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In its desperate search for solutions to skyrocketing energy costs (see NotiCen, 2005-06-16), Central America may have stumbled upon an alternative that could end up costing even more. The production of ethanol, a plant-based combustible, can reduce the region's reliance on gasoline and diesel, but it could also hinder chances of passage of the Central America Free Trade Agreement (CAFTA) in the US Congress.

If the region becomes a producer and refiner of the alcohol fuel, it could also become an exporter to the US under CAFTA provisions. This would upset the carefully crafted arrangement by which US farmers are guaranteed protections in the domestic ethanol market, souring the Midwest on the trade deal.

Mark Ritchie, president of the Institute for Agriculture and Trade Policy (IATP), said of the situation, "It doesn't make any sense to give away our ethanol market, something farmers and rural communities have spent 20 years building, to a bad trade agreement. Ethanol has the potential to create jobs in struggling rural (US) communities while establishing a stable, local, renewable source of energy. Why would we agree to a trade deal that undercuts this growing market?"

As a further irony, Central America could become a platform for the unlimited entry into the US market of ethanol from Brazil, the country that is the sharpest thorn in the side of the US effort to create the Free Trade Area of the Americas (FTAA). CAFTA's strategic importance, early on in US planning, was as a precursor to the hemispheric FTAA.

An IATP report on this ethanol complication said that if Central American countries convert Brazilian ethanol into fuel for the US market, 240 million gallons of ethanol could be exported to the US tariff-free in 2005. In 2004, US ethanol plants produced 3.4 billion gallons, an increase of more than 20% over the previous year, and 109% over 2000, according to the Renewable Fuels Association. The US Senate has approved an amendment to the Energy Bill it passed June 28, requiring an eight billion gallon "Renewable Fuel Standard by 2012. "The decision on whether to approve CAFTA will go a long way toward deciding how much of that eight billion gallons will be American-produced, and how much will come from other countries," said Ben Lilliston of IATP.

A boon for El Salvador

Perhaps unaware of the contretemps it was about to step into, the Antonio Saca government in El Salvador has embraced ethanol enthusiastically. Saca's administration announced in April it would send the legislature an ethanol production bill. Director General Julio Cesar Arroyo of the Asociacion Azucarera de El Salvador cheered the measure on: "It is feasible that in the short term a law allowing the establishment of plants for the production of ethanol, an alcohol produced from

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sugar cane and other agricultural products will be approved." In the US, ethanol is produced from corn. Arroyo was looking at the Salvadoran market.

In 2004, El Salvador paid out US$669 million for fossil fuels, almost 20% of the country's export income, or 25% of family remittances from the US and other countries where Salvadorans work to send money home. Economy Minister Yolanda de Gavidia was looking beyond the local market. "Ethanol would be very profitable in the short run; the markets are being created. There is a need in the world to have renewable fuels that help palliate the petroleum crisis. The market that interests us most for the moment is the local market, but we would have the opportunity to export, since with CAFTA ethanol exports would enter the US tariff-free from the first year in effect," she said.

Production of the fuel would also create jobs, decrease pollution, and boost agriculture at a time when the sector is under stress, she added. Nicaragua has also been looking into ethanol production, and seeking a private sector partner for refining a marketable product. The Economic Commission for Latin America and the Caribbean (ECLAC) is also enthusiastic.

A March 2004 ECLAC study, Perspectivas de un programa de biocombustibles en America Central, found, "In few regions of the world are the given conditions for the insertion of biocombustibles in the energetic mix as clear as in Central America. In this region, where dependence on imported fuels (like oil and derivatives) is almost total, there are soils and climates suited to agricultural production of energy whose potential has been known for centuries, and it is paradoxical that ethanol anhydrate is not consumed internally and exported in growing volume."

The CEPAL report said that relative conditions for this activity in Guatemala, Costa Rica, and El Salvador are comparable to conditions in Brazil. ECLAC estimated that at current levels of cane production, the region could replace 5.4% of gasoline consumed without affecting sugar production or expanding cultivation, simply by utilizing low-value molasses by-products. Production could replace 10% of gasoline using other components of the sugar refining process, still without increasing cultivation. But endogenous production is not the major threat to US ethanol producers.

The mid-western farmers fear that CAFTA will become a conduit for Brazil, the world's most advanced producer of the fuel, to flood their captive market. Ethanol is now produced in 20 US states, led by Iowa, Illinois, Minnesota, Nebraska, and South Dakota, states that grow the corn that, through CAFTA, threatens to wipe out Central American agriculture. Family farmers, as they are known in the US, have been betting on increased ethanol production for years. There are now 84 ethanol plants in the country, and these farmers own over half of them. It has been a good bet; Congress has imposed a US$.54 a gallon tariff on imports to protect the investment.

CAFTA, however, locks in tariff-free access to the US market by making permanent the provisions in the Caribbean Basin Initiative (CBI) that allow 7% of total US ethanol production to be imported from non-CBI countries, provided that the foreign feedstock is processed in a CBI country. If the foreign product is mixed 50-50 with CBI ethanol, tariff-free importation is unlimited. That arrangement would have expired with CBI in 2008 but under CAFTA, the sun will never set on it.

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CAFTA is silent on ethanol. This, in hindsight, was an oversight that enabled agribusiness companies like Cargill to begin ethanol ventures in Central America and Brazil, so that a plant in El Salvador can now dehydrate high water content Brazilian ethanol and ship it to the US in great quantities. The figure for 2005, 240.4 million gallons, is more than that produced by farmer-owned plants in most of the ethanol states. Global agribusiness concerns have either announced or finished plants in El Salvador, Jamaica, Trinidad and Tobago, and Panama. Once these plants come on line, the CAFTA-enabled facilities could use a portion of regional feedstock in their production, allowing them unlimited exports to the US.

Meanwhile Cargill has made significant investments in Brazil, including the construction of the world's first ethanol terminal at Santos, the company's soy port. In this venture, Cargill will operate the terminal in partnership with ethanol manufacturer Crystalsev. In May 2005, Cargill announced a deal to buy Acucareira Corona's sugar mills and ethanol plants. The company is also investing in improvements to its rail system to dramatically increase ethanol exports.

Brazil's ethanol exports are expected to expand from the current US$1 billion to US$8 billion by 2007. Brazil's costs of production are one-half to two-thirds those of the US plants, making the venture profitable when prices are high, even with the 54 cent tariff in place. By the time Cargill had made these acquisitions in Brazil, it had already begun building its Central American platform.

In May 2004 Cargill and Crystalsev, along with El Salvador's Compania Azucarera Salvadorena announced they were building a US$10 million ethanol dehydration plant to convert the Brazilian stock to fuel grade for importation to the US. Rifts and shifts That announcement infuriated the National Corn Growers Association (NCGA), which chastised Cargill in a public letter. According to the IATP report, US corn exports have been in slow decline since 1980, and an explosion in grain production in Brazil, Argentina, Ukraine and China makes the trend likely to continue.

The NCGA has been an ardent CAFTA supporter, but the findings of the IATP report may cause it to rethink the trade agreement. Corn growers need the ethanol market, and with traditional ally Cargill now turning against them, they may need it more than they need CAFTA. Cargill is not the only player exploiting the ethanol opening in Central America. ChevronTexaco is building a plant in Panama with a similar scenario in mind. That plant will reportedly have export capacity of from 50 million to 100 million gallons.

In Nicaragua, the government has reportedly been in talks with Esso. Industry analysts apparently do not know the full extent of plans to position the CAFTA countries to aggressively go after this expanding US market. The April 2005 edition of Ethanol Today reported, "by some accounts, there may be up to 10 ethanol dehydration projects in the works." On June 29, the Senate Finance Committee voted to send CAFTA to the full Senate with a favorable recommendation. In the House of Representatives, the Ways and Means Committee is expected to soon follow suit.

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