

**Voluntary Report** – Voluntary - Public Distribution

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**Report Highlights:**

On December 30, 2020, the Brazilian National Biodiesel Production Program (CNPE) issued Resolution #14 with guidelines to implement a new market environment for biodiesel trade, which should replace the current biodiesel public auctions. The National Agency for Petroleum, Natural Gas and Biofuels (ANP) announced that the new model would allow biodiesel producers and distributors to settle over-the-counter (OTC) contracts to guarantee 80 percent of biodiesel supply for a two months period. ANP reported that imported biodiesel would be allowed in the country as of January 2023. ANP has also been working on a custody chain approach, which will likely include a mass balance method to overcome some of the obstacles faced by biodiesel and corn-ethanol producers to get certified under Brazil's National Biofuels Policy (Renovabio).

## **The National Biodiesel Production Program**

The National Biodiesel Production Program (PNPB) was created in 2004 to promote domestic biodiesel production, reduce petroleum import dependency, and lower pollutant emissions and health-related costs. In addition, PNPB was established to generate jobs and income and alleviate regional economic disparities by passing on benefits to family farmers, especially those in North and Northeastern Brazil.

Federal Law #11,097, enacted in January 2005, included biodiesel in the Brazilian energy matrix and delegated authority to the National Agency for Petroleum, Natural Gas and Biofuels (ANP) to regulate and monitor all activities related to biodiesel production, the mandatory blend (Bx), quality control, product distribution, and marketing.

Under PNPB, the biodiesel market is currently regulated by the government through a public auction system that sets the volume of biodiesel that should be produced and delivered to fuel distributors in a particular period of the year and the average sales price. The auction system gives preference to producers with the “Social Fuel Stamp,” a mechanism created by the government to provide incentives for more impoverished farmers (family farmers) in disadvantaged areas. The “Social Fuel Stamp” is issued by the Ministry of Agriculture, Livestock and Supply (MAPA) and should be renewed every five years.

Only biodiesel producers with the aforementioned stamp are eligible for production of 80 percent of the total auctioned volume. Note that the remainder auctioned volume can be delivered by biodiesel producers with or without the “Social Fuel Stamp. In order to obtain the stamp, biodiesel producers must comply with the following requirements:

- Purchase minimum raw material percentages from family farmers,
- Guarantee the purchase of available quantities,
- Set contracts with farmers, provide technical assistance, and training.

## **The Biodiesel Mandate**

Federal Law #11,097/2005 defined and established a legal mandate for the use of biodiesel as a fuel. The law authorized using a two percent blend of biodiesel (B2) until 2008 when B2 became compulsory nationwide, i.e., all mineral diesel must have a two percent biodiesel blend. However, the rapid increase of the Brazilian industrial capacity and the likely oversupply of biodiesel in the domestic market led the National Council for Energy Policy (CNPE) to adopt requirements for higher blends.

CNPE Resolution #16, from October 2018, recommends the annual increase of the biodiesel blend by one percent, from B11 in June 2019 (which was effective in September 2019), to B12 in March 2020, B13 in March 2021, B14 in March 2022, and up to B15 by March 2023.

However, for the first time since the CNPE’s Resolution and in an attempt to control biodiesel prices which drastically increased in the recent auctions due to shortages in biodiesel feedstock, ANP reduced the volume of biodiesel blended to diesel from 13 to ten percent as of April 2021 for the 79<sup>th</sup> and following auctions. However, auction prices remained sharply elevated.

The 79<sup>th</sup> auction generated 1.05 billion liters of biodiesel at an average price of R\$ 5.536 reals/liter (US\$3.84/gal), an increase of 18 percent compared to the average price for the previous biodiesel auction. Biodiesel prices in the 80<sup>th</sup> auction held in late June remained stable at the local currency and similar to the previous auction, generating 1.102 billion liters of biodiesel at an average price of 5.485 reals per liter (US\$4.22/gal). The table below shows the evolution of the biodiesel use mandate as reported by ANP.

Biodiesel Use Mandate	
Year	Mandate
2003	optional
Jan/2008	B2
Jul/2008	B3
Jul/2009	B4
Jan/2010	B5
Aug/2014	B6
Nov/2014	B7
Mar/2017	B8
Mar/2018	B10
Sep/2019	B11
Mar/2020	B12
Mar/2021	B13
Apr/2021	B10

Source: ANP

### **A New Model for the Brazilian Biodiesel Market**

On December 30, 2020, CNPE issued Resolution #14 with guidelines to implement a new market environment for biodiesel trade, which should replace the current biodiesel public auctions. ANP is responsible for regulating the new biodiesel marketing model, which will come into effect on January 1, 2022, and must comply with the following:

- protection of consumer interests concerning price, product quality, and supply;
- guarantee of fuel supply in the national territory;
- promotion of free competition;
- increase in the participation of biofuels in the national energy mix based on economic, social, and environmental perspectives;
- be in accordance with the National Biofuels Policy.

According to CNPE’s Resolution, the new model will only allow the sale of biodiesel from ANP authorized biodiesel plants. The Resolution provides a 12-month transition period to the new market model. The new model must ensure that up to 80 percent of biodiesel sold in Brazil is originated from biodiesel plants with the "Social Biofuel Stamp." The percentage will be set co-jointly by the Ministry of Mines and Energy (MME) and MAPA. Until January 1, 2022, public auctions will continue to be promoted and operated in the current structure, as provided in CNPE Resolution # 5/2007.

In late April, ANP announced a proposal and the parameters to shift biodiesel trading from the country's current public auction model to a hybrid model, starting in January 2022. The model will allow biodiesel

producers and distributors to settle over-the-counter (OTC) contracts to guarantee 80 percent of biodiesel supply for the next two months, following the same calendar used for the current public auction. The remaining 20 percent will be traded in the spot market. Only fuel distributors with at least five percent of market share in any fuel in 2020 will need to commit 80 percent of the traded volume to OTC contracts.

According to ANP, the new model will allow 86 percent of the biodiesel sold by Brazilian distributors in 2020 to be traded under the mandatory OTC model. Biodiesel producers with a market share of three percent or more in 2020 will also need to commit 80 percent of the volume traded in the same two-month period of the prior year through OTC contracts. ANP's proposal needs to be further elaborated to resolve tax-related issues before being made available for public comment.

### **Biodiesel and Biodiesel Feedstock Imports**

There is no formal restriction to biodiesel imports other than paying the import tariff. However, the PNPB program currently requires that only domestically produced biodiesel be eligible to participate in the auction system used to regulate the market, which makes biodiesel imports not attractive.

According to the new biodiesel market model proposal, ANP reported that imported biodiesel would be allowed starting January 2023. No mandatory volume target will be imposed for importers. Allowing biodiesel imports could be a major step in order to guarantee adequate biodiesel supply in the future years given that the switch to the new model will not necessarily guarantee adequate biodiesel supply and/or encourage investments in biodiesel production and logistics.

Currently, Brazil only allows the importation of biodiesel feedstocks. In fact, in November 2020, CNPE published Resolution #9 to allow for the use of imported biodiesel feedstock such as soybeans or soybean oil in the production of biodiesel, given that soybean oil prices have been steadily increasing. Note that soybeans represent roughly 75 percent of the raw material used for biodiesel production. The resolution did not specify for how long the measure would be in effect.

### **Biodiesel Sector and RenovaBio**

Brazil's recently implemented carbon credits program, RenovaBio, was designed to support the country's commitments formulated at the 21st Conference of the Parties (COP21) of the United Nations Framework Convention on Climate Change (UNFCCC). The design of the RenovaBio program was launched in December 2016 by the Ministry of Mines and Energy (MME) and was instituted as the "National Biofuels Policy" through a congressional act a year later.

The goals of RenovaBio include helping to meet Brazil's commitments under the COP21 Paris Agreement; contributing to the reduction of greenhouse gas (GHG) emissions in the production, commercialization, and use of biofuels; promoting the expansion of the production and use of biofuels in the national energy matrix, emphasizing the continuity of the fuel supply; and contributing to the predictability of various biofuels in the national fuel market.

Annual carbon intensity reduction targets drive the program for a minimum period of 10 years. RenovaBio provides the framework to certify biofuel production by reducing GHG emissions and

allowing for the sale and trade of decarbonization credits, known as CBios. Each CBio represents one metric ton of carbon saved through the utilization of biofuels versus fossil fuels.

The latest reduction in the biodiesel blend from 13 to ten percent in April represented a setback in Brazil's attempts to expand biofuels consumption to meet its targets to reduce greenhouse-gas emissions under the Paris agreements and the recently implemented national biofuels policy, Renovabio. The Brazilian Government reports that this situation is temporary, and the B13 blend should resume soon.

Under RenovaBio, certified producers and importers of biofuels are able to sell CBios, which aids a producer's profitability. The program is voluntary for biofuel producers and importers but mandatory for fuel distributors, which are required to achieve individual decarbonization goals based on their market share. The number of CBios that each party is able to sell depends on the volume of biofuel sold and the party's environmental/energy efficiency rating. CBios are sold and traded on Brazil's B3 stock exchange. While fuel distributors are obligated to purchase CBios, producers and investors can trade them as well.

According to Post contacts, approximately 25 biodiesel plants or roughly 50 percent of all Brazilian biodiesel plants are certified to issue CBios. The certification process is onerous, requiring a biodiesel producer to supply comprehensive data about every feedstock supplier, mainly soybeans to a biodiesel plant.

Although biodiesel producers are setting up direct contracts with soybean producers, making the certification process relatively straightforward, many plants nationwide acquire feedstock from different suppliers mixed at elevators, cooperatives, and traders, thus representing an obstacle towards the certification for issuing CBios. Brazilian and U.S. corn ethanol producers face a similar situation making it difficult for them to meet the certification requirements and issue CBios. ANP has been currently working on a custody chain approach that will likely include a mass balance method to overcome some of the obstacles faced by biodiesel and corn-ethanol producers to get certified under Renovabio. The agency has yet made no announcement.

For more detailed information about RenovaBio and biofuels production in Brazil, please see the [2020 Brazil Biofuels Annual Report](#).

**Attachments:**

No Attachments.