (expeller of soybean, sunflower, etc. as a base for balanced cattle food/ glycerol of 90% purity) constitutes an incidental, profitable business, and allows for the diversification of risk.

Many foreign and local world class companies are developing or analyzing business plans for this sector in the province. Argentina is on the verge of vast investment in biofuels that to merely fulfil the mandatory blending will require US\$ 300 million in disbursements. With the implementation of the 5% mandatory use of biofuels by the year 2010, the production required to serve the Argentinean market will be 175,000 tons of ethanol and 625,000 tons of biodiesel.

Buenos Aires has an immediate availability of the raw material needed to cover the requirements of the local market, and is also becoming one of the major exporters of biofuels worldwide. Nowadays 7 million metric tons of grains with the potential for the production of biofuels are exported without industrial transformation process.

As the raw material is readily available and globally cost competitive, most of the investments will be oriented towards enlarging milling and storage capacities and building the biofuels plants. Nevertheless, in order to allow the development of energy crops in marginal areas with favourable access to maritime port facilities, investments in the agriculture sector are also expected.

8.5. Legal framework

At the same time that biofuels projects are benefited by the incentives granted by the Federal Government under law 26.093, the provincial Congress has enacted law 13.719, in order to promote biofuels production in Buenos Aires. Provincial promotion is focused towards two main fields:

- A favourable tax treatment under a fiscal stability scheme (a 10 or 15 year provincial tax exemption depending on the production destination -export oriented projects or local market oriented projects-).
- The promotion of the cultivation of a variety of oilseeds, including newer varieties that cannot therefore be viewed as competing with foodstuffs.

8.6. Why Buenos Aires?

From the demand side

- Increasing global demand for renewable fuel sources, which can diversify the current energy matrix, as well as be environmentally friendly.
- Proximity to a regional market composed of 377 million consumers (South America)
- Possibility of implementing CDM projects.

From the supply side

- Worldwide importance of grains production in both Argentina and Buenos Aires, with the capacity of enlarging production by introducing marginal agricultural areas.
- Excellent yields resulting in low production costs.
- The provincial endowment of infrastructure guarantees the producers a platform from which their products can be globally delivered.
- Use of by-products and/or waste in cattle activities.
- Government boost (existence of a national and provincial promotion regime for the sector).