

5-28-2012

How are global biofuels trends changing?

Inter-American Dialogue's Latin American Energy Advisor

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Recommended Citation

Inter-American Dialogue's Latin American Energy Advisor. "How are global biofuels trends changing?." (2012).
https://digitalrepository.unm.edu/la_energy_dialog/6

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Q and A: How Are Global Biofuels Trends Changing?

Citation: Inter-American Dialogue's Latin American Energy Advisor, May 28-June 1, 2012; pp. 1, 6. Also online at www.thedialogue.org.

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At the end of 2011, the United States overtook Brazil as the world's top ethanol exporter—though U.S. imports from Brazil have been growing as a result of domestic regulation in the United States. Countries like Thailand have also increased their ethanol exports to traditional Brazilian markets, such as China, as the South American nation struggles to meet domestic demand. What trends in the global biofuel market, including advanced biofuels and bio-based products, will be seen in the medium- to longterm future? How are Brazil's biofuels production trends and government policies for the sector changing, if at all? What accounts for the two-way ethanol trade between the United States and Brazil?

A: Bob Dinneen, president and CEO of the Renewable Fuels Association:

"The global ethanol industry is in an exciting period of evolution as greater emphasis on trade and a focus on technological innovation is increasing supplies, developing new feedstocks and reducing costs. The result has been an increasingly globalized commodity driven by market forces. For example, after years of being a safe harbor for exporters of ethanol, the United States has become the world's largest producer and exporter. Last year, more than 1 billion gallons of the nation's 14 billion gallons of ethanol production found its way into gas tanks all over the world, including Brazil. This dramatic shift from importer to exporter is indicative of the growth of the global industry and the opportunities a robust ethanol industry represents for many nations. Threats to increased trade among nations do exist, and Brazil is a prime example. After decades of protest against U.S. ethanol policies, the Brazilian government has engaged in far more unpredictable and trade-distorting practices than were ever in place in the United States. Unpredictable tariffs, lavish government subsidies and vacillating government mandates all contribute to limiting the amount of U.S. ethanol entering Brazilian markets, despite the cost benefits of U.S. ethanol use. The potential of ethanol and biofuels to reduce the world's dependence on oil and create economic opportunity in nations big and small is incredible. Thoughtful policies and international cooperation will be critical to ensuring new technologies succeed and markets grow. The United States is committed to seeing ethanol and other biofuels achieve this potential."

A: Mark Langevin, director of BrazilWorks and associate researcher at the Centro Universitário de Brasília:

"According to the IEA, biofuel consumption could reach 20 percent of liquid fuels by 2050. Like many newcomers, Thailand instituted a national biofuel policy to boost production, but it has failed to regulate the domestic fuel market to balance consumption of ethanol (blend mandate) and gasoline (taxation). The result has been surplus production for export to China and Japan and idle capacity. This outcome stands in stark contrast to Brazil and the United States, where demand is carefully regulated to absorb supply with oscillating periods of surplus or excess demand. Brazil's capacity to export ethanol to the United States during the last decade led U.S. policymakers to introduce policies to generate greater production and demand for ethanol, unleashing a torrent of investment in the production chain. Today, the United States can export its surplus to meet Brazil's mounting demand. This scenario is unlikely to hold as the United States considers policy alternatives to raising domestic demand (such as the E15 blend) while Brazilians aim to guarantee nationally produced supplies. Brazil's regulatory agency is considering new rules mandating that producers hold ethanol reserves to meet periodic demand spikes and the government's economic and social development bank, BNDES, will now finance projects to store these needed reserve supplies. To reach the IEA biofuel consumption goal, producer nations and investors throughout the world will need to raise productivity (and develop second-generation fuels) and manage supply and demand through national policies and the liberalization of exports to insure stable and competitive prices at the pump."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.