

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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POLICY

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## Colombia

**Post:** Bogota

### Trade Protection Plunges U.S. Ethanol Exports

**Report Categories:**

Biofuels

Trade Policy Incident Report

Trade Policy Monitoring

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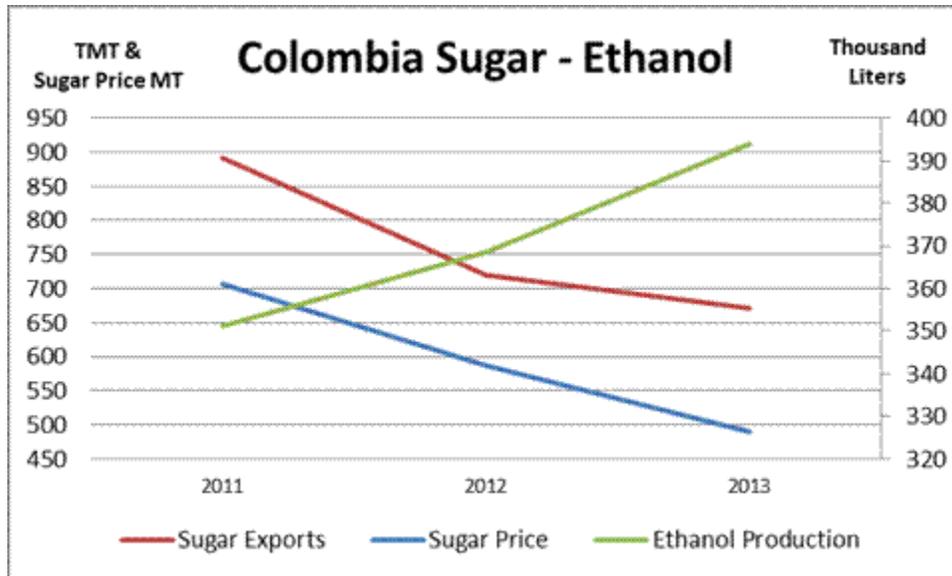
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**Report Highlights:**

FAS/Colombia is writing a series of reports on the opportunities and challenges for U.S. agriculture under the Colombia Trade Promotion Agreement (CTPA), which went into force in May 2012. U.S. ethanol had benefitted from the CTPA with monthly exports to Colombia averaging 3.75 million liters from October 2013 to March 2014 with a total trade value of \$17.6 million. Exports prior to 2013 were negligible and the trade surge motivated the Colombian sugar industry to pressure the Government of Colombia (GOC) to close the market. FAS/Colombia is offering technical assistance under the Cochran and Borlaug Fellowship programs to stimulate innovation and improve Colombia's ethanol productive capacities of second generation biofuels.

### General Information:

Colombia is a net exporter of sugar and produces more than sufficient quantities of sugar cane to meet domestic demand. Industry profits are therefore highly dependent on international prices for exports and/or domestic ethanol demand. The graph below illustrates how sugar exports are conversely linked to ethanol production:



Source: Global Trade Atlas, ASOCAÑA, FEDEBIOCOMBUSTIBLES

In 2013, international sugar prices hit a three year low stimulating a fall in Colombian sugar exports and increases in ethanol production. The domestic price for Colombian cane-based ethanol is not derived from market dynamics, rather a GOC subsidized price guaranteeing profits to the sugar industry. In the fall of 2013, low corn prices fueled competitive conditions for U.S. corn-based ethanol trade that motivated protectionist GOC policies.

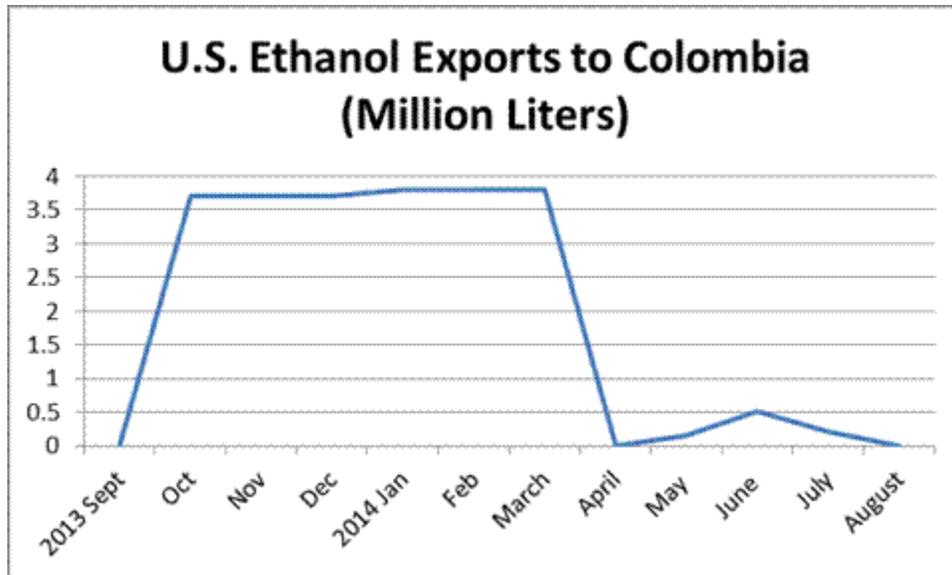
### Trade Protection:

The GOC mandates that gasoline be blended with 8% ethanol. Colombia has five ethanol distilleries that are part of a network of large-scale, vertically integrated sugar mills. The blend mandate is primarily satisfied with domestically produced sugar-based ethanol supported by GOC subsidies that set the price per gallon.

The GOC ethanol price per gallon is announced monthly and is currently \$3.06 per gallon for October 2014. All gasoline retailers that source domestic ethanol for blending must pay the GOC price per gallon. However, under the CTPA U.S. ethanol has favorable duties and current per gallon import prices are approximately 30% lower than the GOC price. This price differential has motivated gasoline retailers to begin importing U.S. ethanol rather than sourcing the domestic alternative.

U.S. ethanol exports to Colombia began in earnest during the fall of 2013 with monthly exports to Colombia averaging 3.75 million liters from October 2013 to March 2014. The total trade value for that period was \$17.6 million.

Concerned with import competition, the Colombian sugar mills pressured the GOC to close the market for U.S. ethanol through a regulatory decree published in late April 2014 that provides the GOC the authority to restrict import volumes. After the GOC regulatory decree was passed, U.S. ethanol exports plummeted to zero by August 2014. The impact of the decree is illustrated below:



Source: BICO

**USDA Technical Assistance:**

USDA is offering technical assistance under the Cochran and Borlaug Fellowship programs to improve policies supporting biofuels development and conducting research that will develop Colombia’s second generation biofuels productive capacity. FAS/Colombia has already recruited six scientists for the Borlaug Fellowship representing Colombia’s Sugar Cane Research Center, Coffee Research Center and Palm Oil Research Center. The Borlaug Fellowship will establish research partnerships with U.S. universities and focus on second generation biofuels that apply harvest waste as a feedstock. The objective of this outreach effort is to stimulate innovation and improve Colombia’s biofuels production efficiencies in support of a more positive approach to addressing import competition.