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# What are European Investors Looking for in Argentina?

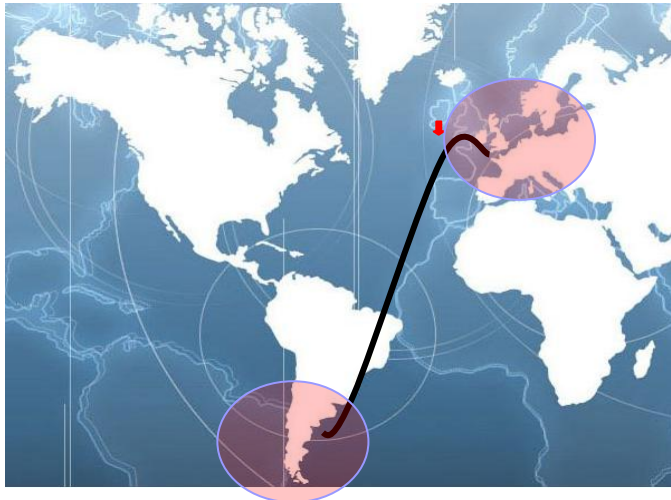
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2009 Biofuel Summit & Expo  
Buenos Aires - Argentina

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## *What are European Investors looking for in Argentina?*



- First; **POLICY MAKING**

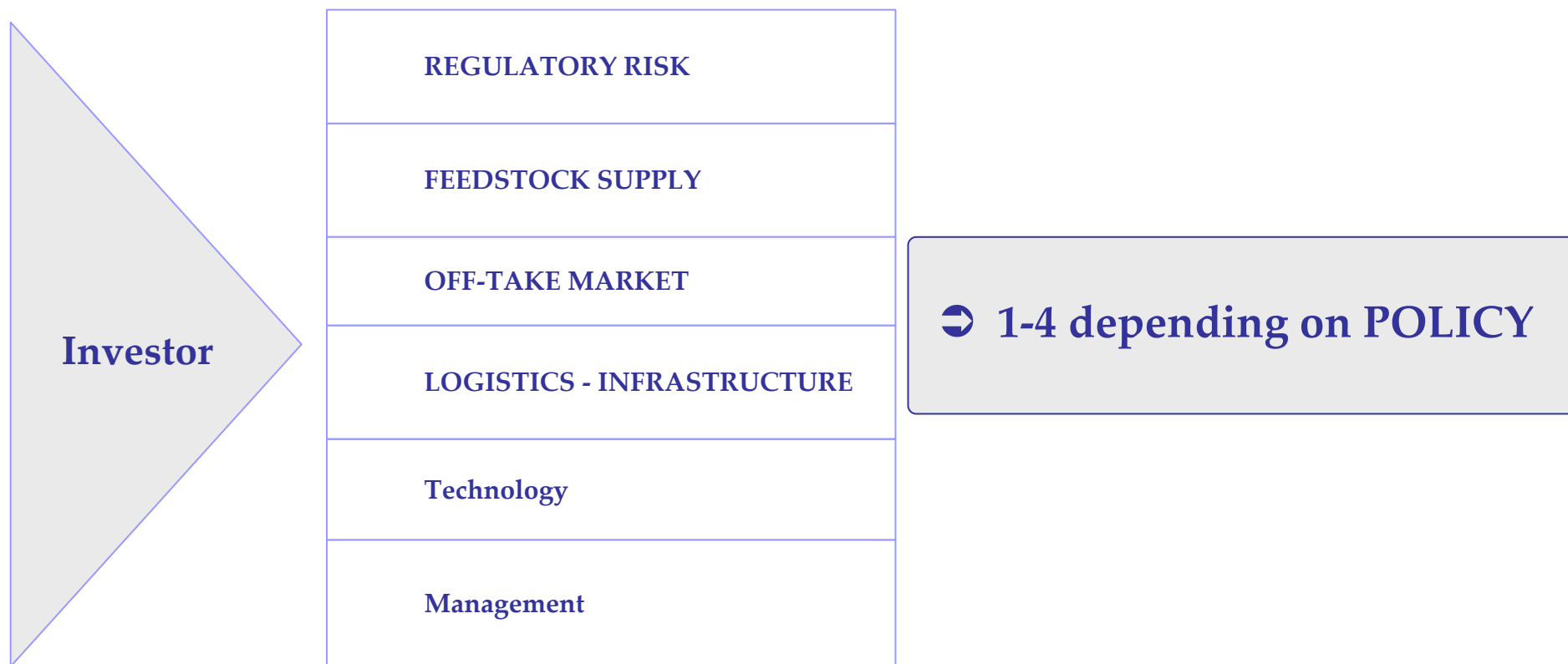
.....A strong policy statement – commitment to industry

- Then; **FEEDSTOCK and OFF-TAKE MARKET**

.....Also a function of policy



## Key investment criteria for biofuels investments



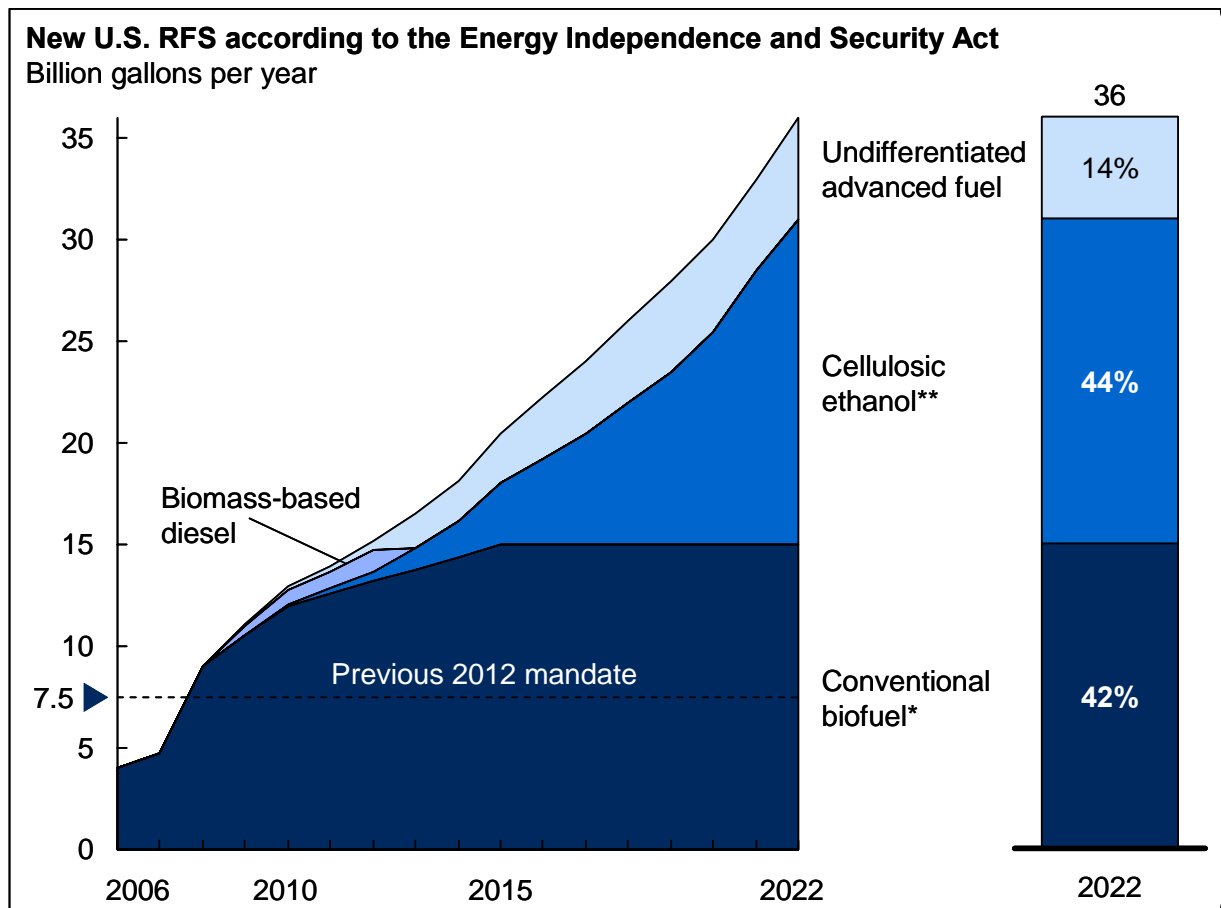


## *Serendipity for investors in Argentina ?*

- ➔ Euro-Latin Capital decided in 2005-06 to invest in bioethanol in Brazil and biodiesel in Argentina, particularly due to **feedstock advantage** (sugar cane and soybean/oil crush infrastructure/logistics, respectively)
- ➔ The introduction and increase of export taxes made Argentine SME attractive (the spread)
- ➔ Investors **hate uncertainty** and, despite indirect subsidy, our investors **declined** capital increases in 2008 and 2009
- ➔ We still believe in biofuels industry – and seek attractive and predictable regulatory environments -- **Argentina needs stable and coherent policies**



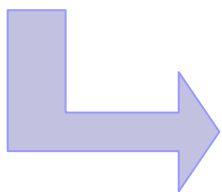
## Global situation - Regulatory dynamics



- The new RFS will bring a five fold increase in renewable fuels, of which 80% could come from ethanol
- Over 50% of ethanol supply in 2022 is required to be produced from “advanced” biofuels

Source: Tecnon, McKinsey analysis

The future and growth prospects remain excellent



- ➔ Transportation sector accounts for 30% of Co2 emissions.
- ➔ If wish deal with Co2 in transport, biofuel only viable alternative in next decade (fuel cell, electric years away)
- ➔ Plenty available feedstock for domestic supply (with right technologies) especially in Argentina
- ➔ McKinsey expects biofuel production in 2020 to exceed US and EU crude imports from OPEC, and CO2 to be reduced by 600m t/yr
- ➔ Domestic source – giving energy security
- ➔ Global regulatory environment distorted, but favorable (across political lines) if you can meet sustainability criteria



## Global regulatory distortions

- **Duty on Brazil sugar cane ethanol vs. subsidies on corn-based US**
- **US \$ 1 / Gallon SME and EU countervailing duties**
- **EN 14214 drives EU out of business (RSO REQ)**
- **ILUC Penalizing SME**
- **Argentina export tax regression – opportunity or threat**

**Mandates cannot be met in short term and will be qualified**

Significance of Sustainability Criteria

- perceptions more important than reality
- while the criteria are not clearly defined, they will set playing field for biofuels in future

**In long run, subsidies will go to lowest-carbon alternatives**



- **Must be Sustainable and Competitive**
- Preserve or improve export tax advantage
  - zero tax on sustainable FAME, incl. SME
- New feedstock must complement, but not compete with food (or land for food)
  - enhance food production (through intercropping, rotations and systems approach to crop management)
- Optimize life-cycle CO2 reductions, local farmers/labor consideration, grow in harmony with ecosystem
- Stimulate investments in biofuel feedstocks that increase the total food available (grow between trees, better yields from rotations, use of water, etc.) and sustainable feedstock development (e.g camelina, macauba, jatropha, castor)



## *Sustainability of SME*

- Very small % of biomass used for biofuels, soy is in fact a food crop and value of soybeans is driven by demand for meal globally
- Only 18% of Soybean biomass gives soybean oil (more planted for fuel = more food)
- If biofuels share of SBO is 5%; < 1 % of Soybean biomass used for biodiesel
- ILUC grossly unfair but has huge impact on life cycle CO<sub>2</sub> (projected life cycle CO<sub>2</sub> with ILUC from US EPA analysis is 22% for SME as opposed to 78% by NBB)
- ILUC is likely to be a tool used by EU regulators to block entry to EU market for SME
- Logical counter-strategy is to encourage EU and US to buy carbon credits for avoided deforestation and tree planting instead of blaming it on soy



## *Off take - Market*

- ➔ Mandates; should be more ambitious and accelerated
- ➔ Cultivate local demand
- ➔ Replace diesel imports (\$700m spent in '08 on dirty diesel imports) and – create employment and keep money in Argentina
- ➔ Market for the entire biomass of all feedstock
- ➔ Produce and sell highest value added products from biomass

**To become industry leader → Argentina needs to Create Domestic Market  
..... in addition to the Export Market**

- Argentine has logistics advantage, incl. port/transport infrastructure, crushers
- Must be further developed, incl. pipelines, rail, storage, blending, retail
  - e.g. Brazil ethanol integration
- Location vs Transportation issues
- e.g. solar/wind – grid connection



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## *Opportunity*

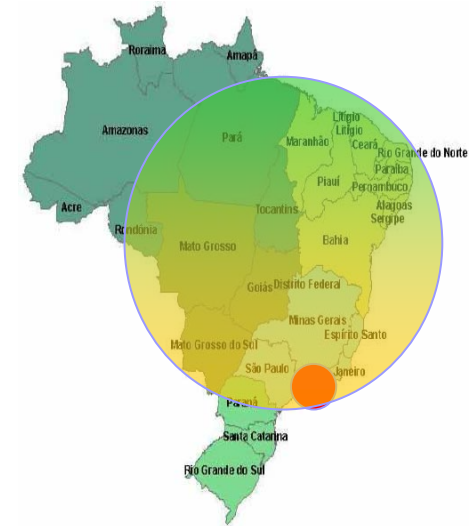
*“MAKE ARGENTINA FOR BIODIESEL  
WHAT BRAZIL IS FOR ETHANOL”*

*... requires sound policies*



## *How did Brazil get there?*

- ➔ Captive market – ambitious mandate
- ➔ Subsidies – phased out as cost came down
- ➔ Infrastructure investments to procure efficiency and bring costs down (pipelines, retail, distribution, storage)
- ➔ Vertical integration – margins in value chain
- ➔ Facilitate optimal use of biomass



## *Argentina needs*



More ambitious mandates – sooner - and stick with them

Replace imported diesel with locally produced biodiesel

Guarantee/lock in regressive export tax spread advantage

Guarantee zero export tax on biofuels with CO2 lifecycle target

Stimulate low carbon fuels, e.g. feebate, tax diesel imports  
- and incentivize farmers to develop biofuel feedstock



## *Example: Create Local and Export Market for Low Carbon Fuels*

- Argentina imports increasingly more diesel, spending more US\$ mostly for heavy, high-sulphur from Venezuela (!) – all of which could easily be replaced by clean, locally produced biodiesel and keep US\$ in Argentina
- Argentina can, for example, impose an import fee and dedicate proceeds to develop alternatives sources of diesel or improved efficiency of fuel
- Activities eligible for “rebate” pool could include planting of sustainable, low carbon feedstock such as camelina, macauba, etc. and provide feedstock diversity
- Program could also provide rebates for fuel that burns more efficiently through use of additives. This would provide lower duty on diesel fuel meeting efficiency target and less fuel consumption by end users.
- Biofuels developed from sustainable feedstock or low carbon fuels would have sustained market position in EU even with tight sustainability regulations

### **Argentina has Unprecedented Opportunity to be Global Leader in Biodiesel Production**

- ➔ Feedstock advantage
- ➔ Logistics advantage

.... but this requires;

- consistent policy making
- create domestic market
- promote low-carbon fuels and sustainable feedstock development
- promote integration





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.....*Thank you*

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