

# Aussie Ethanol

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## Of Special Interest

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## Western US Ethanol Market opportunity for Australia

The US ethanol market is volatile but holds great opportunity for Australian ethanol and related products. The ethanol market is growing exponentially and there are numerous opportunities that can be taken advantage of by savvy ethanol producers, distributors, and marketers.

Ethanol is increasingly the center of attention as gasoline and oil spot prices are on the rise. The political rhetoric in Washington and Sacramento are continuing to promote ethanol as the answer to reduce dependence on foreign oil while also being "cleaner" for the environment.

Ethanol has experienced high growth due to the political strength of the Midwest agricultural lobbyist groups. Agriculture lobbyists with environmental groups are also pushing ethanol due to the theoretical advantages of the renewable and more environmentally friendly domestic product. The excitement around ethanol has been growing in part to the Renewable Fuel Standard

(RFS) signed into law in January 2005. This federal mandate requires production increase of US renewable fuels (such as ethanol) to 7.5 billion gallons per year by 2012. In addition, RFS repeals an oxygenate requirement which will phase out MTBE. Ethanol is a high-octane blending component that will replace MTBE.

The Energy Information Agency (EIA) suggests that ethanol will make up maximum of 9% of the gasoline pool by 2030. Existing auto manufacturers will warrantee E10 (E10 refers to gasoline with 10% ethanol by volume) but have been hesitate to increase beyond.

The political dialogue that surrounds ethanol will continue to subsidize the corn production and push import tariffs. The prediction is California regulations will shift to E10 for all gasoline and E85 for select markets over the next 5 year.

Fuel ethanol is imported with a primary USD \$0.54 tariff per

gallon plus a secondary 2.5% ad valorem. This tariff effectively removes much of the incentive for countries to import ethanol to the US despite the fact that they can make ethanol cheaper than US producers. The contradiction between cheaper ethanol and domestic production are at the center of debate.

Ethanol will continue to be the center of attention, as political elections approach. The scientific justification is weak and will limit ethanol to revolutionize the mobility fuel business.

## Distribution: the bottleneck?

The California Energy Commission estimates California consumption for ethanol in 2005 was 900 million gallons. Currently, 99% of ethanol is supplied by the Midwest with 95% of transported via unit trains, and only 5% is delivered to across the water. Ethanol has an affinity for water and therefore cannot be transported by

pipeline. The challenge is to identify distribution methods that continue to make ethanol economically viable.

Australia has an opportunity to export ethanol directly into California ports at substantially lower costs than unit trains from mid-western States.

The largest opportunity will be

to develop IP to allow ethanol to pass in the existing pipeline network. The market would be huge.

## Current Import Market Conditions



*“One bushel of corn will make nearly two and half gallons of ethanol”*

The ethanol market continues to be volatile. The ability to make money on ethanol is a delicate balance of the price of gasoline, corn futures, & ethanol futures. The market is driven by a strong political sentiment.

The US consumed nearly 140 billion gallons of gasoline. Ethanol is blended at some percentage in about 30% of the nation’s gasoline. Gasoline in California averages 6% ethanol by volume, equivalent to nearly 900 million gallons. If California were to add 10% ethanol to all gasoline (E10), over 1.4 billion gallons of ethanol would be required. This is almost 60% increase in demand.

California ethanol production capacity is on the rise. However, these will not be able to meet existing demands or keep pace with expected increases. The large discrepancy in demand and production has created interest

in imported ethanol.

California imports about 42 million gallons of ethanol per year from outside the US. The top ethanol importers are from the sugar rich countries of Brazil, Costa Rica, El Salvador, Jamaica, & Trinidad. The Caribbean Basin initiative (CBI) has given special relief from the US ethanol import tariff. This law allows ethanol to be imported duty free from Caribbean Basin Countries. The import is limited to seven percent of US ethanol production of the previous year. Brazil has been exporting hydrous ethanol to the Caribbean Basin to add value to then import into the US.

Australia imports must contend with the primary and secondary tariffs as well as transportation costs. The demand in California has pushed spot ethanol prices to over \$3.70/gallon. This is significantly over the spot price for gasoline around

\$2.15/gallon.

Market demand is currently strong for ethanol. Australia may be able overcome the tariff costs with bulk transportation. The federal government has also discussed lifting the tariffs to the benefit of outside producers to lower costs

## The players

The market is exceedingly geographic. The Midwestern states of Nebraska Iowa, Minnesota, South Dakota, Kansas, and Missouri make up a majority of all ethanol produced in the US but the demand is predominantly on the East and West coasts.

The Archer Daniels Midland Corporation (ADM) is by far the largest US producer. Nearly 25% of all domestic ethanol is produced by ADM. The remaining US ethanol refiners tend to be too small to take advantage of the tax advantages for small ethanol distillers in the RFS.

Imports of ethanol are continuing to be the topic of heated discussion. President

Bush feels that an abandonment of tariffs will increase ethanol supply and therefore drop the ethanol price sufficiently to be competitive as a gasoline additive or substitute.

Again, the ethanol is transported predominantly by rail. Trucks are used to move the product from the rail hub to the gasoline terminal. Railroad and terminal companies are expanding to meet the demand of ethanol distribution. BNSF and Union Pacific have become key players in the distribution business. Unit trains are used to lower cost. However, transportation by rail and trucks are not competitive

compared to pipeline.

Intellectual property players are developing ways to increase ethanol production as well as develop proprietary technology to prepare the corn feed for higher utilization

## Niche Markets

Assuming the predictions hold true, an E10, E85 & E100 fuel market will continue to advance in the US. Australian enterprises will be in a strong position to develop niche ethanol operations in a variety of areas.

This market's existence will lead the way for other complimentary products. Distribution solutions will continue to be ripe for innovation. In addition, Australia could combine with a

sustainable development brand to utilize an established ethanol market.

For instance, E100 powered recreational marine equipment could have a significant positive environmental impact and be a large market segment. Ethanol is 100% biodegradable and will easily combine with water. Australia can combine their existing expertise in the US renewable fuels market.

Australia needs to combine

their expertise in agriculture with energy to find the power of the renewable fuels market.