

Colombian Government to Modify Biofuels Regulations

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July 29, 2010-The Colombian Ministry of Energy and Mines is seeking to modify the existing biofuels regulatory structure. In March 2009, the government enacted Decree 1135. The Decree provides that starting on January 1, 2012, 60% of all new cars with motors up to 2,000 cubic centimeters will be required to have Flex-fuel technology allowing them to operate with a fuel mix of 85% of ethanol and 15% gasoline (E85). Starting in 2013 the requirement will be extended to vehicles with motors having over 2,000 cubic centimeters. The government will require 80% of all cars (new and used) to use E85 by 2015 and 100% by 2016.

The measure caused resistance among automakers who state only Brazil and Colombia are aggressively betting on the technology. By 2012, they have claimed only three Flex-fuel models will be available in the market. In response the government is proposing to modify Decree 1135 to relax the existing standards and timetable. Under the proposed modification to Decree 1135, Flex-fuel technology requirements for new vehicles starting in 2012 will be eliminated. In addition, the E85 Biofuel standard will also be diluted to require a mere 10% Biofuel mix starting in 2012 and reaching 85% only by 2020.

Colombia's ethanol industry is young but already well developed as a result of a historical and industrious sugarcane and sugarcane processing industry in the Cauca valley on the country's southwest region. As a result the country's ethanol production based on bagasse stands second only to that of Brazil. Ethanol plants in the country are also notable in that they are able to generate their own electricity and even sell their surplus to the national electric grid (currently about 15MW).¹

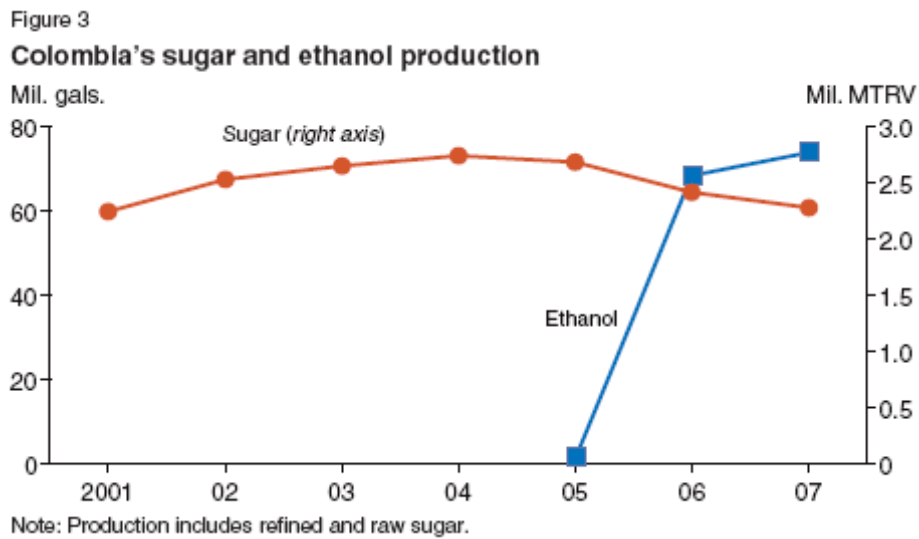
Industrial production of ethanol began in earnest in 2005 as a result of the enactment of Law 693 of 2001 requiring a 10% blend of ethanol of gasoline (required to reach 25% within 15 years). Currently about 70% of the gasoline sold in the country contains the blend. Processing of ethanol in 2007 (1 million gallons per day) is expected to increase 218% by 2010.² This radical and rapid creation of supply was supported by government incentives and by curbing the exports of feedstock necessary for production (see chart below).

Today about 101,000 acres have been allocated for feedstock cultivation, all of which are surplus to the existing capacity for other end uses (mainly human consumption). Production

¹ Toasa, Jose, "Colombia: A New Ethanol Producer on the Rise," USDA Economic Research Service, January 2009. The document is available on line at <http://www.ers.usda.gov/publications/wrs0901/>

² Toasa, Jose, "Colombia: A New Ethanol Producer on the Rise," USDA Economic Research Service, January 2009

of sugar itself is very efficiency by global industry standards of sucrose yields/acres/year and is mostly undertaken by 5 large processing plants.³



(Source: Toasa, Jose, "Colombia: A New Ethanol Producer n the Rise," USDA Economic Research Service, January 2009.)

³ Toasa, Jose, "Colombia: A New Ethanol Producer n the Rise," USDA Economic Research Service, January 2009.