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Trade Protection Looms as U.S. Ethanol Exports Surge

Report Categories:

Agricultural Situation

Biofuels

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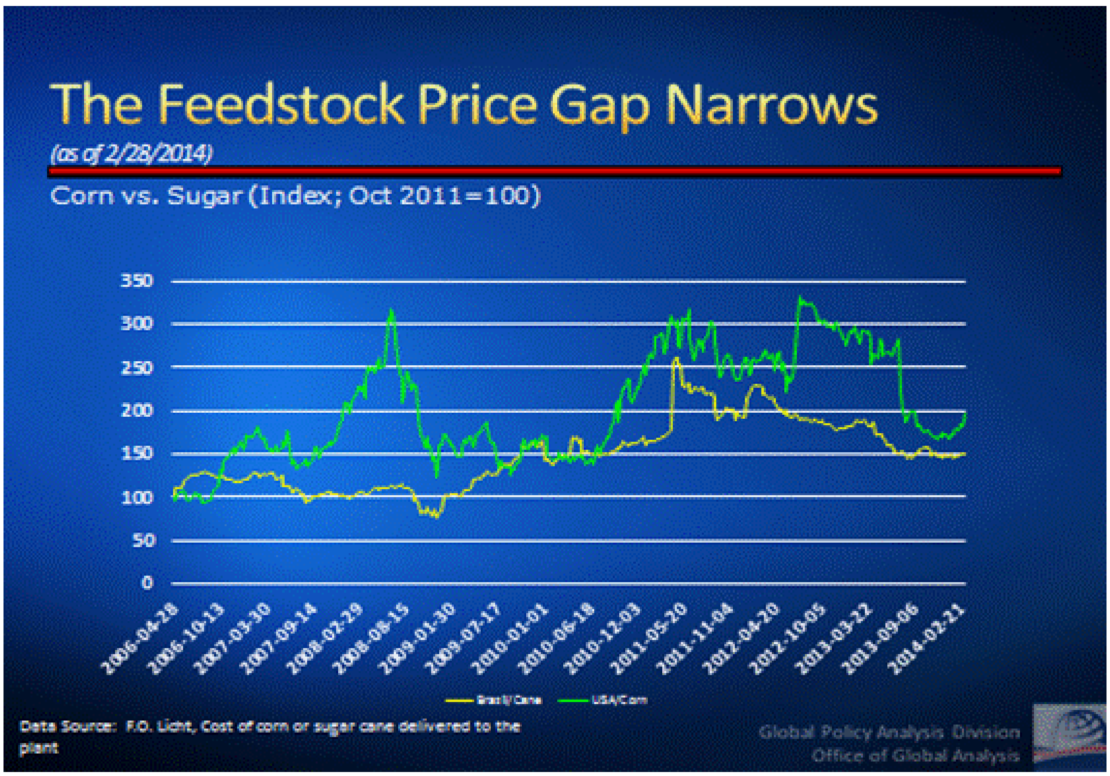
Report Highlights:

In 2013, the value and volume of U.S. ethanol exports to Colombia hit record levels because of trade preferences under the U.S.-Colombia Trade Promotion Agreement (CTPA), low U.S. corn prices, and Government of Colombia (GOC) ethanol policies that set above market prices to incentivize domestic ethanol production and satisfy local blend mandates. Compared to 2012, total export values and volumes jumped 4,520 and 4,270 percent, respectively, to US$11 million and 16.7 million liters. The buying enthusiasm of U.S. ethanol continues this year with export values reaching US$9.2 million from January through March 2014.

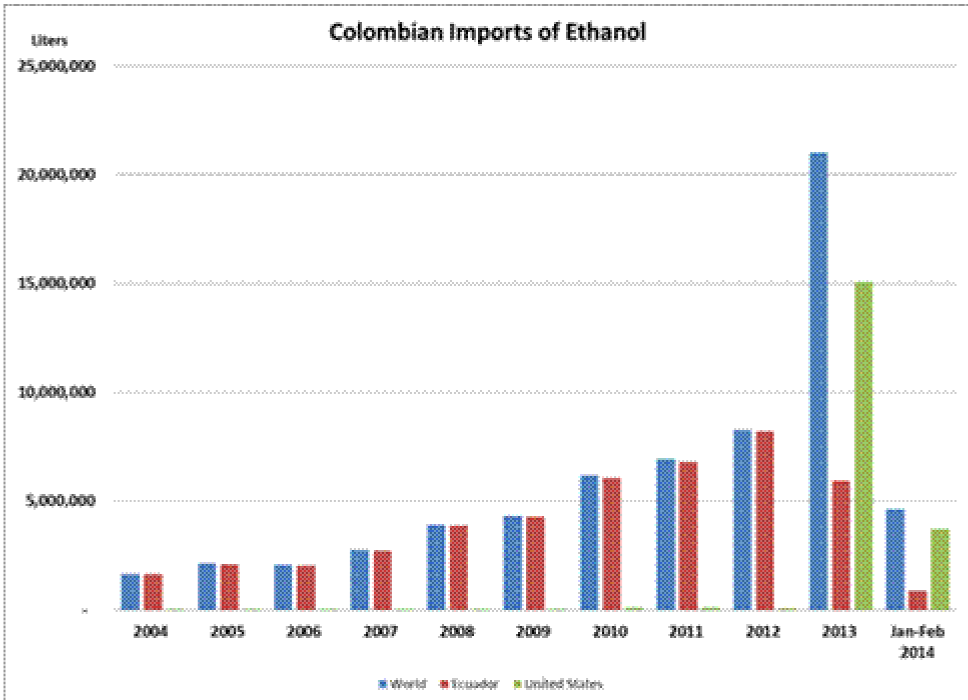
General Information:

Exports of U.S. ethanol are benefiting from zero tariffs under the CTPA and competitive prices for corn starch ethanol against the cane sugar alternative. Other than the United States, all major ethanol suppliers to Colombia use sugar cane as the feedstock, whereas the U.S. uses corn starch. Cane sugar ethanol has historically met the ethanol biofuels demand for the Colombian market supplied by domestic ethanol production and some imports from Ecuador. Since late 2013, the bumper U.S. corn harvest and the subsequent fall in corn prices improved the price competitiveness of corn starch ethanol relative to the cane sugar alternative. The graph below illustrates the narrowing of prices for corn versus sugar as a feedstock for ethanol production:



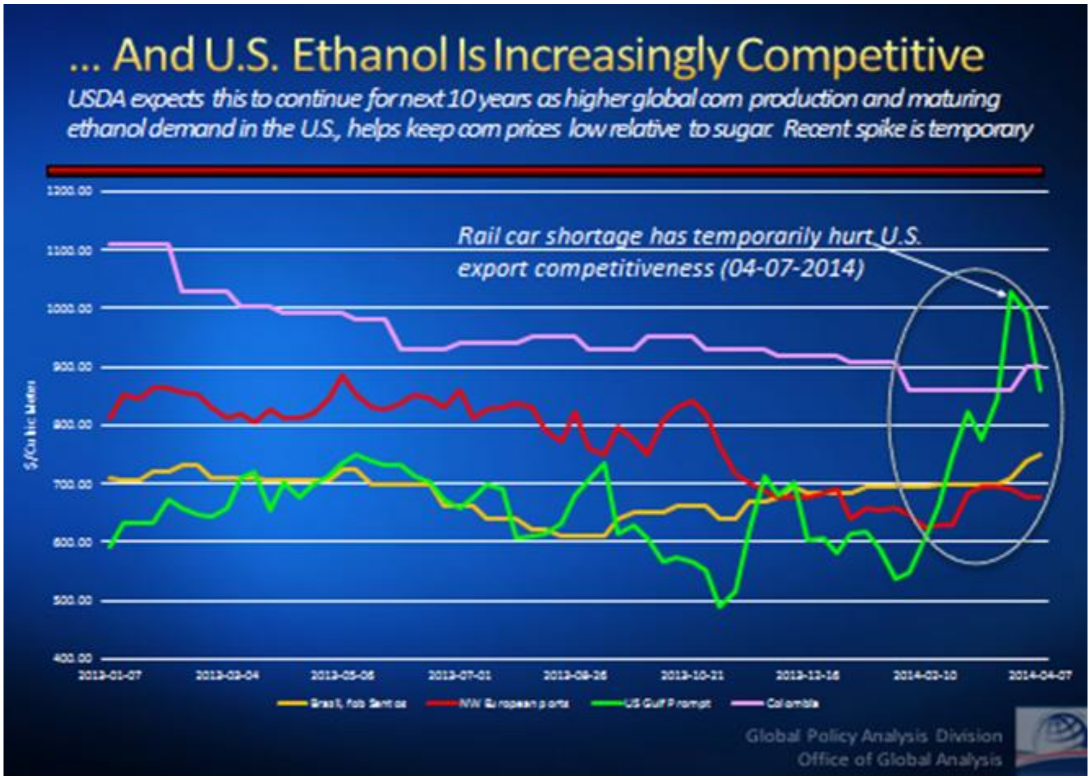
The productive capacity of the Colombian ethanol industry is 1.25 million liters per day. In 2013, Colombian ethanol production reached 389 million liters for blending levels at E8 for the northern coast of Colombia and E10 for the rest of the country. Colombia has the capacity to meet domestic blend mandates; however, high prices for cane sugar have left little incentive for the Colombian sugar industry to satisfy domestic ethanol needs. Rather, shortfalls are met with imports while new distilleries in the process of being built have yet to come online.

Colombian imports of ethyl alcohol are mainly for the liquor industry with Cuba as the main foreign supplier. Ethanol imports for biofuels represent only one percent of Colombian ethanol biofuel consumption with imports from primarily Ecuador. Compared to 2012, total U.S. ethanol export values and volumes jumped 4,520 and 4,270 percent, respectively, to US$11 million and 16.7 million liters. In the last quarter of 2013, a surge of biofuel ethanol imports from the United States reached 21 million liters, or about 5 percent of the domestic production for the entire calendar year. The surge gave the United States 72 percent of the import market share with 90 percent of the import volume concentrated in the last three months of 2013 (October through December). The buying enthusiasm of U.S. ethanol continues this year with export values reaching US$9.2 million from January through March 2014. The graph below illustrates the U.S. ethanol import surge compared to the primary competitor, Ecuador, and the rest of the world:



This concentration of imports at the end of 2013 represented close to 15 percent of total Colombian ethanol consumption in the same period. The surge in U.S. ethanol imports was significant enough to motivate the Colombian cane sugar and biofuels industry to seek government protection in the form of trade restrictive regulations allowing the GOC to set import levels and establish a licensing mechanism for importing firms. These regulations were proposed and approved by the GOC Ministry of Mining and Energy in April 2014 in spite of the CTPA, which provides zero duties for U.S. ethanol and no special provisions, such as trade safeguards. The potentially trade restrictive regulations limiting imports have yet to be implemented and are being monitored by the U.S. Government. As the price or corn remains low, U.S. corn-based ethanol will continue to be competitive against domestic and Andean Community (e.g. Ecuador) trade partners. In addition, U.S. ethanol trade preferences under the CTPA are more favorable than the Southern Common Market (e.g. Brazil), with ethanol import duties at about 10%.

Since March, the U.S. ethanol market has been extremely volatile -- with prices moving from historically low levels in January to the higher levels in March 2014 as a result of railcar bottlenecks reaching the Port of Houston. Even when shipping charges to Cartagena are added to the Gulf spot price, U.S. ethanol landed in Colombia is competitively priced against Colombia's administered domestic price and against the market prices of competitors. The graph below illustrates the pricing trends for ethanol:



The expectation is that U.S. ethanol exports to Colombia will maintain a strong pace while interest in cane-based ethanol from export competitors will remain lackluster. Moreover, as long as market pricing based on local supply-demand conditions and competitor prices are ignored in favor of GOC administered prices, U.S. ethanol will continue to displace some domestic ethanol production with low corn feedstock prices.