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Chamber of Deputies Seeks to Promote Ethanol Industry in Mexico

by LADB Staff

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In late April, the Chamber of Deputies approved legislation to promote the creation of an ethanol industry in Mexico, but critics are concerned about repercussions on the country's corn and sugarcane production. The ethanol provision in the bioenergy law (Ley de Promocion y Desarrollo de los Bioenergeticos), approved primarily with the support of the governing conservative Partido Accion Nacional (PAN) and the opposition Partido Revolucionario Institucional (PRI), garnered 243 votes.

All other parties, including the environmentally oriented Partido Verde Ecologista Mexicano (PVEM) and the center-left Partido de la Revolucion Democratica (PRD), opposed the initiative but obtained only 127 votes. The bioenergy law is scheduled to go into effect Jan. 1, 2008, but is still open to some revisions and modifications.

The bioenergy law, which has been under debate in both chambers of Congress since 2005, is not limited to policies governing ethanol and includes provisions on renewable energy, promotion of biodiesels, animal health, and sanitary regulations for seeds. The provisions promoting ethanol production stipulate that corn, sugar, and celluloid plants like trees and grasses would be used in producing the alternative energy.

Early versions of the bill limited ethanol production to corn and sugar. One of the main motives for creating an ethanol industry is to provide a supply for the state-run oil company PEMEX to produce more environmentally friendly fuels through the process of oxygenation. The oxygenated gasoline would be used primarily in Mexico's three largest metropolitan areas: Mexico City, Guadalajara, and Monterrey. "Mexico is behind in the energy sector," said PAN Deputy Francisco Dominguez, who is secretary of the agriculture committee (Comision de Agricultura).

The US, China, Brazil, and India already have ethanol. Supporters of the ethanol initiative view it as a way to help Mexico's beleaguered sugar industry (see SourceMex, 2002-03-26, 2005-07-27, and 2006-01-25). "This [legislation] is key to promoting productive employment in the sugarcane industry," said PAN Deputy Agustin Mollinedo. "It offers the opportunity for our country to take a step to support its agriculture sector."

The Camara Nacional de las Industrias Azucarera y Alcoholera (CNIAA) has come out in support of the bill, saying it welcomes any efforts to use sugarcane and its byproducts for energy production, including ethanol and generating electricity. "In Mexico, all we produce is sugar," said CNIAA president Juan Cortina Gallardo. "We have to move toward the model of modern processing plants that exist in other countries."

Opponents worry corn supplies might be affected

The PRD and the PVEM offered similar arguments in opposing the legislation. The two parties along with the Partido del Trabajo (PT), Partido Convergencia por la Democracia (PCD), Partido Nueva Alianza (PANAL), and Partido Alternativa Socialdemocratica y Campesina (PASC) pushed for the legislation to exclude using corn in ethanol production. Deputy Carlos Navarrete, who coordinates the PRD delegation in the lower house, said the legislation is a response to "market developments" overseas, in reference to the growth in demand for ethanol in the US, Japan, and other countries. "These changes have nothing to do with the realities in the Mexican domestic market and the common good in our country," said Navarrete.

The PRD legislator also questioned the proposed use of corn in ethanol, which he said was risky because it would compromise Mexico's food security. The surge in the price of corn and tortillas in Mexico was blamed in part on the spike in global prices resulting from the increased demand from US ethanol producers (see SourceMex, 2007-01-10 and 2007-04-18).

The PVEM joined in expressing concerns about a possible shortage of corn for the general population. "The amount of corn needed to create enough ethanol to fill a pickup truck is equivalent to the amount used to feed a person for a year," said PVEM Deputy Sergio Augusto Lopez Ramirez. The debate on using food crops to produce fuel has also surfaced in other parts of Latin America (see NotiCen, 2007-04-12 and 2007-05-03, and NotiSur, 2007-04-27). Lopez said creating an ethanol industry similar to those in the US and Brazil should not be a priority for Mexico. "The PVEM will not support models that are not adaptable to our country," said the legislator.

Others countered that Mexico should not be concerned about the impact on domestic corn supplies, since it is the yellow variety (normally used for animal feed and industrial purposes) that goes into ethanol. "Our supply of white corn and tortilla production are not at risk because this is not the variety used for ethanol production," said PRI Deputy Hector Padilla, who chairs the agriculture committee (Comision de Agricultura) in the lower house.

But even if white corn is not used for ethanol, there is the possibility that producers in Mexico may switch to yellow corn to take advantage of high prices. The average price for yellow corn globally is close to US\$4 per bushel, twice as high as it was a year ago. "The growing US appetite for ethanol as an alternative fuel source has helped [Mexican] corn farmers double the market price for their crop compared to a year ago," said the Mexico City English-language newspaper The Herald.

Gerardo Sanchez Garcia, coordinator of the Congreso Agrario Permanente (CAP), said Mexico would have to double its total production of corn white and yellow to about 40 million metric tons per year, to meet the demand for food and fuel. "The two existing plants in Mexico that already produce ethanol (Mexstarch and Destilmex in Sinaloa state) would absorb the entire grain production in the northern states," said Sanchez. "It would be difficult to supply them if production continued at current levels."

While some farmers are benefiting from the high corn prices, critics say the initiative will do little to eliminate poverty in the agriculture sector and in rural communities. "The production of biofuels

will not eliminate the misery prevalent in our agriculture sector," said analyst Abel Perez Zamorano of the Universidad Autonoma de Chapingo. "On the contrary, we will have a competition among farmers to produce crops for human consumption or for ethanol plants."

If enough farmers in Mexico shift their production from yellow to white corn, the country could find itself with some shortages, which would cause an increase in prices. And even though they are used for different purposes, an increase in the price of yellow corn usually translates to higher prices for white corn because they are similar commodities. This would create major problems in case of a disaster.

"Any sort of shock to corn yields, such as unseasonably hot weather, pests, or disease, could send food prices into the stratosphere," said Colin Carter and Henry Miller, in a piece published in the Los Angeles Times. Carter is a professor of agricultural and resource economics at the University of California Davis, and Miller is a physician and a fellow at the Hoover Institution. "Such concerns are more than theoretical. In 1970, a widespread outbreak of a fungus called southern corn leaf blight destroyed 15% of the US corn crop."

Sugar-based ethanol gains some support

There is stronger support in Mexico for creating an ethanol industry that relies more on sugarcane than on corn. And some international organizations like the International Energy Agency (IEA) are recommending that countries that become involved in ethanol production use sugarcane rather than corn. One of the leading producers of sugar-based ethanol is Brazil (see NotiSur, 2007-04-27). "From an environmental standpoint, the best product to use in the production of ethanol is sugarcane," John Ryan, Australia's vice minister for industry, said at an IEA meeting in Paris in mid-May.

But even a focus on sugar-based ethanol could create major problems for Mexico, which lacks sufficient land to expand production of sugarcane. The amount of ethanol needed to supply all the cars circulating in Mexico's three largest cities would require an increase of 400,000 hectares of land devoted to sugarcane. "It wouldn't be easy to find new locations to cultivate sugarcane," said PRI Sen. Francisco Labastida Ochoa, who chairs the Senate agriculture committee (Comision de Agricultura). Labastida, who served as agriculture secretary in 1995-1998 under former President Ernesto Zedillo, was not a member of the Senate when the upper house approved its original version of the bioenergy law in 2005.

Among the regions under consideration for expanding sugarcane production are southern, southeastern, and western states currently used primarily to produce livestock. Furthermore, Labastida noted that the government would have to come up with new production schemes, technological training, and financing to ensure that the program succeeds.

Still, supporters of the ethanol initiative say the bioenergy law allows the use of products other than corn and sugarcane, including yucca, palm, sorghum, grasses, and other products. "We can use the same technology for these products as we would for corn," said Deputy Padilla. Critics say clearer industrial strategies needed Labastida also raised concerns that the ethanol initiative was approved without a clear strategy on how to proceed with creating an ethanol industry. For example, he said,

legislators from the lower house failed to consider a legal framework for agricultural producers as well as industrialists participating in the process.

Other officials agreed with Labastida's concerns. Francisco Barnes, commissioner for the energy-regulating agency (Comision Reguladora de Energia, SRE), said Mexico must start by clearly redefining its agricultural and energy policies. "For the ethanol strategy to make sense in our country, we must ensure that we channel the appropriate resources to the agriculture sector," Barnes said in testimony to members of the agriculture and energy committees from both house of Congress in late May.

Some members of the private sector are pushing for the ethanol strategy to include increasing exports to the US. "For Mexico to make use of ethanol and to supply the growing demand in the US, we have to boost production of one of its principal products, which is corn," said the Centro de Estudios Economicos del Sector Privado (CEESP). "This cannot be accomplished with the current methods of production but [needs] other strategies, such as increased use of genetically modified (GM) varieties." The increase in tortilla prices has already sparked a debate on whether Mexico should increase its use of GM corn (see SourceMex, 2007-01-31).

Other critics took issue with the argument that increased ethanol use in Mexico would help the environment. "There is no use producing ethanol if this fuel will be ultimately destined to an inadequate fleet of vehicles," said Rodolfo Lacy, a researcher at the Centro Mario Molina para Estudios Estrategicos sobre Energia y Medio Ambiente. "We would have to increase the number of hybrid or less-polluting vehicles on our roads."

Molina Hernandez, who received a Nobel Prize in chemistry in 1995, founded the center. Despite the concerns raised by his foundation, Molina has given his conditional support to the bioenergy law, provided Congress makes appropriate changes. "It is necessary to create rules and regulations for this legislation, which currently contains very few specifics," Molina said in late May. "We have to be careful about taking the proper steps in the right direction," said Molina, who noted that the ethanol strategy has had many negative impacts in the US, both from an environmental and a commercial standpoint.

Many critics contend that side effects from ethanol can be as harmful or more harmful for the environment as oil-based fuels (see NotiCen, 2007-04-07). To that end, some legislators are pushing for modifications in the bioenergy law to include greater emphasis on renewable energies, including nuclear, wind, and solar power. PAN Deputy David Maldonado Gonzalez, who chairs the energy committee (Comision de Energeticos) in the lower house, said his party and the PVEM are working on a strategy to urge the federal government to place a greater emphasis on these alternative energies, particularly in partnership with the private sector.

Some private plants already in the works

Some opponents of the ethanol initiative contend that the bill is intended primarily to coddle multinational companies, with at least nine new plants already in the planning stages in northern and central Mexico. "The bill offers few limitations for private investors, whether Mexican or

foreign," said Navarrete. As of now, the only two large ethanol plants in Mexico are Mexstarch and Destilmex. Both plants rely primarily on corn.

Some plants proposed thus far do not intend to use corn, but sorghum, a nonedible variety of sugarcane, and sugar beets. US companies are planning to invest about US\$500 million to construct four Mexican plants that would use those products to produce ethanol, said Isabel Gomez, founder of Fundacion Emision, a nonprofit organization created to promote ethanol use in Mexico. Two of those plants would be in Sonora state and the others in the states of Nayarit and San Luis Potosi.

"The use of these types of products does not endanger our self-sufficiency in food," Gomez told the Mexico City English-language newspaper The Herald. Furthermore, the state of Tamaulipas said it is in the final stages of negotiating with private investors to invest about US\$50 million to construct two plants near the communities of Mante and Valle Hermoso. Both plants would rely on sugarcane.

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