

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **Panama**

**Post:** Panama

### **Implementation of Biofuel Policy: Ethanol Use in Panama**

**Report Categories:**

Biofuels

**Approved By:**

Kelly Stange

**Prepared By:**

Maria V. Guardia

**Report Highlights:**

Mandatory use of ethanol will be implemented this year in Panama.

**General Information:**

On April 20, 2011, Law 42 created the parameters for a national policy on biofuels in the Republic of Panama. The law was created to promote the production of biofuels, to generate employment, to boost the agricultural sector and protect the environment. And although the main purpose of the law is to promote national production of biofuels, imports may be authorized. 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 supposed to be in effect by April 2013 but implementation has been postponed until September 2013. Local oil companies have been meeting with the Panamanian Secretariat of Energy to discuss the different stages of implementation of the law and the processes at distribution centers and gas stations.

Tax exemptions and other benefits have been established for biofuel investment projects, such as an incentive equal to 20% of value of the acquired material for a period of five years from the commencement of production. The tax 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 bio-ethanol 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.

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 producing 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% in yearly intervals starting in September 2013. Ethanol additives will reach a maximum of 10% by the year 2016. The 10% value may be increased by the National Secretariat of Energy based on technological advances, as well as the list of products that ethanol could be added to for use as fuel. The National Secretariat of Energy will establish the parameters, technical specifications, and quality controls for the ethanol.

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

It is worth noting that some older automobiles may need to be adjusted to be able to use ethanol, and mileage

performance may decrease by up to 3%.

Ethanol has successfully being added to gasoline, up to 25% percent, in Brazil since 1976. In the United States ethanol has been added to fuel since the year 2000 with an addition of 10%. Since 2005, Colombia also adds 10%, but it is not accessible everywhere, just in areas near the sugar mills. In Costa Rica, ethanol added to fuel has not taken off. The estimated local production of ethanol to start implementing the law should be approximately 15 million liters.