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Report Name: Brazil Allows Imported Soy in Biodiesel Production

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Report Category: Agriculture in the News, Agricultural Situation, Policy and Program Announcements, Agriculture in the Economy, Biofuels, Oilseeds and Products

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Report Highlights:

On November 18, the Brazilian National Energy Policy Council published a resolution to allow for the use of imported materials – either raw soybeans or soybean oil - in the production of biodiesel. Soybean oil prices have been spiraling, in correlation with fast dissipating product stocks. This policy move highlights the government's rising concern about spiking consumer inflation. Notably, the resolution did not specify for how long the measure would be in effect, which injects a degree of uncertainty for importers considering sourcing soybeans and/or soybean oil. At this point, the market is ambivalent on whether the measure will elevate imports or push down prices.

On November 18, the Brazilian National Energy Policy Council published resolution number 9 in the *Diario Official*, which allows for the use of imported materials – either raw soybeans or soybean oil - in the production of biodiesel. The resolution permits the Brazilian Petroleum, Natural Gas and Biofuels Agency (ANP) to allow for the use of imported raw materials in biodiesel auction notices. In effect, the resolution creates an exception to the Brazilian legislation, which mandates that all biofuel sold at ANP auctions – the official and only channel of biodiesel distribution in Brazil - has to be manufactured from oils and fats of domestic origin. (See GAIN report Brazil: Biofuels Annual).

The ANP auctions enable the biodiesel industry to keep tight stocks, producing just the volume to be delivered over the next two months. In 2019, the country produced 5.9 billion liters of biodiesel, with soybean oil accounting for more than 70 percent of the feedstock. In the last several years, ANP has progressively increased the mandatory blend rate for biodiesel supplied to the domestic market. The latest increase was in March 2020, to 12 percent, or B12. Notably, since March, the ANP has temporarily lowered the biodiesel blend mandate twice citing dearth of available supplies.

Last week, the ANP issued notice for the 77th Biodiesel Auction that will be held on December 4 and will distribute biofuel for the first two months of 2021. In the notice, ANP announced that the government was considering allowing imported raw materials to be used in biodiesel production. This policy move highlights the government's rising concern about spiking consumer inflation. (See GAIN report Brazil: Agricultural Prices Stoke Inflation). In October, consumer inflation was 0.94 percent - the highest point for the month since 1995. The price of soybean oil – which is used by consumers in cooking and also by the biodiesel industry for blending – rose 22.4 percent for the same month. The surge in soybean oil prices is attributed to tight supply as well as spiraling prices for the raw soybeans. (See GAIN report Brazil: Oilseeds and Products Update).

In the last several months, various Brazilian government agencies have advanced a host of measures in an attempt to tamp down prices. On September 9, the government introduced a duty-free tariff rate quota regime for rice imports coming outside of Mercosul. On October 16, Brazil zeroed out import tariffs for non- Mercosul imports of corn, soybeans, and soy products. (See GAIN report Brazil: Brazil Eliminates Soybean and Corn Import Duties). Finally, on November 3, the Ministry of Agriculture relaxed import license regulation to facilitate corn and soybean imports. (See GAIN report Brazil: Ministry of Agriculture Changes Import License Requirement to Facilitate Corn and Soybean Imports).

The market is ambivalent on whether the National Energy Policy Council resolution will lead to higher imports of soybeans and soybean oil. Similarly, interlocutors also express uncertainty that the measure would exert downward pressure on soy oil prices in the immediate future. In the last two days since the resolution has been published, there has been no noticeable impact on prices. In general soy and soybean oil prices from traditional suppliers for Brazil – such as Argentina, Paraguay, and Bolivia - are also high. Furthermore, Brazil's devalued national currency, the real, is making imports more expensive. The general consensus is that prices should come down at the start of the new year, when Brazil's 2020/21 soybean harvest begins and stocks are replenished.

Notably, the resolution did not specify for how long the measure would be in effect, which injects a degree of uncertainty for importers considering sourcing soybeans and/or soybean oil. Brazil's National Association of Oilseed Processors (Abiove) has publicly indicated that the resolution will only apply to the 77th auction. However, Abiove is not affiliated with the government, and Post interlocutors note that the market is uncertain about how long the measure will apply for. The Brazilian crush industry would likely push against any proposal making the resolution permanent, as competition from imported soybean oil would drive down prices in Brazil. On the other hand, the biodiesel industry would likely favor maintaining the resolution on permanent basis. Given that roughly 70 percent of biodiesel production uses soybean oil as the feedstock, the profitability of the sector is highly dependent on soybean oil prices.

Attachments:

No Attachments.