

Tide seizes opportunity with ethanol

One broker is making the most of a sudden and unforeseen increase in the two-way trading of ethanol with the US.

Joe Brady

Rio de Janeiro

Exporting ethanol into either the US or Brazil might seem like the proverbial "carrying coals to Newcastle" since they are the world's two largest producers.

But an increasing trade between the two countries has caught the eye of shipbrokers from Rio de Janeiro-based Tide Maritime, which has made ethanol a staple of its business.

Tide partner Gustavo Sa told TradeWinds in a recent interview in the Leblon neighbourhood that the trade has been increasing in both directions.

Tide has seen larger lots of Brazil's sugar cane-based ethanol moving to the US state of California, which is the largest gasoline consumer in the US. California has taken a dim view of US-grown

Gustavo Sa: "It came out of the blue — no one expected it. Brazil went from being a net exporter to a net importer of ethanol."



PRODUCTION: Harvested sugarcane being cut at an ethanol distillation plant close to Brasilia. Higher sugar prices have made the domestic product less competitive.

Photo: Bloomberg News

corn ethanol on a carbon-emissions basis and thus has sourced the Brazilian product despite a US tariff on ethanol imports.

Meanwhile, Brazil turned to importing larger quantities of US ethanol when its own production season ended last October and the domestic product grew increasingly expensive. Some 85% of Brazil's new auto sales feature "flex-fuel" cars that can use a mixture of gasoline and ethanol.

"It came out of the blue — no one expected it," Sa said. "Brazil went from being a net exporter to a net importer of ethanol."



TIDE MARITIME: Partner Gustavo Sa

Photo: Joe Brady

According to industry statistics, Brazil's ethanol production fell short last season, rising only 3% against burgeoning domestic demand fuelled by the expanding middle class. Higher sugar prices also made the domestic product less competitive.

As a result, Brazil imported 70 million litres from the US, as compared to just one million litres in 2009. And the growth trend has continued into 2011.

It is being closely watched by Tide, which is active in the market and is the only Rio brokerage to serve the trade through a foreign office, close to many of the world's traders in Geneva.

Sa says the ethanol development stands to mirror arbitrage patterns the brokerage has observed in the crude and clean-products markets, trades in which it is almost active.

"I believe that this event in ethanol-trade flows can be compared to what happens in oil, where Brazil exports heavy crude and imports lighter oil due to the profile of its refineries and its type of products needs," Sa said. "In the clean petroleum-products sector, we import gasoil and naphtha and we used to export gasoline."