

The Support for Biofuels*

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Less than a year ago, biofuels were being hailed for their potential to reduce oil imports and benefit farmers. Today, biofuels are accused of almost everything, from the rapid and drastic rise in food prices to the loss of biodiversity on the planet. Newspapers have even said that biofuels have contributed to worsening the abysmal poverty of those who are destitute.

Thus, why has the Inter-American Development Bank (IDB), the major multilateral financial institution that I run, just approved a US\$ 260 million loan for a private company to build three ethanol plants in the Center-South regions of Brazil at a cost of approximately US\$ 1 billion?

The reason is based on a distinction that has been missed in the heat of the food and energy crises. There are two major types of biofuels: those derived from low energy plants, such as corn produced in countries with temperate climates and limited agricultural areas, and biofuels derived from high energy crops, such as sugarcane from tropical countries, with abundant supplies of water, sunlight and underused agricultural areas.

There are legitimate concerns that ethanol produced from corn has contributed to inflation in food prices. But the situation is completely different in Latin America and the Caribbean, which produce ethanol almost exclusively from sugarcane. Extensive studies conducted by the IDB indicate that in most of the sugarcane-producing countries in the region sugarcane production creates social, environmental and economic benefits, without any impact on food prices. We plan to support these countries in taking advantage of this opportunity, within a framework that ensures the highest possible degree of sustainability.

Latin America's comparative advantages as an efficient ethanol producer are remarkable. Colombia has replaced 7 percent of its transportation fuel with ethanol in less than three years, using sugarcane that was previously exported in the form of refined sugar. Ethanol made from sugarcane yields eight times as much energy as is consumed in producing sugarcane ethanol, compared with a ratio of just 1.3 for ethanol produced from corn. Colombia will need less than 120,000 hectares of sugarcane to replace 20 percent of its gasoline consumption with ethanol by 2012, in a country where 41 million hectares are used as pastureland.

In Brazil, the area currently allocated to sugarcane is just one forty-fifth of the land area used for agriculture and cattle raising. Even if 100 percent of Brazil's transportation fuel were replaced by sugarcane ethanol (compared with the current 50 percent), the land needed to grow the sugarcane would be roughly half of the land area currently being used to grow corn. Moreover, contrary to certain reports, the tropical forests are not being devastated to grow sugarcane, a crop that cannot withstand humidity and which, for this reason, is grown in the Brazil's Northeast and Center-South regions.

It is worth noting that the supply of sugarcane has not been affected by the expansion of ethanol production, and that the world market price of sugar has, in fact, fallen over the last two years.

The three new plants for which the IDB is providing financing support are located in the states of Minas Gerais and Goiás, far away from the Amazon and from environmental protection areas. The project will lease land from small landholders, who will obtain better financial returns from

sugarcane than from cattle raising, which is a traditional activity in the region. The ethanol plants will use mechanical harvesters on more than 90 percent of the land, creating roughly 4,500 permanent high-quality jobs. They will recycle all the sugarcane juice as fertilizer on the fields. They will produce over 110 million gallons of ethanol annually for the domestic market and will burn the sugarcane bagasse to generate their own electrical power. In fact, the so-called co generation technology that will be used is so efficient that it will produce additional power generation sufficient to provide enough electricity for 400,000 households with Brazil's average power consumption.

Similar benefits, on a smaller scale, can soon be achieved by other countries in Latin America and the Caribbean, which today are highly dependent on oil imports. Costa Rica has recently announced a program to replace 7 percent of its gasoline consumption with ethanol produced domestically and in other countries. Sugarcane producers in Guatemala, El Salvador and the Dominican Republic are preparing to convert their excess production or inactive lands into ethanol production. These emerging ethanol industries will reduce the cost of oil imports while also creating jobs in rural areas, which have been the places where many illegal immigrants to Europe and the United States are from.

Rather than indiscriminately attacking biofuels, decision makers should support efforts to ensure their sustainability. Government authorities in Brazil and Colombia are already developing certification systems that will guarantee that the producers achieve internationally recognized safeguards. In the near future, the IDB will announce a "Sustainability Framework" that will facilitate the assessment of potential biofuel projects.

Biofuels will supply only a minor portion of the world's energy demand and they are not a good option in many places. But those countries blessed with the ideal conditions for producing them should be encouraged, rather than condemned.

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