Brazil Biofuels Report: Focus on Ethanol

Stratas Advisors

This takeaway, which focuses on ethanol in Brazil, is from a recent report from Stratas Advisors’ Global Biofuels Assessment service. The full report analyzes Brazil’s biofuels (ethanol and biodiesel) market in Q3 2015 and compares it with Q2 2015. It summarizes production, consumption and trade of each biofuel, while reviewing factors affecting each sector, including fuel and feedstock prices and government policies affecting the industry. The report also describes a recently proposed biodiesel policy measure and reviews its effect on the market.

New Developments

Petrobras increased gasoline prices at the refinery level by 6% on Sept. 30, 2015. The decision came as the company continues to adjust following investigations of a corruption scandal. The increase in gasoline prices is expected to affect the price ratio between gasoline and hydrous ethanol, and lead to higher demand for hydrous ethanol.

Expectations are that the federal government will raise the infrastructure tax on gasoline if it is unable to pass any further tax increases in Congress.

The tax was re-established at R$0.10/liter in May after a three-year suspension; however, sources have hinted that if other tax changes cannot be passed the government would increase the infrastructure tax through executive action by as much as R$0.50/liter sometime in 2016.

The states of Pernambuco and Alagoas are modifying their VAT on fuels, with proposals increasing the tax on gasoline and lowering it on hydrous ethanol (E100). These decisions follow similar announcements by the states of Minas Gerais and Paraná this year.

Production

Ethanol production in the Center-South region for Q3 2015 reached 11.6 billion liters, a 76% increase compared with Q2 2015. Similarly, ethanol production in Q3 2015 rose 2% compared to Q3 2014. The increase has been driven by the rise in internal ethanol demand and has even led to the re-start of plants previously idled.

Recent heavy rains have affected the sugarcane harvest and the quality of the crop. From the total production, 4.6 billion liters were anhydrous ethanol, and 7 billion liters hydrous ethanol. Ethanol remains the most profitable to produce. Brazilian demand for anhydrous and E100 gives ethanol a faster rate of return for producers than selling sugar in the international market, allowing them to receive quick revenue to pay off their debt and remain in operations.

Consumption

Ethanol consumption rose 5% in Q3 2015 compared with Q2 2015. The increase was due largely to higher E100 demand, which rose 7.6% in Q3 2015 against Q2 2015. The E100 demand rise has been driven by the price ratio between E100 and gasoline C. Hydrous ethanol requires a maximum 70% price parity to gasoline C to be competitive based on energy content. The lower the price ratio of hydrous ethanol compared to gasoline C, the more favorable for E100. As of the end of Q3 2015, the price ratio was 63%, making E100 competitive against gasoline in many parts of Brazil.
Petrobras’ decision to increase gasoline prices, along with decisions early this year by numerous state
governments in the South and Southeast to increase VAT taxes on gasoline, have helped to increase
demand for hydrous ethanol throughout Brazil, particularly in the south and southeast states, where most of
Brazil’s population is concentrated.

Despite these changes, Petrobras’ decision to increase gasoline C prices in September, coupled with an
increase in demand, have recently pushed E100 prices upward, closing the price ratio between the two fuels. The price ratio is already eroding, thus affecting hydrous ethanol’s main advantage ─ its price versus
gasoline C.

**Consumption of E100 by Region, Jan. 2014 – Sept. 2015**

![Graph showing consumption of E100 by region](image)

**Gasoline C and E100 Prices and E100-Gasoline C Price Ratio, Jan. 2014 – Sept. 2015**

![Graph showing gasoline C and E100 prices](image)

Demand for anhydrous ethanol has dropped around 1% following the decrease in gasoline C demand. This
is due to the correlation in demand between anhydrous ethanol and gasoline A, the primary components of
gasoline C. A 27 vol% mandate has helped sustain the production of anhydrous ethanol, although producers
have shifted to hydrous ethanol as it gives them the flexibility to sell E100 while providing the opportunity to
dehydrate E100 if more anhydrous ethanol is needed.
Exports and Imports

Brazilian ethanol exports in Q3 2015 reached 584 million liters, a 185% increase from Q2 2015. The depreciation of the Brazilian real and sustained demand for GHG-saving sugarcane ethanol has helped to increase ethanol exports. The U.S. is the main destination of Brazilian ethanol, making up 46% of exports, followed by South Korea at 26%. China and India have increased ethanol imports from Brazil in 2015, making up 13% and 5%, respectively, of Brazilian exports in Q3 2015.

Ethanol imports into Brazil in Q3 2015 reached 14 million liters, a 93% decrease from Q2 2015. The decrease of imports is due to increased production. Almost all of the imported ethanol came from the U.S., which traditionally supplies the ethanol needed in the North and Northeastern states of Brazil.

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