USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 6/1/2007

GAIN Report Number: CO7011

Colombia

Bio-Fuels

Annual

2007

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Report Highlights:
Colombian law currently mandates a 10-percent-ethanol blend in gasoline and a 5-percent-blend of bio-diesel in diesel by the year 2008. Colombian ethanol production, however, covers only 70 percent of the demand needed to meet the 10-percent-blend requirement. Current bio-diesel production covers only 20 percent of the bio-diesel demand needed to meet the projected 5-percent-blend requirement in 2008. Colombia does not currently import or export bio-fuels, but under the U.S.-Colombian trade agreement, import duties on bio-fuels will be eliminated.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Bogota [CO1]
[CO]

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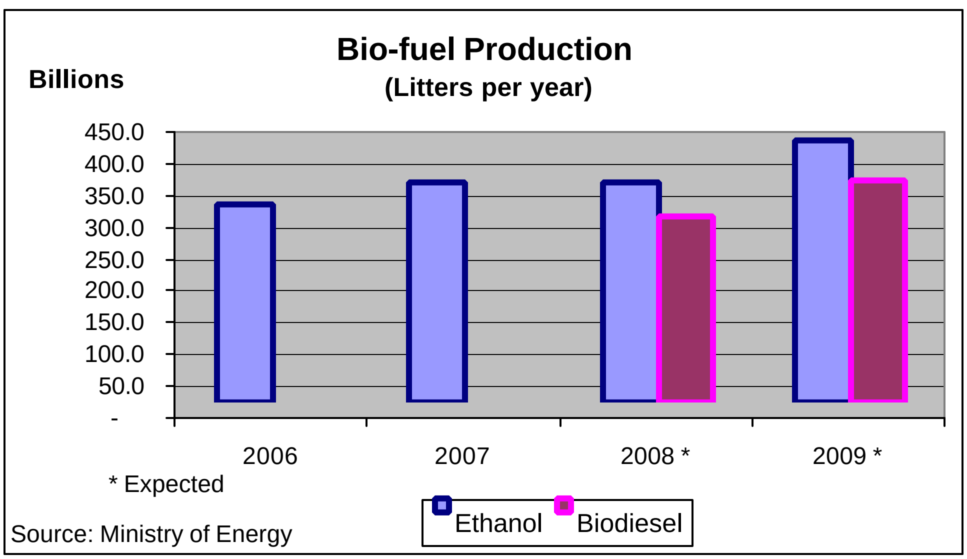
Executive Summary

Colombian law currently mandates a 10-percent-blend of ethanol with gasoline, and a 5-percent-blend of bio-diesel with fossil diesel beginning in 2008. Current production of Colombian ethanol covers approximately 70 percent of Colombian ethanol demand to meet the 10-percent-blend requirement. Actual bio-diesel production only covers approximately 20 percent of the projected demand needed in 2008 to meet the 5-percent-blend requirement. Sugarcane and palm oil are the major feedstocks used in Colombia to produce ethanol and bio-diesel respectively. Colombia does not trade bio-fuels internationally, but with the ratification and implementation of the U.S.-Colombian Trade Promotion Agreement (CTPA), U.S. import duties on ethanol and bio-diesel from Colombia will be eliminated.

To eliminate the shortfall in bio-fuels production, the Colombian government has initiated a number of tax incentives and government projects to encourage the production of both ethanol and bio-diesel. The Government of Colombia (GOC) has established a regulation for bio-fuels use and has excluded bio-fuels from paying the country global tax, the local additional tax, or "sobretasa" as well as removing the tax on any new plantings of selected agricultural crops including African Palm.

Production

Currently, there are only five ***ethanol*** plants in Colombia and all are located in the sugarcane producing region, and all are affiliated with a sugar mill. According to the five ethanol plants, current ethanol production is 1.2 million liters per day. Ethanol production has increased over the past two years due to greater efficiencies in the production process.
According to the Colombian Ministry of Energy, there are feasibility studies for three new ethanol projects being conducted using yucca (cassava) as the feedstock, which would add approximately 250,000 litters per day to current ethanol production. These projects are expected to be completed and operational by early 2009.



In May 2007, the first, and currently the only, ***bio-diesel*** plant was put into production. The plant has a production capacity of 50,000 tons per year (58.4 million liters). There are three additional projects under construction that are expected to enter into production in the first half of 2008, which will add another 235,000 tons (274.5 million liters) of bio-diesel to total production per year. Production from these four plants will be sufficient to supply the total demand needed to comply with the 5-percent-blend requirement mandated by the government. In fact, once at full capacity, Colombia should be able to produce a surplus of bio-diesel, which could be exported. All bio-diesel will be produced from palm oil. Two of the proposed new plants will be owned and operated by ECOPETROL, the Colombian Public Petroleum Company, and the third plant owned and operated by African Palm growers.

It is probable that in the short run Colombia could export its excess bio-diesel to establish itself in the export market and take advantage of growing international demand and high prices. Colombia's vehicle make-up currently in operation does not work well with higher percentage blends of bio-diesel. So, before the government can mandate higher blends of bio-diesel, Colombia will have to update its diesel fleet of vehicles. Testing is being conducted with mass transportation using up to 100 percent bio-diesel.

Consumption

Colombia has approximately 4.6 million motor vehicles according to the Ministry of Transportation. In 2006, the number of vehicles purchased grew 28 percent due to the peso appreciation and increased credit availability at a low interest rates. In terms of type of fuel used, 48 percent of vehicles use diesel and 52 percent gasoline. In 2006, Colombia consumed approximately 1.1 million liters of ethanol a day and approximately 5.0 million tons of diesel per year. The GOC and African Palm growers expect an annual increase in consumption between 2.5 and 5 percent for bio-diesel, over the next ten years. Moreover, the Colombian Bio-fuels Association, a private organization, expects the government to set a target to increase the blend of bio-diesel from 5 percent to 15 percent by 2013 and to 25 percent by 2020.

The government will be able to increase the bio-diesel and ethanol blend based on the change in the makeup of motor vehicles and meeting increased production projections.

Size of total Vehicles - Ministry of Transportation
(as of March 2007 -Thousand units)

	Type of Service			
Vehicle type	**Private**	**Public**	**Official**	**Total**
Cars, jeep	1,819	294	35	2,148
Bus	50	141	3	194
Small Truck	377	122	19	518
Motorcycle	1,698	2	42	1,742
Large Truck	3	20		23
Total	**3,947**	**579**	**99**	**4,625**

Source: Ministry of Transportation

Trade

Colombia does not currently trade in bio-fuels, although current production is not meeting total demand. ***Ethanol*** imports from the United States are levied a 15 percent duty, while Colombian exports to the United States pay 2.5 duty per liter. Under the CTPA, bio-fuel import duties between the United States and Colombia would be eliminated. Andean Community Countries (CAN) do not pay import duties on ethanol sold to Colombia, although currently there is no trade. Under the CAN-Mercosur agreement, ethanol imports from

Mercosur members receive a 12-percent duty reduction on the base duty, so they pay 13.2 percent. There are no quotas for importing ethanol into Colombia. Currently Colombian ***bio-diesel*** imports pay a 10 percent duty. Under CTPA, the import duty will be eliminated for imports from the United States once the agreement is implemented.

Policy

In September 2001, the Colombian Government issued Law 693, which made it mandatory to use a 10-percent-blend of ethanol in gasoline in cities with populations larger than 500,000 inhabitants. The law went into effect in September 2005. Ethanol production, however, could not cover the entire country's demand, and thus the government established a phase-in period through out the country for mandatory ethanol use.

In late 2004, the Colombian Government finally started promoting bio-fuel production and passed the law 939 on December 30, 2004 that set the framework for bio-fuel production, authorized the Ministry of Energy to establish regulations, and gave the Ministry of Agriculture the responsibility of promoting production of oil crops needed for bio-diesel production. The Ministry of Energy issued resolution 1289 in 2005, mandating a 5 percent bio-diesel blend with fossil diesel by 2008. This resolution also set the environmental and technical requirements for bio-fuels to be blended based on international standards.

The bio-fuels regulation also gave the Ministry of Energy the authority to establish the price structure for ethanol and bio-diesel fuel blends. With this authority the Ministry has issued several resolutions to set the reference price and guarantee a set level of income to bio-fuel producers. These resolutions set the maximum sell price for distributors, which includes taxes, transportation and other costs. The set bio-fuel prices guarantee palm oil and sugar processors revenues that should trigger increased investment in new bio-fuel plants and to stimulate the expansion of new feedstock plantings. The set retail price is the maximum price gas stations are allowed to charge consumers. The retail price changes and is published monthly by the Ministry of Energy.

The Government of Colombia (GOC) has also set a provision that provides a 10-year exemption on income taxes for new permanent crops (including African Palm) planted during the period 2003 – 2013. In addition, the Colombian Government tax reform in 2003 established an exemption for bio-diesel and ethanol from paying the VAT, the Global Tax "impuesto global" and the additional local tax "sobretasa".