Posted on Wed, Feb. 07, 2007

LATIN AMERICA

Ethanol use would benefit U.S., region

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By calling for the United States to use 35 billion gallons of renewable fuels by 2017, President Bush focused attention on a question that has been largely absent from the debate about ethanol, the most widely used biofuel -- namely, should the United States go it alone on ethanol?

Until now, most biofuel advocates in the United States have portrayed ethanol as a domestic opportunity: a way to bring jobs and investment to the farm belt, while modestly decreasing dependence on imported fossil fuels. If this tendency prevails, ethanol is likely to end up like sugar, with its unsavory history of government intervention and endless protectionist maneuvering.

The limits of this approach are already apparent. Corn prices shot up 80 percent in 2006 due to booming demand from ethanol distilleries. Rising prices for cornflakes, corn tortillas and corn-fed beef could easily produce an anti-ethanol backlash among consumers.

If U.S. ethanol producers are struggling to meet today's demand without unacceptable consequences, how are they supposed to supply the vastly greater quantities envisioned by Bush's proposal?

The markets are already providing an answer. Despite a 54-cent per gallon tariff, U.S. ethanol imports more than quadrupled last year, to 616 million gallons, according to the U.S. International Trade Commission. Brazil accounted for more than two thirds of the total, followed by Jamaica and China. Now, in addition to Brazil, half a dozen Latin American governments are either expanding or launching serious ethanol programs, and investors are underwriting more than 100 new distilleries in Central and South America.

A more reliable supply

The economic and political case for importing ethanol is compelling. Ethanol derived from sugar cane (the preferred feedstock in the tropics) is far more energy-efficient than that produced from corn, and as a result, far cheaper. Thanks to their climate and abundant endowment of agricultural land, many Latin American nations are uniquely suited to grow sugar cane. Importing Latin American and Caribbean ethanol would make the U.S. supply more reliable by diversifying sources and minimizing disruptions caused by bad weather or plant diseases in a single producing country. It would also lead to lower and more predictable prices for ethanol-gasoline blends at the pump.

Though most of the region's countries will logically devote most of their ethanol production to domestic markets, the prospect of earning foreign exchange by exporting surplus ethanol is enticing. This is particularly true for the nations of Central America and the Caribbean, a region with enormous ethanol-producing potential that is largely dependent on imported fossil fuels. Ethanol could turn struggling farmers (including formerly protected sugar producers) into energy entrepreneurs. It could attract investment to depressed rural areas, generating tens of thousands of jobs and relieving pressure to migrate.

Importing ethanol from Latin America is not equivalent to replacing one fuel dependency with another, as some critics have charged. One way or the other, U.S. consumers will depend on imported fuel for decades to come. But by serving as a catalyst for rural development and a new source of trade with its hemispheric neighbors, ethanol imports will actually advance U.S. strategic interests -- something that cannot be said of oil imports from the Middle East.

A hemispheric ethanol market already is taking shape. Major U.S. agricultural firms such as Cargill Inc. are forming ethanol joint ventures with counterparts in Latin America and the Caribbean. Last month Maple Cos., Houston-based energy firm, broke ground on an ethanol complex in northern Peru that will export all its production to the United States. International trade in ethanol, though still less than 10 percent of total production, is rapidly increasing. And the Inter-American Development Bank is providing technical assistance to Central American governments that intend to create ethanol industries with technology and expertise provided by Brazil and other countries.

Promising industry

It would be a tragedy if this nascent industry were to be hobbled by the kind of protectionist disputes that have stalled the Doha Round of international trade negotiations. Global demand for ethanol is forecast to outstrip supply for the near future, so concerns over the impact of imports on domestic producers are unfounded. Now is the time for governments, producers and the World Trade Organization to join forces and clear the regulatory obstacles that stand in the way of a dynamic ethanol market.

Ethanol will certainly not solve the world's energy problems. But at a time when hemispheric relations are clouded by anxiety over the reliability of fossil-fuel supplies, ethanol can be a much-needed source of mutually beneficial commerce, development and, quite possibly, goodwill.

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