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INTERNATIONAL

Tons and tons of sugar, but controversy remains

BRAZIL'S ETHANOL INDUSTRY BOOSTS SUGAR PRODUCTION, BUT CRITICS CLAIM THAT THE COUNTRY CAN OUTSELL THE REST OF THE WORLD DUE TO PAST SUBSIDIES AND OTHER INCENTIVES.

Technology Institute in Piracicaba, Brazil

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With gasoline prices soaring, Brazilian drivers are finally getting a sweet ride from the country's long and costly effort to tank up on sugar.

In Brazil, the government requires its sugar-based ethanol be used as fuel, or a fuel additive. With ethanol selling for just 72 cents a gallon at the pump, that requisite now seems fortuitous.

Gas-guzzling markets abroad also beckon.

Japan, for instance, has explored importing Brazilian ethanol, while Cargill proposes to move ethanol to a facility in El Salvador for finishing touches in order to qualify for duty-free export to the United States.

Brazilian Agricultural Minister Roberto Rodrigues, who owns a sugar plantation in the state of Sao Paulo, can hardly contain his enthusiasm over the growing interest in the biodegradable alcohol that is generally distilled from corn or sugar.

''We don't want to sell liters, we want to sell *rivers* of ethanol,'' Rodrigues told a group of visiting journalists during a recent tour of his farm.

The roots of the Brazilian ethanol program stretch back to the 1970s, when oil shortages prompted Brazil's former military government to try to make the country more energy self-sufficient.

FLEX CARS

Huge government subsidies and tax breaks paid to develop technology and government-funded research by the auto industry helped develop ''flex cars,'' which are equipped with special motors that can switch between gasoline, ethanol and now natural gas.

As important as ethanol is to the world's energy future, it also has played a key role in shaping Brazilian agriculture by building the sugar cane industry.

The country has become the world's largest sugar producer, challenging growers in Florida and around the United States, as well as the rest of the world.

Not only has Brazil quadrupled sugar production in the past three decades, it has done so while offering one of the world's lowest prices.

Production costs on the Rodrigues plantation, for example, average 11 cents per pound, slightly higher than the 8-cent or 9-cent price for the small amount of world sugar not governed by preferential trade agreements but well below the 16 cents to 20 cents per pound production cost of American sugar producers.

Since the state of Sao Paulo has become a magnet for the world's farmers, agricultural ministers and agronomists, Rodrigues frequently plays host to international visitors on his plantation.

WORLD QUOTA SYSTEM

The advent of Brazil as an agricultural superpower and its victory over European sugar subsidies challenges the complicated world sugar quota system, under which smaller and poorer developing countries can sell their sugar to the European, Japanese and American markets for preferential prices that average around 22 cents per pound. Only about 20 percent of world sugar trades freely at a price of 8 cents to 10 cents per pounds -- well below the average cost of production.

Brazilian officials and industrialists have made it clear that their goal is to eliminate tariff and quota barriers in more developed countries, targeting industries ranging from sugar to orange juice to ethanol.

A change in the quota system could have implications for the future of Florida's sugar industry because as Brazil demands greater access to industrialized nations' markets, Washington will come under intense pressure to do away with the sugar program.

U.S. sugar producers receive no government subsidies. Brazil, meanwhile, has won a complaint against European subsidies in the World Trade Organization and the European Union will have to cut subsidies and alter its quota program.

U.S. TARIFFS

The United States also has high tariffs in place to protect its nascent corn-based ethanol industry.

U.S. officials have estimated the amount of subsidies to the Brazilian ethanol industry from 1975 to 1987 reached $10 billion, but such subsidies ended almost a decade ago.

''There was a time when developing the ethanol industry almost bankrupted this country,'' said G. Edward Schuh, an economics professor who has worked off and on in Brazil since 1963.

More recently, however, a new round of tax breaks and technology advances have helped boost both ethanol and sugar production.

Schuh, regent professor of economics at the University of Minnesota's Center of International Economic Policy, said government rules mandating that all gasoline must contain 25 percent ethanol and requiring new hybrid cars to be able to use ethanol and natural gas amounts to an indirect subsidy to the sugar industry.

But world trade battles at the WTO headquarters in Geneva or concerns in Clewiston, heart of Florida's sugar industry, seem far away in the vibrant farm country of the state of Sao Paulo, the wealthiest area in Brazil.

Once a state of rich coffee plantations, sugar has been the cash crop for more than 30 years in Sao Paulo.

MASSIVE MILL

A visit to the Sao Martinho sugar mill near Ribeirao Preto illustrates why Brazil is so successful. The mill is at least double the size of one of the largest in the United States, the U.S. Sugar Corp. mill in Clewiston.

Its output is the largest in the world: seven million pounds of raw sugar and 330,000 liters of ethanol.

''Our production prices are the lowest in the world,'' pointed out Agricultural Manager Mario Gandino as he recently led a tour of the giant facility.

At the Sugar Cane Technology Institute in Piracicaba near Ribeirao Preto, William Lee Burnquist, coordinator for research and development, said the state has 1.5 million acres planted in sugar cane and expects to add another 2.5 million acres in the next decade.

''There is a lot of synergy in producing ethanol together with sugar,'' Burnquist said. ''Today we produce sugar at half the cost of the 1980s. It's very hard for the rest of the world to compete with the prices we have here.''

But the world is waking up to the reality of Brazilian sugar.

EU REACTION

Challenged to reduce sugar subsidies, the European Union has proposed lowering subsidies for European farmers as well as the price of sugar imports from former colonies. The African, Pacific and Caribbean sugar producers have warned it could cost them $800 million in lost income annually. European farmers have taken to the streets in protest.

''You now have the African, Caribbean and Pacific former colonies screaming bloody murder because they are going to get hammered. They are going to lose the European market,'' said R. Dennis Olson, an agricultural economist at the Institute for Agriculture and Trade Policy in Minneapolis.

''If you follow the free trade logic to its final conclusion,'' he said, ''it's probably Brazil and Australia and maybe Guatemala that will have access to the United States by wiping out the U.S. production.''