

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Voluntary Public

Date: 10/15/2013

GAIN Report Number:

Panama

Post: Panama

Update on Panama's use of biofuels to develop its energy sector

Report Categories:

Biofuels

Approved By:

Kelly Stange, Regional Agricultural Attaché

Prepared By:

Maria Guardia, Administrative Assistant

Report Highlights:

So far, the major impact of Law 42 of April 20, 2011 (the national policy on biofuels in the Republic of Panama), is an increase of 1.5 cents per liter. However, Panama subsequently passed a law to increase taxes on imports of ethanol to protect local production.

General Information:**Update:**

Despite public concerns and protests from taxi drivers and other sectors of public transportation, implementation of 5 percent addition of ethanol to gasoline went into effect on September 1, 2013. Total increase in the cost of gasoline was approximately 1.5 cents per liter, in part due to equipment adjustments needed at the gas stations. After almost one month of implementation, no major impact on automobiles has been reported by anyone or any of the groups that were worried about possible damages to their vehicles.

Panama passed a law on October 8 2013 that increases taxes on imports of ethanol to protect local production. The law only affects ethanol for biofuel production and ethanol for purposes such as nail enamel and beauty supplies are not affected. So far, the only local supplier of ethanol has been able to meet demand. Other local mills have made arrangements with this supplier to sell part of their sugar production for this purpose, so it is expected that for the time being local production of ethanol will be sufficient to serve the market.

We will continue to do updates if demand increases and a law allowing imports is implemented in the future. More changes are expected after April 2014, when ethanol additives to gasoline will be country wide and in greater proportions after the year 2015. However, it seems that local production will be, for the most part, protected.

Original report continues:

General Information:

On April 20, 2011, the Government of Panama (GOP) created Law 42. This law developed the parameters for a national policy on biofuels in the Republic of Panama. The main purpose of the law is to promote national production of biofuels, although imports may be authorized. The law promotes the production of biofuels, generates employment, boosts the agricultural sector and contributes to the environment. Biofuels are all fuels and oxygen fuel boosts produced through vegetal or animal products or agricultural residues.

The law will be regulated by the Panamanian Secretariat of Energy, who will have the responsibility to develop, promote and execute the strategic programs and projects. The Secretariat will implement the law nationwide in coordination with the Ministry of Agricultural Development and the Ministry of Commerce. Law 42 was modified by means of Law 21 of March 26, 2013, which postponed the implementation of Law 42 from April 2013 to September 1, 2013. Local oil companies have been meeting with the Panamanian Secretariat of Energy to discuss the different stages of implementation,

including how processes at distribution centers and gas stations will function.

Tax exemptions and other benefits have been established for biofuel investment projects, such as an incentive equal to 20 percent of value of the acquired material for a period of five years from the commencement of production. The incentive will be processed, as dictated in the same article, as established by Law 76 of 2009, relating to the Industrial Development Certificate. Additionally, the purchase of bioethanol and biodiesel as alternative fuels will generate a tax credit of 60 cents per gallon for companies investing in the technology and will offset the payment of the excise tax on fuel and other petroleum products. This credit is not transferable.

Sales tax levied by the government on ethanol will be \$0.60 per gallon, and import tax will be \$0.25 per gallon, as per Article 2 of Law 21. Back in 2006, some oil palm tree projects were created with a view to producing biodiesel, but so far the most developed investment towards the production of ethanol is a project in the Central Provinces called “Alcohols of the Isthmus.” This company has planted 4,000 hectares of sugar cane aimed at the production of ethanol, but it could also produce sugar and rum.

Other sugar mills in Panama have conducted studies for the production of ethanol and may be able to produce it if there is a demand.

Percentages of ethanol added to gasoline will be increased at approximately 2 percent in yearly intervals starting in September 2013 to reach a maximum of 10 percent by the year 2016. Since the law was postponed until September, the first addition of ethanol to the gasoline will be of 5 percent instead of the 2 percent originally stated.

Law 21 further states that:

1. By September 1, 2013, 5 percent addition of ethanol will be added to gasoline only in Panama City towards the north up to the Chagres River, towards the east up to the Sector called December 24th (name of the neighborhood), and to the West up to the District of Chorrera.
2. By April 1, 2014, 5 percent ethanol will be added to all gasoline within the territory of the Republic of Panama.
3. By April 1, 2015, 7 percent ethanol will be added to all gasoline within the territory of the Republic of Panama.
4. By April 1, 2016, 10 percent will should be added to all gasoline within the territory of the Republic of Panama

In the event the above percentages cannot be made on the dates or regions described, the Secretariat may modify the percentages, dates and geographical areas where it will be implemented. The decision to increase or decrease the percentages of the mix, or modify the dates or geographical areas where it will be implemented may be adopted by means of a resolution duly approved by the National Secretary of Energy. The 10 percent value may be increased by the National Secretariat of Energy based on technological advances, as well as the list of products that ethanol should be added. Also, this

Secretariat may establish the use of other biofuels that come in terms with this law as hydrated bioethanol and other biofuels.

The National Secretariat of Energy will establish the parameters and technical specifications or quality controls for the ethanol. In the event of a local shortage of ethanol, the use of gasoline without the ethanol blend will be allowed with the prior authorization of the National Secretariat of Energy.

Local oil companies estimate that the cost of gasoline may increase approximately 11-12 cents per gallon for the 5 percent addition of ethanol, and 22-23 cents per gallon for the 10 percent addition of ethanol, as they would need to adequate their distribution installations as well as gas stations for this process of injecting ethanol to the gasoline.

It is worth noting that some automobiles that pre-date 2006 may need to be adjusted to be able to use ethanol, and mileage performance may decrease by up to 3 percent.

Ethanol has successfully being added to gasoline in Brazil since 1976 up to 25 percent; in the United States, since the year 2000, there has been an addition of 10 percent, and in Colombia, since 2005, also had an addition of 10 percent, but it is not accessible everywhere, just in areas near the sugar mills. In Costa Rica, a similar project did not succeed. Panama is planning to carry out a wide marketing campaign to instruct the public and promote the benefits of adding ethanol to gasoline. Colombian experience and marketing efforts used in that country will serve as a guide for the Panamanian campaign.

The estimated local production of ethanol to start implementing the law should be approximately 15 million liters.