

Brazil - Ethanol

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SERTAOZINHO, Brazil - The time is ripe for Brazil to relaunch its fuel alcohol program but consumers must be assured of regular supplies at competitive prices, government and industry leaders told a renewable energy forum.

"We now have a great opportunity to reactivate the program," Trade, Industry and Development Minister Sergio Amaral told the forum at the start of an international sugar and fuel alcohol trade fair on Monday in northern Sao Paulo state, Brazil's sugar heartland. "But this won't be possible if we can't guarantee supplies here and abroad."

Brazil is the world's biggest producer and exporter of sugar and fuel alcohol. Renewed tensions in the Middle East have rekindled fears about oil supplies, pushing prices higher and renewing interest in alternative fuel sources.

Amaral noted tremendous interest in the green fuel on recent trade visits to India, China, Japan and Mexico.

Brazil's first Pro-Alcohol Program, conceived in the mid-1970s to combat rocketing oil prices, slowed at the end of the 1980s when supplies of sugar cane-based fuel alcohol, also known as ethanol, dried up.

Construction of a "flex" fuel car - running on alcohol, gasoline or a mixture of both - in Brazil in the next 18 months will provide an extra boost, Amaral added. Production has been held up, however, by wrangling over tax incentives to cover higher output costs.

Amaral noted that Brazil was harvesting a record crop of sugar cane, from which fuel alcohol is produced.

SPARE CAPACITY

During its peak in the 1980s, Brazil produced up to 16 billion litres (4.2 billion gallons) of fuel alcohol per year, but this year is expected to make only 11 billion litres (3 billion gallons) in the key centre-south region in which Sertaozinho is strategically located.

Demand for cars with special hydrous alcohol designed engines is slowly recovering after sinking to a trough of 0.1 percent of new car sales in 1998, from a peak of 90 percent in the mid-1980s, according to Anfavea, the Brazilian Automobile Manufacturers Association.

Anfavea President Ricardo Luis told the forum that Brazilian auto-makers had installed capacity to produce 3.2 million fuel alcohol vehicles a year but only turned out 1.8 million units in 2001. "The market commands. Manufacturers produce to order," he said.

Several sugar producers, however, complained about a long delivery delay for alcohol-powered vehicles.

"We have to wait up to three months," said a local producer, while another said that automakers were giving priority to offloading huge stocks of gasoline cars that had accumulated as Brazilian economic growth slowed.

But Anfavea's energy and environmental head Henry Joseph said that sales of alcohol cars rose to 3.3 percent of total sales in the first eight months of this year and were expected to reach 5 percent for full-year 2002.

Although emission controls have become stricter, the key factor is price.

"Alcohol needs to be at least 30 percent cheaper for more than six months before buyers react," Joseph told Reuters. Fuel alcohol is sold at a discount because it is less energy efficient than gasoline.

Maurilio Biago Filho, who built up the Santa Elisa mill into one of Brazil's biggest, said that fuel alcohol prices have slid to one third those of gasoline.

The breakdown in fuel alcohol supplies at the end of the 1980s was due to the inefficiency of the government controlled distribution system, he said, adding that there were 280 million litres (74 million gallons) stored at Ribeirao Preto.

The head of the Sao Paulo Cane Agro-industry Union (Unica) said that the creation of a privately financed supply would help guarantee that fuel alcohol prices remain stable.

"It takes out the price peaks and troughs," Carvalho told Reuters, noting that gasoline prices could swing by up to 50 percent during a year.

The problem is that when international sugar prices rise, millers crush more cane into sugar instead of alcohol in order to maximize foreign exchange returns.