

## With high oil prices, world is rediscovering sugar-based fuel

By Todd Benson

**CATANDUVA, Brazil:** Not long ago, residents of this lush cane-growing region in southern Brazil needed to keep a close eye on the price of sugar in world markets to know if the local farmers were hiring or firing.

These days, though, most people in this small farming town seem more preoccupied with the price of oil. And with good reason: Ever since global oil prices started their staggering climb early last year, demand for inexpensive alternative fuels like cane-based ethanol has risen substantially, helping to line the pockets of Brazilian cane farmers while also making them less vulnerable to the swings of the sugar market.

"Ethanol is on its way to becoming a commodity just like oil, and the price of oil is one of the main reasons why," said José Fernandes Rio, a director at Usina Cerradinho, one of eight sugar mills and ethanol distilleries scattered around Catanduva, which is spending heavily to increase production.

Flush with cash from a recovery in global sugar prices, many millers are spending to increase output and upgrade port terminals, mills and distilleries.

According to a survey by ProCana, a research group in Ribeirão Preto, 12.5 billion reais, or \$5.2 billion, has been earmarked for 40 new mills and distilleries over the next five years.

Demand is driven in part by the popularity in Brazil of cars that run on either gasoline or ethanol, or any combination of the two. Lured by the low cost of alcohol — it sells for a little more than half the price of gasoline — Brazilians have been buying these so-called flex-fuel cars in droves.

Because no other country has an ethanol distribution network as extensive as Brazil's, it is unlikely that flex-fuel cars will become an international trend

any time soon. But with world oil prices hovering around \$50 a barrel, governments around the globe are looking for ways to replace gasoline with ethanol.

Almost a dozen countries, including Canada, Sweden and the United States, have begun blending ethanol with gasoline, a practice that has been mandatory in Brazil for years. This helps keep a lid on pump prices while also reducing fuel emissions, a requirement for countries that signed environmental treaties like the Kyoto Protocol.

As pressure mounts on the European Union to comply with the World Trade Organization's order that it do away with sugar subsidies, more foreign sugar producers and trading houses are likely to set their sights on Brazil to keep their businesses alive.

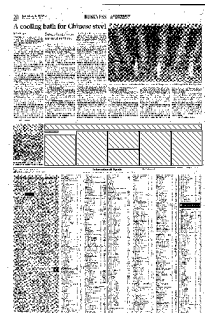
Theo Spettman, chief executive of Südzucker of Germany, the biggest sugar producer in Europe, said at a São Paulo seminar this month that the company was looking for investment opportunities in Brazil. French companies like Louis Dreyfus, Tereos and Sucden have already set up shop in Brazil.

"The big players in the sugar industry in Europe are not going to stop being big just because their subsidies are going to end," said Josias Messias, president of ProCana.

"They know they're going to have to invest here."

Other countries, like Australia and Thailand, are turning to Brazil for help to develop their own ethanol industries, to feed demand for affordable energy in Asia, especially from China. India, the No. 2 sugar producer in the world after Brazil, is also scrambling to spread the use of ethanol as it seeks to reduce its reliance on foreign oil even as its auto fleet expands along with its middle class.

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