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Central America Seeks to Become Biofuel Producer

by Louisa Reynolds

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With the price of fossil fuel rising on the international market, countries all over the world are seeking to boost the use of biofuel. For Central America, a region that boasts some of the world’s most efficient sugarcane producers and already has several ethanol production plants, this represents the opportunity to become a major biofuel exporter (NotiEn, June 2011).

"There are two major ethanol producers in the world: Brazil and the US. The US consumes all the ethanol it produces, and it is estimated that in 10 years’ time it will need to import an extra 70 billion liters as today it only produces 50 billion liters. Brazil has a considerable problem on its hands because domestic consumption is expected to double by 2020. In 10 to 15 years, Europe’s demand will increase tenfold. ... The demand for fuel is huge and the supply is very small," says Flavio Castelar, director of Brazil’s Arranjo Produtivo Local do Álcool (APLA).

Castelar foresees that developed countries’ demand for biofuel will increase, which means that Latin American sugarcane producers will have to improve efficiency to produce the required volumes to meet the domestic demand and export the surplus.

In 2011-2012, the world’s sugar production reached 174.8 million metric tons raw value (TMVC), of which 168.3 million TMVC were used for domestic consumption and 45.1 million TMVC were exported. The world’s top ten exporters are Brazil, Thailand, India, Australia, Guatemala, Cuba, México, Swaziland, Colombia, and El Salvador.

APLA says Brazil has 430 sugar factories, and it is estimated that this year they will produce a total of 600 million tons of sugar. Brazil’s sugar industry generates 800,000 direct jobs and 4 million indirect jobs.

Brazil has also managed to become the world’s second-largest ethanol producer after the US, with a yearly output of 25 billion liters. Only 5% to 10% is exported as domestic demand is very high.

Castelar explains that, during the 1970s, the Brazilian government stimulated biofuel production, and a bill was approved to allow sugar factories to focus solely on ethanol production. "Brazil has the largest energy-replacement program in the world, and half the fuel used today is renewable. Nowadays, consumers can choose between gasoline and ethanol. We have motorbikes, light aircraft, buses, and tractors that use ethanol," said Castelar.

Central America’s biofuel laws

Guatemala seeks to pass a bill that would allow 10% of the country’s fuel consumption to be replaced with biofuel. However, it remains stalled in Congress because of an endless stream of inquiries that have delayed the congressional agenda.

"Five Guatemalan sugar factories produce ethanol. As the bill has yet to be approved, part of their production is used domestically and the surplus is exported. In 2012, ethanol exports totaled US$150 million," said Armando Boesche, general director of the Asociación de Azucareros de Guatemala (ASAŽGUA).
El Salvador has put forward a similar bill that would make it mandatory for vehicles to use a mixture of ethanol (10% ethanol and 90% gasoline). Added to this, in June 2012, the Ministerio de Economía (MINEC) and the Consejo Nacional de Energía (CNE) announced a pilot project that would make it mandatory for all vehicles used by government bureaus to use a mixture of ethanol (between 5% and 10% ethanol) produced by a Salvadoran sugar factory.

In 2007, Honduras approved a bill that granted biofuel producers an exemption from paying income tax (Impuesto Sobre la Renta—ISR) as well as import duties for construction materials and any equipment needed for biofuel production for a 12-year period. In 2011, three palm-oil producers from the Grupo Jaremar conglomerate were the first to enjoy these benefits.

In April, Panama approved a Biofuel Bill (Ley de Biocombustible) that made it mandatory for vehicles to use a mixture of ethanol (2% ethanol and 98% gasoline). By 2014, the percentage of ethanol will be increased to 5%, by 2015 it will go to 7%, and by 2016 it will reach 10%.

Central America’s booming sugar industry

The Azucareros del Istmo Centroamericano (AICA) association says Central America has 52 sugar factories (12 in Guatemala, nine in El Salvador, seven in Honduras, four in Nicaragua, 16 in Costa Rica, and four in Panama) that produced a total of 5.3 million tons during the 2012-2013 harvest, of which 2 million tons were used for domestic consumption and 3.3 million tons were exported.

Guatemala, the region’s largest sugar producer, reached 2.7 million tons during the 2012-2013 harvest, which amounts to 51.55% of Central America’s total output. Guatemala exports 61.17% of its sugar production, making it Latin America’s second-largest sugar exporter, according to ASAZGUA. Guatemala exports sugar to the US, Canada, China, South Korea, Taiwan, the Caribbean, Venezuela, and Chile.

Alcohol exports have also increased, from 141 million liters in 2009 to 204 million liters in 2012. A study carried out by Action Aid found that 75% of the ethanol exported by Guatemala is used by the alcoholic beverages, perfume, and paint industries, whereas the remaining 25% is used to produce fuel.

The rising demand for biofuel in the international market represents opportunities for growth for the region’s sugar producers, but it has also led to concerns that an increase in the production of sugarcane and African palm could displace the production of basic grains such as corn and beans. As these crops are dietary staples for the rural population, this could seriously endanger their food security.

However, Boesche emphasizes that only 2.3% of Guatemala’s total land surface (2.9 million hectares) are used for sugarcane cultivation, and he insists that no lands where basic grains are produced have been used to boost the country’s sugar production, which means that an increase in the country’s ethanol production wouldn’t have any impact on food security.

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