

STATEMENT to the US Senate Committee on Foreign Relations on a hearing on “Energy Security in Latin America”, on Thursday, June 22, 2006.

by Eduardo Pereira de Carvalho

Mr Chairman
Honorable Senators

Thank you for the honor and privilege to address this Committee. We are living in a changing era for energy, given environmental imperatives and security of supply of fossil fuels.

Two countries, USA and Brazil, emerge in a privileged position to develop ethanol, as an octane booster, or a gasoline enhancer, or even as its perfect substitute.

There will be no “silver bullet” to petroleum substitution. But, “biomass ethanol is the best alternative to partially replace oil derivatives in the next decades, considering consumers acceptability and strategic considerations” as declared recently by none less than Shell International.

Brazil's large experience with ethanol has been developed over the last thirty years. Not only in high blending volumes, but also in 100% ethanol dedicated cars, or in its present version of flex fuel vehicles. This was possible due to the gradual setting of a huge infrastructure for ethanol distribution, whereby all of the more than 33,000 gas stations all over the country have at least one dedicated pump for E100 fuel.

At the same time, the USA has been expanding its own ethanol production at an astonishing growth rate of around 20% a year, consistent with public policies established to increase the consumption to 7,5 billion gallons in 2012. But its potential use can be much more ambitious. Today, the combined ethanol production of the USA and Brazil, of around 9 billion gallons, accounts for less than 2% of the total world consumption of gasoline. Could we think of a potential market for ethanol of 49 times the present production ?

Brazil has been working to promote a global market for ethanol. In order to achieve this goal, we consider that it is important to launch a Brazil-U.S partnership. Brazil and the USA account for 70% of the world's ethanol production. In our view there is not going to be a global market until we see ethanol being produced and consumed in many countries. We need more players. Such partnership between our two countries could pursue goals such as common standards, technical cooperation, common research projects and -- above all -- joint efforts to promote ethanol in third markets.

Therefore, let me be very clear on this point: the Brazilian private sector does not have any goals of displacing the domestic ethanol industry in the USA. We realize that a thriving ethanol industry in the USA is of enormous importance to consolidate a global market for ethanol. In this spirit, I repeat, we do not think that it would be in our own interest to displace domestic production -- our goal is to complement it and/or displace oil imports.

Within the spirit of such a desirable partnership, it is important to point out that autarkic development in renewable fuels contradicts the framework of a free and global trade in fossil fuels. The present tariff and other duties on imported ethanol in the USA are an obstacle to an even more aggressive market expansion, and certainly an inducement to higher prices than those that could prevail in more liberalized conditions. Is Brazil able to contribute, with its vast potential, to a larger ethanol market ?

Certainly.

Let us consider, first, the necessary acreage for it. Today no more than 7,5 million acres are used to produce 4,5 billion gallons. But we have in Brazil more than 250 millions acres that can be taken as a potential area to expand agriculture - respecting all preservation areas, specially our rain forests. Current expansion programs suggest a production level of 8 billion gallons by 2011. This based on our domestic market, mainly induced by the spectacular acceptance of the flex fuel vehicles, and some moderate growth assumption on exports.

The search for alternative fuels must be based on their economic, environmental and social sustainability. Economically speaking, Brazilian sugar cane ethanol is already competitive with any gasoline obtained from a 40\$ barrel of crude, without any form of subsidy - either in agriculture, industry or to the consumer.

Sugar cane ethanol is a most efficient instrument to sequester carbon dioxide in the atmosphere and consequently mollify the serious threat of global warming: for each unit of fossil fuel consumed in the whole production process, sugar cane ethanol generates 8.3 units of renewable energy.

The social dimension is shown by the high rate of employment generation, turning the areas with sugar cane cultivation in one of the most developed areas within the country: the highest wages paid in the agricultural sector; the best social conditions (education, health care, etc.).

There is every reason to believe that the conditions created in Brazil can be replicated elsewhere in the tropical regions of the world, benefiting hundreds of millions of people, specially in Latin America, Africa and South East Asia.

A freer trade policy regarding ethanol in the USA would entrance the potential of not only much more ambitious goals to gasoline substitution, but also prevent and smooth out possible price peaks and pressures. Additionally, it could induce effective changes in the process of economic development of a vast number of underdeveloped and developing nations.

In short, free markets and fair systems to govern them, need to be recognized as powerful instruments to secure a balanced supply of renewable fuels in the near future. And Brazil and the USA would have much to gain by joining forces to globalize ethanol as an energy commodity.

Thank you.