Argentina has long been a strong biofuel exporter and now new domestic biodiesel and ethanol mandates have opened up the domestic market as well

Argentina's domestic market takes off

Argentina is already the world's fifth largest biodiesel producer with more than 1.2 million tonnes produced in 2009, thanks to its abundance of soya oil.

And following Brazil's lead, Argentina is making the most of its position as one of the world's leading sugar growers by providing incentives to businesses looking to expand ethanol production.

As new feedstocks are introduced, the country's palette and diversity will only strengthen its leading position. This year the country began its B5 and E5 mandates, thus opening new markets for producers.

Allocations for the domestic biodiesel market in 2010

(in tonnes/year)	(A) Installed capacity	(B) Volumes offered for domestic market	(C) Volumes assigned by goverment	(D) Volumes available for export
Renova	480,000	144,000	33,750	446,250
Dreyfus	300,000	84,000	27,500	272,500
Patagonia Bioenergía	250,000	84,000	33,130	216,870
Ecofuel	220,000	72,000	29,108	190,892
Unitec	220,000	230,000	113,097	106,903
Viluco	200,000	200,000	108,594	91,406
Explora	120,000	120,000	89,091	30,909
Molinos	100,000	36,000	27,810	72,190
Diaser	96,000	96,000	79,459	16,541
Biomadero	72,000	48,000	44,152	27,848
Vicentin	64,000	24,000	23,928	40,072
Aripar	50,000	50,000	50,000	0
AOMSA	48,000	48,000	48,000	0
Maikop	40,000	40,000	40,000	0
Rosario Bioenergy	36,000	36,000	36,000	0
Diferoil	30,000	30,000	30,000	0
Pitey	18,000	18,000	18,000	0
Soyenergy	18,000	18,000	18,000	0
Ecopor	10,200	10,200	10,200	0
TOTALS	**2,372,200**	**1,388,200**	**859,819**	**1,512,381**

Source: Resolution 7/10 from Secretaría de Energía de Argentina

There is still plenty of capacity from the larger enterprises to continue exporting

Biodiesel – the unstoppable steamroller

In 2006 the Argentine government enacted law 26.093, requiring that beginning in 2010 petrol be mixed with 5% ethanol and diesel with 5% biodiesel. At the same time, oilseed crushers saw an opportunity in the global marketplace and invested in large biodiesel plants located in the heart of soya country, where the crushing industry is based, and on the shores of the mighty Paraná River, giving it exceptional efficiency and economies of scale.

Until last year the entirety of Argentine biodiesel was exported – mostly to Europe. But the B5 laws have creating a market for some 860,000 tonnes/year of biodiesel; and given newly installed capacity, the country still has more than 1.5 million tonnes of production that can be exported.

The Biofuels Law sought to separate biofuels exporters from those looking to supply the national market. It offered fiscal incentives to those investors willing to build biodiesel plants focusing exclusively on the domestic market and taxes biodiesel exports heavily, charging a 20% right-off-the-top export tax.

But given the enormity and potential of export markets, virtually every plant built chose to focus on exports even if this meant not gaining access to the fiscal incentives. Argentina's efficiencies are such that this is still a viable business, as seen in the continued expansion of the industry.

In late 2009 the government threw in the towel and invited all 19 officially-sanctioned biodiesel producers (exporters) to provide indications of how much of their installed capacity they would be willing to sell into the domestic market, assuming an agreement was reached on a price mechanism that was sufficiently attractive.

While the B5 mandate requires an estimated 860,000 tonnes of biodiesel a year producers offered to commit considerably more. This led to a series of negotiations with producers and associations such as the Argentine Renewable Energies Chamber (CADER) on the allocation of this mandate, concurrently with the determination of a price formula.

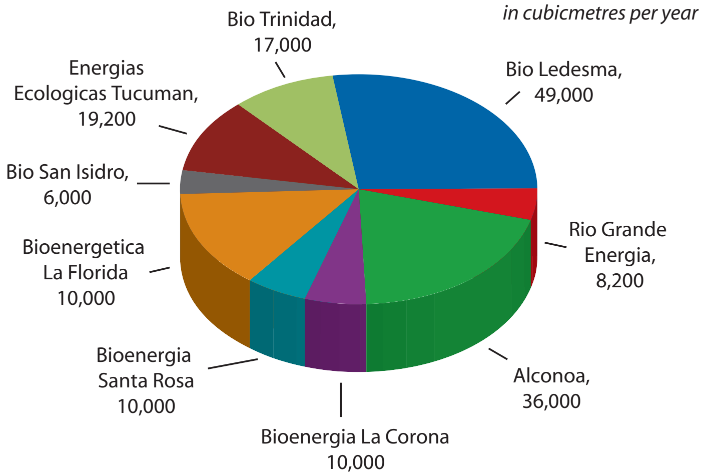
The Argentine biodiesel industry can be best understood if producers are divided into three classes, each with different strengths and weaknesses. While in some cases some of these producers are hybrids, this division remains useful to understand market segmentation.

'Oil crushers' represent the large multinational oilseed crushers with the largest plants and ample access to feedstock; 'large independents' are those without access to their own feedstock; and 'small independents' are the small and medium producers with none of the above, but count on the government's support from a policy level.

The small independents were given priority to supply the B5 mandate, and even though as a class represent only 18% of Argentina's installed capacity, they were assigned 44% of the biodiesel mandate; whereas the crushers supply less than a third, allowing them to continue to focus on exports.

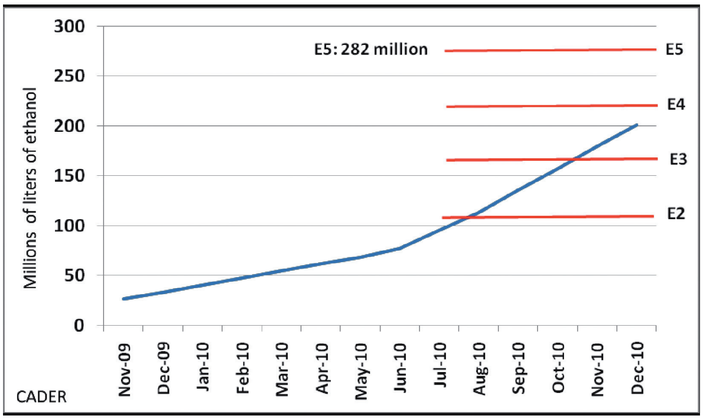
Government resolution 7/10 also establishes the formula that is used to determine the monthly price for biodiesel between producers and the blenders/retailers. This price is ex-works, i.e., sold at the biofuel producers door. The price for the month of May this year was example was $3,431 pesos/ton (€714/ton).

Companies assigned to supply the domestic ethanol market in 2010



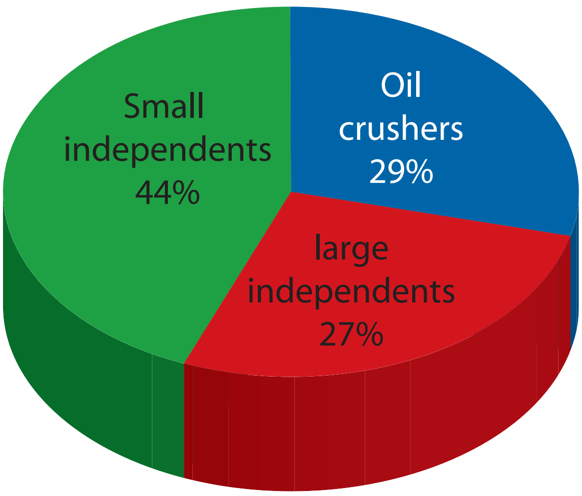
Source: Resolution 698/2009 from Secretaría de Energía

Ethanol availability for the domestic market in 2010



Source: Resolutions 698 and 733/09 from Secretaría de Energía

Breakdown of the domestic biodiesel market by class



Brazil, which uses an auction system for its national market, recently completed one and the winning bids were allocated at the equivalent of $1,466/ton (€1190/ton), well above international levels. The downstream oil and gas companies bear the cost of picking up the biodiesel at the plant and deliver to the blending terminals – not a small undertaking.

Given an annual market for some 860,000 tonnes of biodiesel and using the current price, the domestic biodiesel market would reach about $2.9 billion pesos a year. This is almost four times the size of the ethanol market as Argentina's vehicles, like Europe's, run mostly on diesel.

Ethanol – once burnt twice shy

In the early 1970s both Brazil and Argentina launched ambitious ethanol industries. Brazil stuck to its programme and became a world leader; in Argentina the program fizzled once world petroleum prices dropped and many ethanol distilleries incurred severe losses.

Sugarcane growers were reluctant to re-enter this industry until greater guarantees were in place. The sugar industry successfully lobbied for their own Ethanol Promotion Law #26.334 in 2008, and even reached agreed with the government on the price formula that same year, well ahead of the 2010 deadline. With these certainties in hand, nine companies committed to participate in the domestic ethanol market. However, while the E5 mandate requires an estimated 282 million liters of ethanol a year, as of January 2010 there were only 180 million committed to this market by the producers.

Companies assigned to supply the domestic ethanol market in 2010

Following a flurry of meetings with producers and industry associations, each of these producers committed to specific monthly capacity additions that will put the country well on its way to the E5 requirement.

As with biodiesel, the ethanol price is ex-works, i.e., the blender must pick up the ethanol. The price for the month of May this year was $2.70 pesos/litre. As a comparison in Brazil, the latest wholesale prices quoted on the government website was the equivalent of $3.03 pesos/litre, according to their Agência Nacional do Petróleo, Gás Natural e Biocombustíveis.

Using the current price of $2.70 pesos/liter, the Argentine ethanol industry is valued at $760 million pesos a year. In 2010, because startup has been slow, the total is expected to be around $135 million.

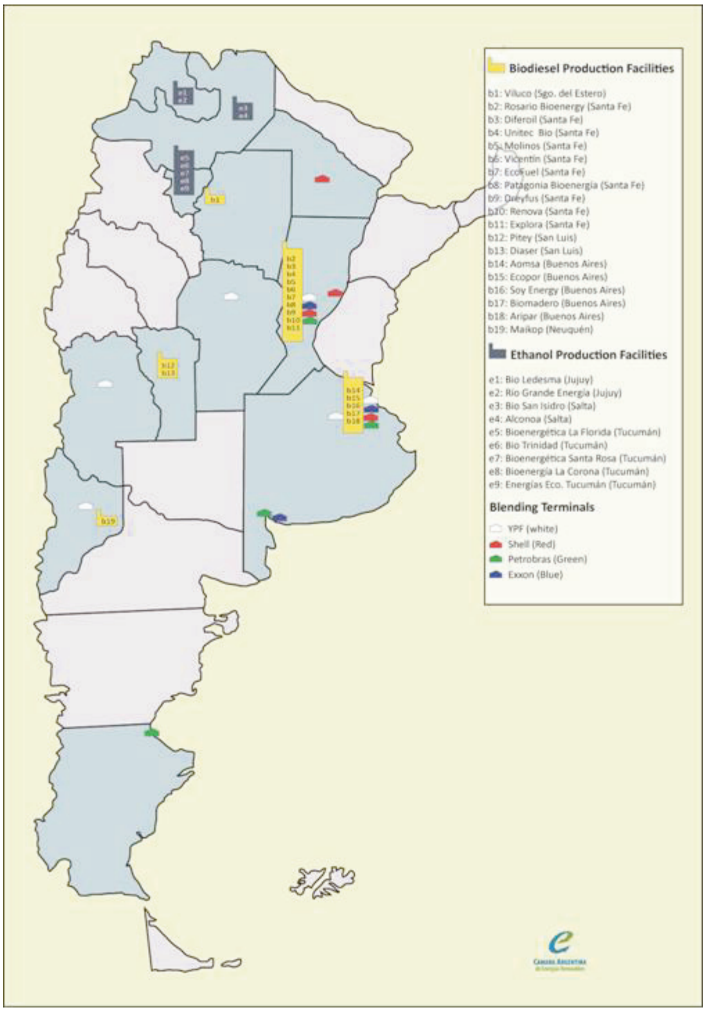
Conclusions

Industry associations such as CADER continue to promote an increase of the biodiesel mandate to B7 in 2011 and B10 in late 2012 while seeking new overseas markets.

At current prices, a B7 market would generate about a billion dollars a year in revenue, while a B10 market would generate about $1.5 billion a year. And once the ethanol industry realises that this second coming has staying power, it too will grow.

Coupled with all this is a push for greater diversity in feedstock usage, such as corn, barley and wheat for ethanol, and camelina, canola, jatropha and pongamia for biodiesel. Argentina is already a large producer of most of these. Altogether, it spells a market that is poised to continue its leadership role in biofuels in the 21st century.

Map of Argentina showing biofuel production locations and blending terminals



For more information:

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