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BRAZIL

Sugar cane production forecast cut back

A drought in northeastern Brazil forces the sugar-producing nation to cut its forecasts for the sugar cane crop year that ends in April.

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Bloomberg News

BRASILIA - Brazil, the world's largest producer of sugar and ethanol fuel, cut its estimate for the sugar cane crop ending in April for a second time because of a drought in the country's northeast. Sugar prices jumped to a 10-year high.

The government lowered its forecast for the harvest to 436.8 million tons from the revised 440 million-ton estimate made in August, the crop forecasting agency said in a report released in Brasilia. The original estimate in May called for production of 450.2 million tons. Brazil harvested 415.7 million tons in the 2004-2005 crop, the government said.

Brazilian farmers are increasing the area planted for sugar cane as domestic and international demand for ethanol boosts prices and profit, said Angelo Bressan, the ministry's director for sugar cane and agro-energy. Ethanol prices in the international market may keep rising as the fluid is used for fuel and as a substitute for oil derivatives in the chemical industry, Bressan said.

"Around 40 sugar mills and distilleries are being built in Brazil at the moment," said Bressan at a news conference in Brasilia. "Brazil is ready to cover rising demand."

Farmers have boosted area planted in cane by 4.5 percent to 5.88 million hectares, or 14.5 million acres, according to the report.

Sugar production may be 26.7 million tons, compared with the 27.2 million tons forecast in August, the agency said. The forecast for ethanol output was kept at 17 billion liters, in which 9.11 billion liters are to be mixed with gasoline and 7.75 billion liters are to be sold directly at fuel pumps, the branch of the Agriculture Ministry said.

Raw sugar futures for March delivery rose 0.72 cents, or 5.1 percent, to 14.90 cents a pound on the New York Board of Trade.

Brazil estimates exports of ethanol last year totaled 2.1 billion liters, worth \$756 million, compared with 2.4 billion liters, worth \$500 million, in 2004, Bressan said. Exports of sugar may have totaled 17.5 million tons, or \$3.3 billion in 2005, compared with 15.8 million tons, or \$2.6 billion, in 2004.

The survey of 370 sugar mills and ethanol distilleries and 60 cooperatives was performed in the first 15 days of December, the agency said.

Brazil may harvest up to 30 million tons more sugar cane in the 2006-2007 crop, which starts in May, Bressan said. The increase may help Brazil raise ethanol production by 1.3 billion liters to 18.3 billion liters and sugar output by 1 million tons to 27.7 million tons, he said.

Ethanol prices are rising in the domestic market as Brazil awaits the next harvest while demand from flexible fuel vehicles increases, Bressan said. Prices may drop in April, when the cane will be harvested, he said. The original estimate in May called for production of 450.2 million tons.

Bressan said the government is analyzing a proposal to lower the ethanol mixture in gasoline to 20 percent from the current 25 percent while the country is short on supply. The plan may help lower ethanol prices. Still, gasoline prices may increase as a higher proportion of the fuel in the mixture will make it more expensive to consumers.